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PATENT LITIGATION ATTORNEYS' FEES: SHIFTING FROM STATUS TO CONDUCT

*Daniel Roth**

ABSTRACT

Abusive patent assertion results in deadweight losses to society. Faced with the high cost of patent litigation, companies often settle for an amount equal to a fraction of the cost of defending a patent infringement suit. This allows the patent owner to extract settlements from many individuals without the risk of invalidation before a federal court. Shifting attorneys' fees to the prevailing party is a remedy courts award in exceptional cases to deter patent owners from bringing unreasonable claims of infringement and to return defendants to the position they were in prior to litigation. Current fee-shifting proposals target patent assertion entities rather than scrutinizing the heart of the infringement claim—the patent claims and the activities of the accused infringer. This Note analyzes the history of fee-shifting in patent cases and examines the proposed SHIELD Act. Next, this Note describes the problems with the proposed legislation's definition of disfavored patent plaintiffs, bad actors, and the loser-pays rule. Finally, this Note concludes by proposing a solution, which modifies the standard for shifting attorneys' fees under 35 U.S.C. § 285.

INTRODUCTION

As a small business owner opens her mail, she receives a letter from a company that she has never heard of before. She is surprised to read that this company is accusing her of infringing a patent that covers her photocopier and demands she pay a whopping \$1000 per employee. She is not sure what to do next: call an attorney, pay the licensing fee, or try to bargain with the patent owner.

This is an all-too-common occurrence in which a patent owner targets small companies who cannot afford to defend an infringement lawsuit and do not understand patent law.¹ Many patent owners have started to engage in patent

* Copyright © 2014 Daniel Roth. The author would like to thank Professors Christi Guerrini, Edward Lee, and David Schwartz, as well as all of the participants in the 2013 Summer IP Writing Colloquium at Chicago-Kent College of Law.

¹ Mike Masnick, *Patent Troll Shell Companies Shake Down Small Businesses for \$1K per Employee for Using Network Scanner*, TECHDIRT (Jan. 2, 2013), <http://www.techdirt.com/articles/20130102/08174721543/patent-troll-shell-companies-shake-down-small-businesses-1k-per-employee-using-network-scanner.shtml>.

enforcement through shell companies that send out infringement letters to hundreds of users of a product, in this case, any scanner connected to the Internet.² Targeting users further down the supply chain rather than the scanner manufacturers directly allows the patent holder to collect a huge number of settlements and avoid litigation.³ Following this model is very lucrative and low risk, because, unlike large manufacturers, the targets of these letters do not have the capital, legal acumen or incentive to invalidate the asserted patents.⁴

The patent system is justified by weighing the benefit to society of a new and useful invention against the profits and licensing fees gained by the invention's creator.⁵ Frivolous patent litigation is a problem that results in deadweight losses, which are eventually passed on to consumers.⁶ When the economics of patent litigation allow patent trolls to demand license fees with virtually no risk, society as a whole is worse off.⁷

The patent-trolling practice has recently garnered the attention of President Obama and the Federal Trade Commission (FTC).⁸ Calls for action against the owners of these patents are justified by the massive economic effects to American small businesses; however, in making policy choices to deter patent trolling, it is imperative to recognize the importance of making patent law business-entity-neutral so that we do not devalue patents thereby diminishing the incentive to invent.⁹

Traditionally, each party pays its own patent litigation costs. An exception to this default rule lies in § 285 of the patent statute, which states:

² See David L. Schwartz & Jay P. Kesan, *Analyzing the Role of Non-Practicing Entities in the Patent System*, 99 CORNELL L. REV. (forthcoming 2014) (manuscript at 106), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2117421.

³ Jay P. Kesan & Gwendolyn G. Ball, *How are Patent Cases Resolved? An Empirical Examination of the Adjudication and Settlement of Patent Disputes*, 84 Wash. U. L. Rev. 237, 243–44 (2006).

⁴ John R. Allison, Mark A. Lemley, & John Walker, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 GEO. L.J. 677, 700–01 (2011).

⁵ Kesan & Ball, *supra* note 3, at 239.

⁶ Marie Gryphon, *Assessing the Effects of a "Loser Pays" Rule on the American Legal System: An Economic Analysis and Proposal for Reform*, 8 RUTGERS J.L. & PUB. POL'Y 567, 568 (2011).

⁷ PRESIDENT'S COUNCIL OF ECON. ADVISERS, NAT'L ECON. COUNCIL & OFFICE OF SCI. & TECH. POLICY, PATENT ASSERTION AND U.S. INNOVATION, EXEC. OFFICE OF THE PRESIDENT, Jun. 2013, available at http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf.

⁸ Grant Gross, *FTC to Launch New Investigation of Patent Trolls*, PCWORLD (June 20, 2013), available at <http://www.pcworld.com/article/2042557/ftc-to-launch-new-investigation-of-patent-trolls.html>.

⁹ Lisa Larrimore Ouellette, *Patent Troll Panel at Yale Law School*, PATENTLY-O (May 14, 2013), available at <http://www.patentlyo.com/patent/2013/05/patent-troll-panel-at-yale-law-school.html>.

“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”¹⁰ However, defendants who attempt to utilize fee-shifting under § 285 rarely succeed.¹¹ The low success rate is attributable to the courts’ two-prong requirement that litigation was both (a) brought in bad faith and (b) objectively baseless.¹²

In an effort to deter frivolous litigation, proposed changes to § 285 would automatically require certain bad actors asserting patent infringement or defending patent validity to pay the adverse party’s attorneys’ fees should the bad actor fail on the validity or infringement analysis.¹³ As proposed, the SHIELD Act of 2013 defines parties subject to fee-shifting as a party alleging infringement that is not: an original inventor or assignee, engaged in exploitation of the patent through production or sale, or a university or technology transfer center.¹⁴ The bill states that the “Court shall award the recovery of full costs” to the prevailing party asserting invalidity or noninfringement.¹⁵

This Note recognizes that existing fee-shifting proposals target patent owners based upon a problematic classification and proposes a fee-shifting regime to reduce frivolous patent litigation claims that focuses on the plaintiff’s behavior rather than its status. The proposed framework will address the shortcomings of the existing litigation framework and proposed solutions by analyzing the merits of the infringement claim rather than attempting to define class of “bad actor” patent infringement plaintiffs.

Part I analyzes the costs and economics of patent litigation and presents the existing mechanisms available to deter frivolous patent litigation. Next, Part II proposes a solution, which would modify § 285 of the patent statute. Finally, Part III addresses potential criticisms of the proposed fee-shifting framework.

I. THE PROBLEM OF PATENT EXTORTION AND A FEE-SHIFTING PROPOSAL TO CURB IT

The economics of patent litigation force the recipient of an infringement letter to either (1) settle with the patent owner and pay a license fee, or (2)

¹⁰ 35 U.S.C. § 285 (2006).

¹¹ Randall R. Rader, Colleen V. Chien & David Hricik, *Make Patent Trolls Pay in Court*, N.Y. TIMES (June 4, 2013), http://www.nytimes.com/2013/06/05/opinion/make-patent-trolls-pay-in-court.html?_r=0 (finding that fees were shifted only twenty times in nearly three thousand patent cases in 2011).

¹² *MarcTec, LLC v. Johnson & Johnson*, 664 F.3d 907, 916 (Fed. Cir. 2012) (quoting *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1377 (Fed. Cir. 2011)) (“Under this standard, a patentee’s case ‘must have no objective foundation, and the plaintiff must actually know this.’”).

¹³ Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong. (1st Sess. 2013).

¹⁴ *Id.*

¹⁵ *Id.*

defend itself in federal district court.¹⁶ Whether the patent is valid and infringed or not may not be of primary concern to the recipient of an infringement letter. When the company is faced with two options, each of which will require it to expend substantial sums of money, it will choose the option that will cost the least.

A. Patent Litigation

A patent does not confer the right to practice the claimed invention. Instead, it only provides the right to exclude others from practicing the invention.¹⁷ Inventors may exploit the invention by licensing the technology or by enforcing the patent rights in federal court. An action for patent infringement gives the owner of the patent the ability to seek damages and/or injunctions against others that practice the claimed invention.¹⁸ However, alleged infringers may challenge the patent by providing clear and convincing evidence in order to invalidate it.

The costs associated with patent litigation are high as suits can range from \$0.5 million to \$3 million per claim at issue.¹⁹ The incentives for parties to settle is likewise high because as it becomes likely for a patent to be invalidated, the patent holder is willing to grant a cheap license, and the defendant is likely to accept an offer rather than incur further legal costs.²⁰ This creates a system where a patent will not become invalidated unless the alleged infringers' costs of continued litigation are less than the proposed license.

¹⁶ *But see* Schwartz & Kesan, *supra* note 2 (manuscript at 107).

The new inter partes review (IPR) and post grant review (PGR) proceedings authorized by the America Invents Act may present opportunities for low-cost patent invalidation. The final rules were set in late 2012, and thus we do not know yet whether this will reduce the wasteful transaction costs in challenging low-quality patents. Perhaps, as some have contended, the estoppel provision governing both IPR and PGR may prove to be too heavy a burden for challengers to bear, but perhaps not.

Id. (manuscript at 126) (citations omitted).

¹⁷ *See* 35 U.S.C. § 271 (2006).

¹⁸ *Id.* §§ 283–284.

¹⁹ Jim Kerstetter, *How Much is that Patent Lawsuit Going to Cost You?*, CNET (Apr. 5, 2012), http://news.cnet.com/8301-32973_3-57409792-296/how-much-is-that-patent-lawsuit-going-to-cost-you/ (quoting the American Intellectual Property Law Association Economic Survey of 2011).

²⁰ Kesan & Ball, *supra* note 3, at 243.

B. Patent Monetization

Patents are a unique asset which requires significant investment to obtain,²¹ but do not generate revenue unless licensed or asserted. Patents are also alienable; the right to exclude others from practicing the claims may be bought or sold at will. These attributes have led to the rise of patent aggregators, who do not practice the invention, but instead procure or purchase patents and enforce them against others who infringe.²² Such aggregators are called non-practicing entities (NPEs), patent assertion entities (PAEs), patent monetization entities (PMEs), or, more pejoratively, patent trolls.²³ These patent holders are often characterized as entities that contribute nothing to society, but merely wait for others to bring a product to market and demand a toll as their primary source of revenue.

C. The Evolution of the Criticism of “Bad Actors”

As the number of NPEs has grown, so has criticism.²⁴ The conventional wisdom is that NPEs block innovation by forcing productive companies to pay for a patent license without adding any value to society themselves.²⁵ A common criticism is that NPEs have no fear of being counter-sued for infringement, and, thus, are unwilling to settle on reasonable terms.²⁶ However, “[p]atent aggregation is not limited to NPEs anymore, if it ever was.”²⁷ While contempt for NPEs is widespread, many believe that analyses of NPE litigation must be closely scrutinized to determine which instances are abusive litigation and which are asserting patents that are valid and infringed.²⁸

²¹ Legal fees associated with preparation of United States and foreign patent applications, navigating the patent prosecution process, and maintenance fees for a patent family can approach \$100,000. Steven J. Shumaker, *Building a Patent Portfolio that Supports Your Business Objectives* 1 n.1 (2002), available at <http://www.ssiplaw.com/files/strategy.pdf> (last visited Dec. 26, 2013).

²² Michael Risch, *Patent Portfolios as Securities*, 63 DUKE L.J. 89, 96 (2013).

²³ *Id.*

²⁴ Sara Jeruss, Robin Feldman & Joshua Walker, *The America Invents Act 500: Effects of Patent Monetization Entities on U.S. Litigation*, 11 DUKE L. & TECH. REV. 357, 376 (2012) (finding the impact of patent monetization entities on patent litigation is both dramatic and growing over time).

²⁵ James Bessen & Michael J. Meurer, *The Direct Costs of NPE Disputes*, 99 CORNELL L. REV. (forthcoming 2014) (manuscript at 21–22), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2091210. The direct costs of NPE patent litigation are “substantial, totaling about \$29 billion accrued cost in 2011.” *Id.* (manuscript at 42). A substantial portion of the stated \$29 billion is a “deadweight loss to society.” *Id.* (manuscript at 16).

²⁶ Risch, *supra* note 22, at 96.

²⁷ *Id.*

²⁸ Schwartz & Kesan, *supra* note 2 (manuscript at 110).

There is certainly no uniformly accepted definition of who is an NPE or patent troll.²⁹ Some entities clearly fall within most definitions of these “bad actors,” e.g., a shell company unrelated to the original inventors that purchases a patent for the sole purpose of enforcement.

1. Bessen & Meurer: Defining the Bad Actor

In their oft-cited paper on the cost of NPEs to society,³⁰ Bessen and Meurer use an expansive definition of non-practicing entity, which exceeds even those used by those most critical of NPEs.³¹ Bessen and Meurer equate NPE and patent troll and use RPX’s definition of NPE which includes: PAE’s, individual inventors, universities, and non-competing entities (operating companies asserting patents well outside the area in which they make products and compete).³² This definition is extremely broad; many leading scholars do not consider universities to be patent trolls even though they rarely engage in commercialization of a product.³³ In the patent food chain, university faculty and graduate students are often true innovators that file patent applications through tech-transfer centers and are less likely to engage in patent assertion.³⁴ Academic research does not involve manufacturing, marketing, or distribution and, therefore, would fall under the extremely broad definition of non-practicing entity that seems to cover *every* patent owner that does not bring a product, covered by the patent, to market.³⁵

Similarly, many do not view individual inventors as bad actors.³⁶ Individual inventors frequently complain that most large companies ignore requests to license their patents, even when infringing, without the inventor first having brought suit for patent infringement.³⁷ If university and individual patentees are to receive compensation for their patented inventions, then their licensees or proven infringers must sell products or services embodying their patents. In the absence of such market adoption, there is rarely, if ever, a reward

²⁹ John M. Golden, “Patent Trolls” and Patent Remedies, 85 TEX. L. REV. 2111, 2112 n.7 (2007).

³⁰ Bessen & Meurer, *supra* note 25.

³¹ Schwartz & Kesan, *supra* note 2 (manuscript at 108).

³² Bessen & Meurer, *supra* note 25 (manuscript at 10).

³³ Schwartz & Kesan, *supra* note 2 (manuscript at 105).

³⁴ Bessen & Meurer, *supra* note 25 (manuscript at 14) (arguing that an overbroad definition and biased sampling group were extrapolated to all NPEs causing Bessen & Meurer’s reported cost of \$29 billion in 2011 to be inflated beyond a realistic estimate of the effect of NPE litigation).

³⁵ Schwartz & Kesan, *supra* note 2 (manuscript at 105).

³⁶ Bessen & Meurer, *supra* note 25 (manuscript at 8–9).

³⁷ Gene Quinn, *Is Patent Litigation Really a Problem for Big Tech?*, IPWATCHDOG (May 2, 2013, 8:30 PM), <http://www.ipwatchdog.com/2013/05/01/is-patent-litigation-really-a-problem-for-big-tech/id=39325/>.

to be had.³⁸ Such innovators do not typically have the access to the capital necessary to bring their inventions to market. They also do not have the existing channels of manufacturing, marketing and distribution. As a result, their options in trying to receive any compensation for their patented technologies are quite limited.³⁹

Bessen and Meurer also include *practicing entities* (patent owners who manufacture products) within their definition of *non-practicing entities*, if the acquired patents are “well outside the area in which they make products.”⁴⁰ Delineating between patents that a practicing company practices and those they hold for other reasons presents a very broad definition.

2. Schwartz & Kesan: Question How to Define an NPE and Whether Litigation Costs Are a Deadweight Loss to Society

Most definitions ignore the valuable roles that NPE's may play in the marketplace. They create options to generate rewards for innovators who prefer to monetize rather than commercialize their patents themselves.⁴¹ Together with contingency fee lawyers whose business models depend on choosing the right patents and the right patentees, NPEs can create important avenues for appropriating rewards for valuable patent rights that are owned by non-market players.⁴² Entities that use their patented technologies to make products—traditional practicing entities—may lack the resources to enforce their patent rights by hiring traditional patent attorneys who engage in hourly billing practices. The risk and uncertainty associated with representing patentees that do not have the ability to pay traditional hourly billing rates is prohibitive, and hence, many smaller patentees are shut out of the typical enforcement mechanisms that are available to large companies.⁴³ Taking on the burden of enforcing patents through a contingency fee representation is an option that is available primarily for a select group of innovators with patent rights that are perceived as valuable before litigation commences.⁴⁴

A patent pool is another type of NPE that operates in a related fashion. RPX, which calls itself a defensive patent aggregator, has a unique business model; it provides subscriptions to customers who are repeat defendants in

³⁸ John M. Golden, *Principles for Patent Remedies*, 88 TEX. L. REV. 505, 545 (2010) (“For small firms or independent inventors, . . . patent rights might be the only effective means to obtain a return on investments in research and development.”).

³⁹ Schwartz & Kesan, *supra* note 2 (manuscript at 109).

⁴⁰ *Id.*

⁴¹ *Id.* (manuscript at 110).

⁴² *Id.*

⁴³ David L. Schwartz, *The Rise of Contingent Fee Representation in Patent Litigation*, 64 ALA. L. REV. 335, 347 (2012).

⁴⁴ *Id.*

patent infringement lawsuits.⁴⁵ RPX asserts that its subscription fees to its service are lower than the typical patent acquisition and defense costs a client would otherwise pay.⁴⁶ In the patent litigation arms race, we have NPEs aggregating on both sides.

Individuals have long assigned their patents to companies that have aggregated them. Usually, such patents came from employees who assigned inventions to their employers. As the numbers of employees and inventions grow, so does the company's patent portfolio. It is not surprising that large companies have long aggregated many more patents than small companies.⁴⁷

A well-known example is IBM, which has more patents than any other practicing company.⁴⁸ IBM's patenting activity protects the company by saving litigation costs and raising revenue. IBM is rarely sued for patent infringement by its competitors because other practicing companies that might sue IBM would likely face multiple counterclaims of infringement.⁴⁹ IBM's portfolio reduces the threat of litigation by facilitating cross-licenses between IBM and the other party. Aggregators also use their portfolio as a source of revenue by licensing their technology. A prime example is a 1993 license of all of IBM's personal computer patents to Dell, for \$293 million.⁵⁰

Recently, large companies have begun to acquire large portfolios⁵¹ of patents from non-traditional sources such as individuals, acquired companies, and other large companies, rather than from their own employees.⁵² They have done so for three reasons. First, each patent purchased by these companies cannot be purchased by an NPE. Aggregation tends toward an arms race to avoid patent assertion by others. The value of defensive aggregation is in the lack of enforcement. Second, companies that lack an arsenal of defensive patents might buy patents from others or otherwise begin to aggregate patents to

⁴⁵ Schwartz & Kesan, *supra* note 2 (manuscript at 104).

⁴⁶ *Id.*

⁴⁷ John R. Allison & Mark A. Lemley, *Who's Patenting What? An Empirical Exploration of Patent Prosecution*, 53 VAND. L. REV. 2099, 2128 (2000).

⁴⁸ Risch, *supra* note 22, at 10.

⁴⁹ Colleen Chien, *From Arms Race to Marketplace: The Complex Patent Ecosystem and Its Implications for the Patent System*, 62 HASTINGS L.J. 297, 321–22 (2010).

⁵⁰ Lucent Techs., Inc. v. Gateway, Inc., 580 F.3d 1301, 1328 (Fed. Cir. 2009).

⁵¹ Amir Efrati & Spencer E. Ante, *Google's \$12.5 Billion Gamble*, WALL ST. J. (Aug. 16, 2011), <http://online.wsj.com/article/SB10001424053111903392904576509953821437960.html> (Google purchased Motorola Mobility for \$12.5 billion, which included a portfolio of more than 17,000 patents.).

⁵² Risch, *supra* note 22, at 10.

protect themselves from lawsuits by competitors.⁵³ Third, a large patent portfolio allows a greater freedom to innovate. Some claim that a large portfolio improves a company's ability to further innovation in the form of patents and other development.⁵⁴ This also means that the company can enhance its licensing efforts by including acquired patents in a portfolio along with patents developed in-house.⁵⁵

While scholars might lament a patent system that encourages more and more aggregation, there is no question that the practice has expanded, or that it was ever limited to NPEs.⁵⁶ With this observation in mind, patent reformers seek to lessen the burden of frivolous litigation by awarding attorneys' fees.

D. Existing Fee-Shifting Mechanisms

Fee-shifting is a remedy that allows a prevailing party to be recompensed for attorneys' fees incurred during litigation, allowing the party to be more fully returned to its position prior to involvement in litigation. For defendants, a victory in court is still a losing situation because, even when they are successful on non-infringement and/or invalidity claims, they incur significant legal fees along the way. When attorneys' fees are shifted onto the losing party, the prevailing party will receive its entire award, rather than the monetary judgment less attorneys' fees. Current mechanisms for a party to receive attorneys' fees include Rule 11 of the Federal Rules of Civil Procedure and 35 U.S.C. § 285.

1. Baseline Rule on Fee-Shifting

In the current American patent litigation scheme, each litigant pays its own attorneys' fees.⁵⁷ This incentivizes abusive litigation by plaintiffs because it forces defendants to either settle quickly or defend the claims at significant cost.⁵⁸ For instance, in nuisance suits, a patent owner files a patent infringement claim seeking to license a patent for royalty payments small enough that licensees decide it is not worth going to court.

⁵³ *Id.* at 57. *But see* Edmund W. Kitsch, *Elementary and Persistent Errors in the Economic Analysis of Intellectual Property*, 53 VAND. L. REV. 1727, 1739 (2000) (An inventor "will usually hold not one, but multiple rights, which will often be interrelated A single patent claim, much less than a single patent, often covers only a small part of the technology needed to market a commercially competitive device.").

⁵⁴ Gideon Parchomovsky & R. Polk Wagner, *Patent Portfolios*, 154 U. PA. L. REV. 1, 33–34 (2005).

⁵⁵ *Id.* at 52 (finding the whole of a patent portfolio is greater than the sum of its parts).

⁵⁶ Risch, *supra* note 22, at 11.

⁵⁷ Gryphon, *supra* note 6, at 568.

⁵⁸ *Id.*

Modern European codes prescribe “two-way fee-shifting,” colloquially referred to as the “English Rule.”⁵⁹ Under the English Rule, the costs of litigation for each party are imposed on the defeated party, whether the defeated party is the plaintiff or the defendant.⁶⁰ This disincentivizes purely nuisance suits by increasing the potential costs to the plaintiff. In other words, plaintiffs would never file purely nuisance suits because a plaintiff who is only seeking a settlement would be unwilling to risk failure in litigation.⁶¹ When the plaintiff is unlikely to prevail, the plaintiff’s willingness to file a claim is much lower under the English Rule.

In contrast, the United States Supreme Court held in 1796 that a prevailing party could not recover attorneys’ fees as damages, a doctrine now known as the “American Rule.”⁶² Under the default “American Rule,” a prevailing party generally cannot recover attorneys’ fees as damages unless permitted by legislation.⁶³ Congress has bypassed this default rule in the past by making explicit provisions for the allowance of attorneys’ fees in order to effectuate important legislative policies. Examples of such legislation awarding attorneys’ fees are present in antitrust statutes under the Clayton Act⁶⁴ and in the Civil Rights Act.⁶⁵

Under the American Rule, even if a plaintiff is unwilling to go to trial, it is still profitable for the plaintiff to file a nuisance claim whenever the plaintiff’s cost of filing is less than the defendant’s cost of defense, because the defendant will be willing to pay the plaintiff a settlement of any amount up to the defendant’s would-be defense costs.⁶⁶ Relatedly, under the American Rule (whenever the cost of filing is less than the defense costs plus the plaintiff’s

⁵⁹ Werner Pfennigstorf, *The European Experience with Attorney Fee Shifting*, 47 *LAW & CONTEMP. PROBS.* 37, 46 (1984), available at <http://scholarship.law.duke.edu/lcp/vol47/iss1/3/>.

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² See *Arcambel v. Wiseman*, 3 U.S. 306, 306 (1796).

⁶³ See *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 262 (1974) (“[C]ircumstances under which attorneys’ fees are to be awarded and the range of discretion of the courts in making those awards are matters for Congress to determine.”).

⁶⁴ 15 U.S.C. § 15(a) (2012) (“[A]ny person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor . . . and shall recover threefold the damages by his sustained, and the cost of suit, including a reasonable attorney’s fee.”).

⁶⁵ 42 U.S.C. § 2000a-3(b) (2006) (“In any action commenced pursuant to this subchapter, the court, in its discretion, may allow the prevailing party, other than the United States, a reasonable attorney’s fee as part of the costs, and the United States shall be liable for costs the same as a private person.”).

⁶⁶ David Rosenberg & Steven Shavell, *A Model in Which Suits Are Brought for Their Nuisance Value*, 5 *INT’L REV. L & ECON.* 3, 3 (1985), available at www.law.harvard.edu/faculty/shavell/pdf/5_Inter_Rev_Law_Econ_3.pdf.

expected judgment) a plaintiff with a low likelihood of prevailing, will file a claim more often.⁶⁷

2. Federal Floor for Attorneys' Fees: Rule 11

Rule 11 of the Federal Rules of Civil Procedure establishes the federal floor for recovery of attorneys' fees in "frivolous" actions.⁶⁸ To evaluate frivolousness, courts use an objective standard of reasonableness, and do not require bad faith or an otherwise culpable state of mind.⁶⁹

All pleadings, motions, papers, and representations to the court must meet the requirements of Rule 11 or they risk triggering sanctions against the offending parties and their attorneys. A patentee planning to take action against a suspected infringer should be especially attentive to Rule 11(b), which states that a person, by presenting to the court "a pleading, written motion, or other paper is certifying that to the best of the person's knowledge, information, and belief, formed after *an inquiry reasonable under the circumstances*," (1) the purpose of the paper or pleading is not improper; (2) the legal assertions are not frivolous; and (3) the factual contentions have or are likely to have evidentiary support.⁷⁰ Under Rule 11(c), a court may impose sanctions against parties or attorneys that have violated Rule 11(b).⁷¹

Generally, the Federal Circuit has analyzed the pre-filing requirements of Rule 11(b) in patent infringement cases under the constraint of non-frivolousness⁷² and as two separate requirements: legal and factual.⁷³ If the court determines that a party or attorney has violated Rule 11(b), "the court may award to the party prevailing on the [motion for sanctions] reasonable expenses and attorney fees incurred in presenting or opposing the motion."⁷⁴ Currently, trial courts have discretion to grant expenses or fees to the prevailing party, but the jurisprudence of Rule 11 motions in patent cases shows that the required pre-filing inquiry is a low hurdle for plaintiffs, as some infringement analysis is required, but not necessarily a claim chart.⁷⁵

⁶⁷ *Id.* at 5, 9.

⁶⁸ FED. R. CIV. P. 11(c)(4) (Sanctions imposed under the rule "must be limited to what suffices to deter repetition of the conduct or comparable conduct by others similarly situated . . . [and may take the form of] an order directing payment to the movant of part or all of the reasonable attorney's fees . . .").

⁶⁹ Douglas J. Pepe, *Persuading Courts to Impose Sanctions on Your Adversary*, 36 No. 2 LITIGATION 21, 25 (2010).

⁷⁰ FED. R. CIV. P. 11(b) (emphasis added).

⁷¹ FED. R. CIV. P. 11(c).

⁷² *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1301 (Fed. Cir. 2004).

⁷³ *Antonius v. Spalding & Evenflo Cos.*, 275 F.3d 1066, 1071–72 (Fed. Cir. 2002).

⁷⁴ FED. R. CIV. P. 11(c).

⁷⁵ *Q-Pharma*, 360 F.3d at 1301.

Additionally, Rule 11 contains a safe harbor provision that requires that any motion for sanctions must be served at least twenty-one days before the motion is filed with the court so that the offending party has the opportunity to withdraw the challenged filing. Thus, if caught in violation of Rule 11, bringing a facially invalid or inaccurate patent complaint, the plaintiff will have the opportunity to abandon the suit or file an amended complaint before the motion for sanctions can actually be filed.⁷⁶ It is clear that Rule 11 sanctions do not adequately protect defendants from nuisance claims.

3. Exceptional Cases under 35 U.S.C. § 285

Fee-shifting is not a new concept in intellectual property law. Congress has allowed prevailing parties in copyright cases to receive attorney's fees as well.⁷⁷ However, initially, the Patent Act of 1790 did not include any provisions for the award of attorneys' fees to the prevailing party.⁷⁸

In order to obtain an award of attorney fees under § 285, the prevailing party must show by clear and convincing evidence that the case is exceptional.⁷⁹ The attorney-fee-shifting provision of the Patent Act provides that, a "court in exceptional cases may award reasonable attorneys' fees to the prevailing party."⁸⁰ This remedy is intended to reimburse the alleged infringer for defending an action improperly brought. Absent Rule 11 misconduct or fraud during patent prosecution, the defendant must show that the case is "exceptional" by showing that the litigation was both (a) brought in subjective bad faith; and (b) objectively baseless.⁸¹ An exceptional case finding is determined on a claim-by-claim basis and both prongs must be satisfied for each asserted claim. The Federal Circuit has also held that attorneys' fees should be awarded in cases involving "vexatious or unjustified litigation" or "frivolous filings."⁸² These types of cases present inconsistent standards that fail to provide

⁷⁶ Thomas I. Ross, *Making Patent Plaintiffs Pay*, 18 NO. 6 INTELL. PROP. & TECH. L.J. 1, 2 (2006).

⁷⁷ 17 U.S.C. § 505 (2012) ("In any civil action under this title, the court in its discretion may allow recovery of full costs . . . the court may also award a reasonable attorney's fee to the prevailing party as part of the costs.").

⁷⁸ Emily H. Chen, *Making Abusers Pay: Deterring Patent Litigation by Shifting Attorneys' Fees*, 28 BERKELEY TECH. L.J. 351, 362 (2013).

⁷⁹ *MarcTec, LLC v. Johnson & Johnson*, 664 F.3d 907, 915 (Fed. Cir. 2012) (citing *Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324, 1327 (Fed. Cir. 2003)).

⁸⁰ *Id.*

⁸¹ *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1324 (Fed. Cir. 2011) (citing *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005)).

⁸² *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1311 (Fed. Cir. 2012).

clear guidelines to district courts, which must apply the Federal Circuit's interpretation of § 285.⁸³

Despite defendants' growing desire to use fee-shifting to recoup costs and deter future abusive litigation, it is difficult for litigants to meet the "exceptional case" standard for fee-shifting under the Patent Statute. Further, Congress failed to codify fee-shifting in the most recent patent reform act, the America Invents Act of 2011.⁸⁴ Ultimately, Congress altered rules limiting joinder of defendants,⁸⁵ but a fee-shifting provision was omitted for reasons that remain unclear.⁸⁶

E. Fee-Shifting Proposal to Curb Trolling Abuse: The SHIELD Act

On February 27, 2013, Representatives Jason Chaffetz and Peter DeFazio introduced the most recent version of the SHIELD Act.⁸⁷ The proposed legislation includes a hybrid fee-shifting provision and a carefully drafted bonding requirement⁸⁸ that could provide a strong structure for a compromise between the English and American Rules. Under the SHIELD Act of 2013, any adverse party must post a bond (determined by the court) to cover full costs of the litigation, including attorneys' fees, unless the court determines the adverse party (1) is an original inventor; (2) has substantially invested in production or sale of an item covered by the patent; or (3) is a university or a technology transfer organization which commercializes technologies developed by a university.⁸⁹ This bonding requirement forces plaintiffs to carefully consider the likelihood that their claim will succeed rather than filing a nuisance suit, regardless of merit, to put pressure on a potential licensee.

⁸³ Chen, *supra* note 78, at 15.

⁸⁴ Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified in scattered sections of 35 U.S.C. and 28 U.S.C. § 1454).

⁸⁵ 35 U.S.C.A. § 299 (West, Westlaw through P.L. 113-49) (requiring claims against defendants arise out of "the same transaction, occurrence, or series of transactions . . . of the same accused product or process"); see Colleen Chien, *Patent Trolls by the Numbers*, PATENTLY-O (Mar. 14, 2013), <http://www.patentlyo.com/patent/2013/03/chien-patent-trolls.html> (finding misjoinder rules have had their intended effect).

⁸⁶ Chen, *supra* note 78, at 366.

⁸⁷ See Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong. (1st Sess. 2013) (would amend § 285(A). Recovery of litigation costs).

⁸⁸ *Id.* (stating that new sections would be added including § 285A(b) "BOND REQUIRED.—Any party that fails to meet a condition under subsection (a)(3) shall be required to post a bond in an amount determined by the court to cover the recovery of full costs described in subsection (a)(4).").

⁸⁹ *Id.*

1. Defining Bad Actors

The SHIELD Act of 2013 approaches the challenge of defining bad actors in a novel manner. Instead of attempting to define the bad actors it seeks to target (patent trolls and other non-practicing entities), the Act of 2013 uses a negative definition;⁹⁰ it applies to everyone that does not fall into one of the three carve-outs. The Act describes three categories of patent infringement plaintiffs which typically are not “patent trolls” or “non-practicing entities,” and are, therefore, exempt from the attorneys’ fee-shifting provision.⁹¹ Under the SHIELD Act of 2013, a party is exempt from fee shifting when it can show it (1) is the original inventor; (2) has substantially invested in production or sale of an item covered by the patent; or (3) is a university or is a technology transfer organization which commercializes technologies developed by a university. The categories carved out for “original inventors” and “university or technology transfer organizations” are clearly defined and should be easily evaluated by the courts. However, the litigants will likely argue over whether a losing party falls into the “exploitation of the patent” category.⁹² The exploitation exception pertains to cases where the losing party “can provide documentation . . . of substantial investment . . . in the exploitation of the patent through production or sale of an item covered by the patent.”⁹³ This new carve-out for entities which engage in “substantial investment” will be the focus of much interpretation, but overall, this SHIELD Act of 2013’s definition of bad actors is clearly novel. It remains to be seen whether it will be an effective approach to mitigate bad actors in the patent system.

2. Automatic Fee-Shifting

The 2013 version of the SHIELD Act, unlike the 2012 version,⁹⁴ does not require a judicial determination that the complainant did not have a “reasonable likelihood of succeeding” in its claim for patent infringement. Instead, the 2013

⁹⁰ Chen, *supra* note 78, at 376.

⁹¹ *Id.*

⁹² Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong. § 285A(d)(2) (1st Sess. 2013).

⁹³ Chen, *supra* note 78, at 378.

⁹⁴ See Saving High-Tech Innovators from Egregious Legal Disputes Act of 2012, H.R. 6245, 112th Cong. (2d Sess. 2012).

(a) IN GENERAL.—Notwithstanding section 285, in an action disputing the validity or alleging the infringement of a computer hardware or software patent, upon making a determination that the party alleging the infringement of the patent *did not have a reasonable likelihood of succeeding*, the court may award the recovery of full costs to the prevailing party, including reasonable attorney’s fees, other than the United States.

Id. (emphasis added).

version of the SHIELD Act simply forces the losing plaintiff to pay by default, unless the losing plaintiff meets one of the three criteria discussed above or there are exceptional circumstances making the award unjust.⁹⁵

II. PROPOSED SOLUTION

Low-merit legal suits, which clutter the legal system and ultimately raise costs for consumers, can be reduced by patent litigation reform.⁹⁶ Fee shifting is one way to effect this change. Plaintiffs will be less likely to file low-merit claims when forced to bear the risk of their opponent's legal expenses in addition to their own.

There has been a growing trend over the last decade for third parties to acquire patent rights as an investment vehicle and assert those rights to obtain a return on their investment. Unfortunately, in many cases, the assertion is utterly baseless, yet respectable companies with a need to make reasonable business decisions are compelled to pay to settle these cases because it is far less expensive to pay than it is to fight and win. This is certainly a problem: bad actors bringing frivolous patent suits against good companies with the goal of extracting a settlement from those good companies based on the inevitable rational business judgment that it is far less expensive to settle the frivolous suit rather than pay much larger legal fees to prove non-infringement and/or invalidity. No one can reasonably defend this type of abusive conduct and any legislation that could effectively eradicate this bad behavior, without prejudicing innocent patent owners, would be a tremendous benefit.

A. Solution: Revision of § 285

An appropriate mechanism to award attorneys' fees in cases that are frivolous exists in § 285 of the Patent Act. Currently, this provision reads:

§ 285. Attorney's Fees
The court in exceptional cases may award reasonable attorney fees to the prevailing party.⁹⁷

This provision should require objective rather than subjective unreasonableness. Therefore, I propose that 35 U.S.C. § 285 should be amended and a new section should be inserted to read:

§ 285. Attorney Fees
The court in exceptional cases *shall* award reasonable attorney fees to the prevailing party.

⁹⁵ Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong. (1st Sess. 2013).

⁹⁶ Gryphon, *supra* note 6, at 568.

⁹⁷ 35 U.S.C. § 285 (2006).

A. EXCEPTIONAL CASE DEFINED. – For purposes of this section, an ‘exceptional case’ is one in which an adverse party pleads a count of patent infringement that is objectively unreasonable.

This change eliminates the cumbersome two-prong test courts use to determine whether to shift attorneys’ fees and institutes a single objective standard that can be applied consistently across the board. Additionally, it targets frivolous litigation while avoiding the downfalls of the proposed SHIELD Act of 2013 discussed above.

1. Not Conditional with Respect to Identity of Patent Owner

Unlike the SHIELD Act, my solution focuses on the substance of the infringement claim rather than the identity of the patent owner.⁹⁸ Legislative definitions of “bad actors” used in various other solutions come from an outdated philosophy that seeks to cast aside infringement litigation brought by patent owners who do not practice their inventions. Rather, all entities that assert claims of patent infringement should be held to the same standard of conduct.⁹⁹ Attempts to single out a class of patent owners will devalue patents, reduce the ability of patent owners to realize a return on their investment, and ultimately decrease the incentives to innovate.¹⁰⁰

2. Objective Reasonableness Inquiry

The amendment of § 285 dispenses with the SHIELD Act’s proposed “loser pays” rule, and uses an objective reasonableness standard. The essence of the frivolous litigation problem that must be addressed is the lack of merit to the infringement claim. The earliest point to determine whether a suit is unreasonable is at the pleading stage, but a party with a small chance of success is more reasonable in continuing at an earlier stage, while at a later stage would not reasonably continue. As litigation moves forward to the summary judgment stage, the *Markman* claim construction hearing, at the latest, marks the opportunity to clearly assess the plaintiff’s likelihood of success in light of the

⁹⁸ Most non-practicing entity definitions are unworkable because they are both overbroad and under-inclusive. *See infra* Part I.

⁹⁹ *See* Schwartz & Kesan, *supra* note 2 (manuscript at 119) (finding that focusing on the parties rather than the merits of the patent claims will lead to a fundamentally flawed and unfair result that will “significantly distort the supply of inventions”).

¹⁰⁰ Paul D. Ackerman, *The SHIELD Act – Is Creating “Second-Class Citizenship” for Certain Patent Owners the Answer to the “Troll Problem”?*, THE POINT OF NOVELTY (Mar. 1, 2013), <http://pointofnovelty.blogspot.com/2013/03/the-shield-act-is-creating-second-class.html> (finding that legislation should target conduct rather than discriminating against an entire class of patent owners, and that the SHIELD act may not be tailored to solving the problem of nuisance litigation “without significantly impairing the value of all patents”).

court's reading of the patent claims.¹⁰¹ It is this stage of patent litigation where the court has performed claim construction and the patent owner will either have a reasonable infringement claim or not as a matter of law.

An overhaul of the statute, such as proposed by the SHIELD Act is not necessary, because § 285 is clear and simple. By re-defining an exceptional case, my solution will keep the original terminology, but would dispense with the subjective requirement for finding frivolousness.

B. Advantage of Revision over Existing Mechanisms and the SHIELD Act

The SHIELD Act directly burdens NPEs and is a significant step toward the goal of reducing egregious legal disputes. The bigger picture is whether the lawsuits are being brought because the defendants are infringers of a valid patent,¹⁰² or whether the defendants are merely easy targets for a nuisance lawsuit. That requires looking beyond the identity of the patentee.¹⁰³ It means we need to evaluate the infringement claims being asserted to determine whether litigation is legitimate or nuisance, which turns on whether there are credible patent claims that are valid, enforceable, and infringed.

Opponents of fee-shifting legislation must always raise the argument that small inventors who do not abuse the court system may be wrongfully discouraged from filing patent infringement claims as a result of this fee-shifting measure because the increased risk of bearing the defendants' litigation costs would be too much to bear. Any fee-shifting provision should be limited to language that will not have the effect of deterring valid claims of infringement. The SHIELD Act of 2013 accomplishes this by awarding attorneys' fees whenever a defendant prevails on invalidity or noninfringement against an NPE plaintiff.¹⁰⁴

¹⁰¹ *Markman v. Westview Instruments Inc.*, 517 U.S. 370, 390 (1996).

¹⁰² In this regard, the SHIELD Act of 2013 takes a step back from the 2012 version as it proposes a strict fee-shifting provision without regard to reasonableness of the infringement claim.

¹⁰³ Bessen & Meurer, *supra* note 25 (manuscript at 22–23) (“The heterogeneous nature of NPEs – ranging from universities, to semiconductor design firms, to trolls – suggests that policy reform should address troll-like behavior rather than merely status as an NPE.”).

¹⁰⁴ Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong. § 285A(a)(4) (1st Sess. 2013).

[N]otwithstanding section 285, the Court *shall* award the recovery of full costs to any *prevailing party asserting invalidity or noninfringement*, including reasonable attorney's fees, other than the United States, upon the entry of a final judgment if the court determines that the adverse party did not meet at least one of the conditions described in subsection (d), unless the court finds that exceptional circumstances make an award unjust.

Id. (emphasis added).

1. Conditions Defining Good and Bad Actors

Of the three protected categories of plaintiffs that the Shield Act exempts from mandatory cost shifting, “(2) Exploitation of the patent,”¹⁰⁵ will be a fact-specific determination for courts to make. This definition intends to carve out an exception for the traditional “practicing companies” but could provide a loophole for NPEs.¹⁰⁶ The term “substantial investment” will require courts to scrutinize patents obtained through research and development and those acquired to be asserted (by both practicing entities and various types of NPEs). “The item covered by the patent” will surely be an issue of claim construction.¹⁰⁷ As this is a matter of law, surely a *Markman* hearing must occur before a decision on the SHIELD Act motion is made.¹⁰⁸

The “original inventor” category is clearly defined and should be easily evaluated by courts. This category also includes original assignees of patents, which is likewise easily verifiable.

¹⁰⁵ *Id.* §§ 285A(d)(1)–(3).

(1) Original inventor. Such party is the inventor, a joint inventor, or in the case of a patent filed by and awarded to an assignee of the original inventor or joint inventor, the original assignee of the patent.

(2) Exploitation of the patent. Such party can provide documentation to the court of substantial investment made by such party in the exploitation of the patent through production or sale of an item covered by the patent.

(3) University or technology transfer organization. Such party is—
 (A) an institution of higher education (as that term is defined in section 101 of the Higher Education Act of 1965 (20 U.S.C. 1001)); or
 (B) a technology transfer organization whose primary purpose is to facilitate the commercialization of technology developed by one or more institutions of higher education.

Id.

¹⁰⁶ NPEs will argue that a substantial investment is made when they acquire a patent. Will the substantial investment require simply that consideration be paid for the rights of a patent? Surely not. However, to target NPEs the courts will have to craft a totality of the circumstances rule that examines the specific technology covered by the patent and the marketplace in which the company operates.

¹⁰⁷ Congress’ usage of “item covered by the patent” is a misnomer because claims delineate the rights of the patent holder. Presumably the legislature did not intend to exclude method claims, which do not literally “cover an item.”

¹⁰⁸ Under the “exploitation of the patent” exception, it seems that companies who buy patents and assert them will have to argue that they practice the patent they are asserting. If Google attempts to assert patents it acquired from Motorola, it is an NPE under the SHIELD Act with respect to those patents which it does not engage in “production or sale of an item covered.” This assumes that Google will not satisfy the “substantial investment” inquiry. Google’s investment is no different than an NPE when it buys a patent and later asserts it. The distinguishing characteristic, presumably, is litigation conduct and the merits of the infringement claim.

The “University or technology transfer organization” category presents a straightforward definition of a University taken from the Higher Education Act of 1965. However, defining a technology transfer organization as one “whose primary purpose is to facilitate the commercialization of technology developed by one or more institutions of higher education” may provide an avenue for NPEs to find a safe haven.¹⁰⁹ Could NPE shell companies do business as tech transfer organizations for Universities? Will Universities become vessels for NPE patent monetization? These scenarios seem unlikely because the definitions of Universities and tech transfer offices will likely be construed narrowly by a court.

The SHIELD Act is presented as legislation that will favor large and small businesses, as both are targets of NPE plaintiffs. NPE litigation is usually undesirable for small business defendants¹¹⁰ because the NPE has substantial leverage over the company in several ways. First, responding to discovery can be very burdensome and disruptive for the company, but not for the NPE, which generally has few documents to produce and perhaps no witnesses.¹¹¹ Further, the stakes for the company can be substantial, while the NPE has nothing to lose but its patent.¹¹² Moreover, the practicing company faces potentially large legal bills for defending the patent lawsuit and challenging the validity of even overbroad patents, while the NPE likely has small or no legal bills, because it likely has a contingency fee agreement with its lawyers.

But, what about small business/patent-owner plaintiffs? The patent system is one of the few tools that small businesses have to compete against larger, more established players in the market. Patent owners with valid and infringed patents must be considered within this category as well as they often turn to NPE’s to monetize their assets. The SHIELD Act would clearly devalue patents, because the subsequent patent owners’ ability to bring suit will be encumbered by fee-shifting and bonding provisions.

Does this mean a small company’s patent is less marketable? It seems that the SHIELD Act would create a second-class status for patents, thereby prohibiting inventors from realizing the full value of their patents should they choose to sell them.¹¹³

2. Automatic Loser Pays

A fee-shifting scheme that simply forces the loser to pay by default bypasses the need for establishing a “reasonableness” standard either upfront in

¹⁰⁹ Michael Risch, *Scratching my Head Over the SHIELD Act*, MADISONIAN (May 10, 2013), <http://madisonian.net/2013/03/10/scratching-my-head/>.

¹¹⁰ Bessen & Meurer, *supra* note 25 (manuscript at 24).

¹¹¹ *Id.* (manuscript at 29).

¹¹² *Id.* at 14 (finding the mean legal costs for defense range from \$420,000 for small and medium companies to \$1.52 million for large companies).

¹¹³ Ackerman, *supra* note 100.

legislation or later through judicial precedent. To this end, the 2013 version of the SHIELD Act, unlike the 2012 version,¹¹⁴ does not require a judicial determination that the complainant did not have a “reasonable likelihood of succeeding” in its claim for patent infringement. Instead, the 2013 version of the SHIELD Act simply forces the losing plaintiff to pay by default, unless the losing party falls into one of the groups listed in §§ 285A(d)(1)–(3).¹¹⁵

An alternative standard would not award fees simply because the patent owner does not prevail, but would require more by setting a traditional standard such as “reasonable likelihood of succe[ss]” versus “loser pays by default.” In order to be successful, legislation implementing fee-shifting must include a clear definition of the standard that must be met to trigger the award of attorneys’ fees. One of the greatest weaknesses of the SHIELD Act of 2012 was lack of clarity in its use of the term “reasonable likelihood of succeeding” in establishing the standard for awarding attorneys’ fees.¹¹⁶ A more rigorous definition or explanation of the term “reasonable likelihood of succeeding” would have been helpful in giving courts less opportunity to circuitously debate the Act, giving all parties—plaintiffs, defendants, third parties, and courts—a better understanding of the impact of the legislation, and would, therefore, lead to more efficient and seamless implementation of the fee-shifting provision.¹¹⁷

If a reasonableness standard is desirable, two criteria for establishing such a standard are important. First, the new legislation should clearly delineate the distinction between objective versus subjective reasonableness standards and should precisely clarify which type of reasonableness standard should be applied to the new fee-shifting scheme.¹¹⁸ Because remedies already exist to address subjective unreasonableness under Rule 11, the next generation of this

¹¹⁴ See Saving High-Tech Innovators from Egregious Legal Disputes Act of 2012, H.R. 6245, 112th Cong. § 285A(a) (2d Sess. 2012).

(a) IN GENERAL.—Notwithstanding section 285, in an action disputing the validity or alleging the infringement of a computer hardware or software patent, upon making a determination that the party alleging the infringement of the patent *did not have a reasonable likelihood of succeeding*, the court may award the recovery of full costs to the prevailing party, including reasonable attorney’s fees, other than the United States.

Id. (emphasis added).

¹¹⁵ Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong. (1st Sess. 2013).

¹¹⁶ See Saving High-Tech Innovators from Egregious Legal Disputes Act of 2012, H.R. 6245, 112th Cong. § 285A(a) (2d Sess. 2012); Chen, *supra* note 78, at 378.

¹¹⁷ Perhaps this will follow the USPTO standard for accepting petitions for inter partes review: if a third party petitioner demonstrates a reasonable likelihood of prevailing on at least one claim challenged in the petition. 35 U.S.C. § 314(a) (2006); Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284, 299–312 (2011).

¹¹⁸ Chen, *supra* note 78, at 378.

legislation should elect to use an objective reasonableness test to evaluate the plaintiff's likelihood of success.

Second, the legislation should define when the likelihood of success should be evaluated. Several points in the litigation timeline might serve as convenient points for evaluation: just prior to filing the infringement claim, at the summary judgment stage, or after the *Markman* claim construction hearing. At each of these distinct points, a reasonable plaintiff who is evaluating the likelihood of success of this litigation may be expected to either abandon or continue the litigation depending on the plaintiff's perception of the likelihood of success. While a plaintiff with a lower likelihood of success at an earlier stage in litigation may reasonably continue to pursue litigation, a plaintiff with a lower likelihood of success at a later stage in litigation may be seen as less reasonable in continuing litigation. An earlier understanding or evaluation of the likelihood of successful litigation reduces the incidence of pure nuisance claims.¹¹⁹

III. CRITICISMS OF THE SOLUTION

Potential criticisms of this solution will address administrative efficacy of the statute, economic efficiency, and public policy.

Some will question the effectiveness of a solution that does not single out NPE's directly and complain that it operates more broadly than necessary. Yes, this statute does operate more broadly than a carve-out such as the SHIELD Act, but it does so because the litigation conduct is the problem, not the identity of the plaintiff. This solution holds all patent holders to the same standard, thereby preventing bad actors from finding potential loopholes in the defined safe-haven groups of the SHIELD Act.

A second potential criticism is that the solution may not be effective against patent trolls with broad patents. This legislation gives defendants the financial incentive to stand up to a plaintiff when they otherwise would not have the resources to do so. This solution is targeted at defending frivolous claims of litigation and striking down invalid patents. A case in which the claims actually read on a defendant's device will not be remedied by § 285. Issues of interpretation of functional claims and objections to broad patents with a wider claim scope than may still be concerns, but are outside the scope of this Article.

This is not a quick fix to the problem of NPE's asserting patents. It is true that costs will be incurred prior to and after the *Markman* hearing, but the opportunity of a fee-shifting remedy is a significant deterrent to frivolous patent

¹¹⁹ *See id.* at 379.

suits and presents ammunition for defendants to use when negotiating a license or deciding trial strategy.¹²⁰

CONCLUSION

Society is best served when the patent system incentivizes innovation, but does not overcompensate by imposing unjustified costs onto consumers. Under the current law, poor quality patents and frivolous infringement claims impose such unjustified costs on society that ultimately lead to inefficiency. The award of attorneys' fees is an important remedy, which can change the behavior of bad actors by allowing victims of frivolous litigation to defend themselves and possibly invalidate low quality patents. Altering the requirements for awarding attorney's fees (by changing the definition of "exceptional case" under 35 U.S.C. § 285 to one in which an adverse party pleads a count of patent infringement that is objectively unreasonable) will hold patent infringement plaintiffs to a higher standard of conduct. This solution dis-incentivizes nuisance claims by increasing the financial risk on the part of the plaintiff and decreases the cost of litigation to innocent defendants.

¹²⁰ Ross, *supra* note 76, at 4 (outlining a trial strategy of building a record of communication that forces a plaintiff to take fee-shifting seriously and that can provide negotiating leverage or serve as foundation for a successful motion under 35 U.S.C. § 285).