

Turning the Tables on Patent Assertion Entities: Strategic Considerations and Tools

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Responding to a patent infringement allegation by a patent assertion entity (PAE) can be burdensome and resource-draining to a targeted company and its employees. Despite recent efforts by Congress and the federal courts to curtail frivolous PAE activity, companies remain prone to being targets. In fact, more than 60 percent of the roughly 4,500 patent infringement suits filed nationwide in 2014 were attributable to PAEs.

In order to avoid undue burden, it is now increasingly important for target companies to understand their adversaries and develop defense strategies that provide leverage early on. One effective defense tool for generating leverage is the set of Post-Grant Proceedings (PGPs) enacted by the America Invents Act for invalidating patents before the U.S. Patent and Trademark Office (USPTO).

The Patent Assertion Business Model

A typical PAE leverages threats of steep litigation costs and unpredictable outcomes to extract settlements from its targets. Targets fearful of these costs often choose to quickly settle by essentially accepting the PAE's terms. While this can be a wise choice in some cases, targets should understand that they may have cost-effective alternatives to a quick settlement that will enable them to regain leverage over PAEs.

All PAEs are not alike, and many have unique characteristics and traits that can advantageously be considered for the selection of an appropriate defense strategy. In order to assess such characteristics and traits, targets should examine, for example, the extent and scope of a PAE's patent portfolio, its assertion and litigation history, and its apparent associated end goals.

For example, one class of PAEs tends to assert patents against many targets across a number of different industries. To do this economically, the PAEs employ somewhat standard letters or complaints that often make generic and otherwise vague allegations. At minimum, a well-reasoned complaint or demand letter should contain information identifying the patents being asserted, the patent owners and licensors, the alleged infringing products or services, and alleged claims infringed. Targets may be well-advised to respond to vague letters with a request for missing information, and to vague complaints with motions to dismiss for failure to adequately plead the complaint. These actions re-shift the burden of next effort and response from the target to the PAE, and may sufficiently encourage dismissal in at least a minority of cases.

Whether sufficiently pleaded or not, targets should evaluate the merits of the PAE's infringement allegations and perform a prior-art search to evaluate patent validity. This evaluation should consider the strength and validity of the asserted claims, potential product or service design-arounds to avoid infringement, and other potential defenses

based on a review of the patent file history. The outcome should directly influence preparation of a well-matched response strategy. For example, as indicated in the table below, if a target perceives its invalidity defense as relatively weak, and if a core product or service of the target is accused, the target may wish to consider seeking a low-cost settlement and/or redesign of the alleged infringing product, where possible. If either settlement or redesign is not viable, the target may wish to consider making an aggressive response in federal district court.

Alternatively, if the invalidity defense is relatively weak and a non-core technology accused, a target may wish to consider forming a joint defense group among targets to share strategies and defense costs in an action in the federal court or proceedings in the Patent Trial and Appeal Board (PTAB).

		Relative Strength of Invalidity Claims	
		STRONG	WEAK
Allegedly Infringing Product or Services Relative to Business	CORE	- File PGP as an individual petitioner - Low-cost settlement	- Low-cost settlement - Non-Infringing Redesign - Challenge Invalidity in District Court
	NON-CORE	- File PGP as a joint defense group	- Low-cost settlement - Non-Infringing Redesign

A goal of the selected strategy includes attempting to shift burden and cost of proceeding onto the PAE as much as possible, and thereby obtain leverage that can be applied, for example, to an eventual settlement or dismissal of the action. A prudent strategy may also often employ a PGP directed to patent invalidation.

PGPs as an Effective Invalidation Tool

As discussed in our earlier article, “How Post-Issuance Patent Challenges Affect Concurrent Litigation,” Thomas Bean, Robert Rudnick and James J. Kang, 216 *New Jersey Law Journal*. 150 (2014), three types of PGPs are presently in use: (1) post-grant review (PGR); (2) inter-parties review (IPR); and (3) covered business method review (CBM review). In brief comparison, PGRs are available within the first nine months of the patent-issue date, can be requested by any party other than the patent owner, and can be based on prior-art challenges and other bases provided by the patent statute. CBM reviews are available on a similar basis at any time when the petitioner has been charged with infringement for patents that claim a “covered business method.” IPRs can be requested by any party other than the patent owner, but based only on prior-art challenges.

PGPs can provide distinct advantages over district court litigation as they are typically lower in cost, shorter in duration, and employ sophisticated administrative judges with technical backgrounds and expertise well-suited to complex patent matters. To date, outcomes have tended to favor petitioners rather than patent owners. For example, a recent empirical study found that petitions to institute IPR petitions have been granted for at least one petitioner-challenged claim 84 percent of the time. Brian Love and Shawn Ambwani, “Inter Partes Review: An Early Look at the Numbers,” 81 *U. Chi. L. Rev. Dialogue* 93, 94 (2014). Among these instituted IPRs, all challenged claims have been adopted 74 percent of the time. Among IPRs to date that have reached a final decision on the merits, all adopted claims have been invalidated or disclaimed more than 77 percent of the time. Significantly, the empirical data suggests that IPRs challenging PAE-asserted patents are more likely to be instituted on average than all patents, and are likely to adopt a larger share of challenged claims. Thus, in this respect, PGPs have been demonstrated to be a particularly effective tool in invalidating PAE-asserted patents.

PGPs as a Lower-Cost Litigation Alternative

Experience suggests that PGPs may cost substantially less than district court litigation. According to the American Intellectual Property Law Association, the average cost to defend a patent case to final decision in district court is approximately \$1 to \$6 million. See David Divine and Richard Goldstein, Report of the Economic Survey, AIPLA 34-36 (2013). In comparison, an estimated cost for bringing a PGP to a final decision is in the range of \$250,000 to \$500,000. The difference in costs here is largely attributed to the more limited discovery permitted in PGPs, and the relatively short time interval of 18 months from petition to final decision. Moreover, if the PAE-asserted patent is directed to a non-core product or service for a number of targets, the targets can further reduce the costs by filing a single PGP petition.

PGPs as Leverage to Reach Settlement

The relatively short outcome period (18 months after the filing of a PGP petition) and decision trends favoring petitioners appear to encourage early settlements that are presumptively more favorable to target petitioners than early PAE settlements without this stimulus. Remarkably, current PTAB statistics for 2015 show a settlement rate of 32 percent among PGPs instituted since Jan. 1. As a contributing factor in cases where litigation is proceeding concurrently in the federal district court, motions to stay the litigations during the PGR period have been routinely granted (for example, in 82 percent of motions to stay filed to date for IPRs).

Additional Considerations

Several additional factors may contribute to a strategy that includes PGPs as a response to PAE patent assertions. PGPs do not carry the presumption of patent validity that is applied by the federal district courts. In addition, the burden of proof (a preponderance of the evidence) is lower than the clear-and-convincing evidence standard applicable in federal district court.

Most often, PGPs apply a “broadest reasonable interpretation” (BRI) standard to claim construction, which can be more encompassing than the *Phillips* standard applied in the district court. The more encompassing BRI standard often enables more prior art to be made available for invalidating the patent.

In sum, defense strategy is an important consideration for targets to actively consider prior to responding to a patent infringement allegation asserted by a PAE. It requires consideration of the target’s business objectives and goals, together with a careful analysis of the PAE’s objectives and goals, and an evaluation of the asserted patent. Under a number of scenarios, PGPs can provide an effective tool for targets that seek to protect a core product or service offering, achieve a cost-effective and timely settlement, and/or enable targets to signal to the marketplace that PAE assertions will be aggressively defended.

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