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## PATENT TROLL: THE BREWING STORM OF PATENT REFORM IN THE UNITED STATES OF AMERICA

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### ABSTRACT

“Patent trolls” have been a problem in the U.S. for many years, creating a storm of patent reform in all three branches of the U.S. government. The *modus operandi* of these companies (known as non-practicing entities “NPEs” or Patent Assertion Entities “PAEs”) is to acquire patents with no intention of practicing the invention or developing their products and with the sole purpose of licensing them aggressively or instituting lawsuits against infringers. This practice has been criticized as being anti-competitive as it curbs economic growth and technological development and stifles competition. The U.S. Congress’ first attempt to control the patent troll crisis was the passing of the America Invents Act in 2011. However, the need to address the explosion of patent litigation initiated by NPEs in America gave birth to the Innovation Act in February 2015 and the Protecting American Talent and Entrepreneurship (PATENT) Act in April 2015, both of which are currently pending. The present paper aims to study the implications of the various attempts of the United States to combat patent trolls, as dealt herein.

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## PATENT TROLL: THE BREWING STORM OF PATENT REFORM IN THE UNITED STATES OF AMERICA

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### I. INTRODUCTION

Innovation is an essential ingredient to socioeconomic growth and is the seed for Technological Growth and Development. With the objective of keeping the technological framework booming, a monopoly right was created for a limited term fixed by Statute in the form of a '*patent*'. The purpose of patent law is to promote research and development; incentivize innovation and creation; ensure disclosure of invention; invest in the invented technology and consequently cultivate new technology. This is how the God-made world was gradually transformed into a man-made world. Today, we live in a world surrounded by millions of inventions.

Just like every story needs some sort of antagonist to work against the protagonist, patent trolls disrupt the objectives of patent law. A patent troll is an entity that neither develops novel technologies nor uses those technologies to provide goods or services to the market. Such entities merely acquire patents with the sole purpose of licensing them aggressively or instituting lawsuits against infringers, adding no economic value. On the contrary, patent trolls stifle, discourage, and threaten innovation. Therefore, there is a need to curb such abusive and anti-competitive practices and to preserve the objectives of the patent system the way the founding fathers of patent law jurisprudence had perceived and intended.

Patent trolls have become the worst nightmare of one of the most developed economies of the world, the United States of America, and have created a storm of patent reform in all three branches of the U.S. Government. One of the remarkable changes that were brought about was the passage of the America Invents Act in 2011 (hereinafter referred to as "AIA"). However, despite the passage of the AIA, a massive increase in the number of patent lawsuits was seen. In 2013, patent trolls filed 18% more lawsuits than in 2012, suing 11% more companies. Patent Freedom, a company that tracks patent troll lawsuits, found that trolls filed 3,134 suits in 2013—that's about 52% of all patent lawsuits.<sup>1</sup> As per the reports, patent misuse fraud costs American businesses around \$29 billion annually.<sup>2</sup> According to the U.S.

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<sup>1</sup> James Bessen, *Patent trolling was up 11 percent last year*, WASHINGTON POST (Jan 31, 2014), <http://www.washingtonpost.com/blogs/the-switch/wp/2014/01/31/patent-trolling-was-up-11-percent-last-year/>.

<sup>2</sup> James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 CORNELL L. REV. 387, 389 (2014).

Patent and Trademark Office (PTO), there has been a rapid rise in applications over the past twenty years. Between 2010 and 2012, the PTO received an average of 540,000 applications a year, compared with 340,000 applications per year from 2000 to 2002 and 180,000 applications a year from 1990 to 1992.<sup>3</sup> New patent statistics show that patent litigation, driven by so-called “patent trolls,” could reach an all-time high in 2015. The stats show that 3,050 patent lawsuits were filed in the first half of 2015—of which 2,075, or 68%, were filed by patent trolls.<sup>4</sup> The total number of lawsuits is up 11% compared to the first half of 2014, and up 35% from the second half of last year.<sup>5</sup>

While some are convinced that the AIA may have been successful in curbing patent trolls to some extent, there has been little, or rather, no respite from the clutches of patent trolls. Consequently, Congress has been compelled to revisit the existing patent laws with the objective of introducing comprehensive patent reforms specifically targeting patent trolls.

In this post-AIA regime, the United States Congress has again created furor through proposed patent reform legislation targeting patent trolls as the House of Representatives re-introduced the Innovation Act (H.R. 9) in February 2015 and the Senate introduced its companion Bill, the Protecting American Talent and Entrepreneurship Act (S. 1137 otherwise known as the PATENT Act) in April 2015. The Innovation Act was introduced for the first time in the previous session of the Congress and was passed by the House on December 5, 2013 but died its natural death when the Senate did not pass it. In June 2015, the House Judiciary Committee approved the Innovation Act (H.R. 9) by a vote of 24 to 8, and the Senate Judiciary Committee passed the PATENT Act (S. 1137) by a vote of 16 to 4. Currently, both bills are awaiting floor action.

Alarmed by the rise in number of patent trolls, Vermont became the first state to pass legislation to attempt to halt patent trolling in May 2013.<sup>6</sup> In total, twenty-seven states have already enacted legislation on this topic since 2013,<sup>7</sup> while the fate of the Federal legislations remains in limbo.

The PATENT Act, and the Innovation Act, if passed, would amend the AIA and increase the obligations on the part of the Patentee with heightened pleading requirements; mandatory early disclosures regarding interested parties, patent ownership, and infringement allegations; limitations on discovery; early motion practice; stays on actions against end-users and customers; fee-shifting provisions; recovering fee awards from financially interested parties; and changes to both inter-partes and post-grant review systems at the Patent Trial and Appeals Board (PTAB) under the AIA.

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<sup>3</sup> Phil Goldberg, *Stumping Patent Trolls on the Bridge to Innovation*, (Progressive Policy Institute) (Oct 2013), [http://www.progressivepolicy.org/wp-content/uploads/2013/09/10.2013-Goldberg\\_Stumping-Patent-Trolls-On-The-Bridge-To-Innovation.pdf](http://www.progressivepolicy.org/wp-content/uploads/2013/09/10.2013-Goldberg_Stumping-Patent-Trolls-On-The-Bridge-To-Innovation.pdf).

<sup>4</sup> Joe Mullin, *Patent troll lawsuits head toward all-time high*, ARS TECHNICA (Jul 11, 2015 12:30am), <http://www.ars Technica.com/tech-policy/2015/07/patent-troll-lawsuits-head-towards-all-time-high/>.

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

<sup>6</sup> Jonathan Griffin, *2015 Patent Trolling Legislation*, NATIONAL CONFERENCE OF STATE LEGISLATURES (Sep 21, 2015), <http://www.ncsl.org/research/financial-services-and-commerce/2015-patent-trolling-legislation.aspx>.

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

The primary objective of both the PATENT Act of 2015 and the Innovation Act of 2015 is to introduce meaningful and balanced reforms to curtail frivolous litigation by “patent trolls.” However, the said Acts have been criticized and have been controversial particularly for individual inventors, start-up companies and small businesses, and for universities and research centers. As much as the Acts aim to target patent trolls, they will necessarily impact patents which are beyond the gamut of a patent troll. The detailed provisions and impact of the proposed amendments and the various other steps taken by the Judiciary and the Executive will be discussed in detail below.

Parts II, III and IV of this Article describe the concept of patent trolls and the implication thereof. Part V of the Article discusses the various judicial decisions that have had some impact on patent trolls. Part VI of the Article highlights the executive actions and notifications that have been issued to curb the practice of patent trolls. Part VII analyses the various provisions of the Patent Reform Bills that are pending and their implications on the patent troll practice.

## II. WHAT IS A PATENT TROLL?

Britannica Encyclopedia defines “Patent troll”, also called non-practicing entity or nonproducing entity (NPE) as a “pejorative term for a company, found most often in the American information technology industry that uses a portfolio of patents not to produce products but solely to collect licensing fees or settlements on patent infringement from other companies”.<sup>8</sup>

Despite the difficulty of defining exactly what a patent troll is, it appears clear from contemporary definitions that a patent troll is an entity that neither develops novel technologies nor uses technologies to provide goods or services to the market.<sup>9</sup> The modus operandi of these NPEs and PAEs is to acquire patents with no intention of practicing the invention or developing their products and with the sole purpose of instituting lawsuits against infringers. Lee Cheng, the Chief Legal Officer of Newegg, has spent the last several years fighting against patent trolls. Mr. Cheng defines a “patent troll” as “anyone who asserts patents abusively—i.e., poor quality patents or patents that technically pass muster but don’t add value to society. They take advantage of the fact that legal defense costs are much higher than their settlement demands to extort billions a year from honest businesses.”<sup>10</sup>

Some entities approach other companies who would require the use of the patentees’ patented technology and demand a licensing fee, whereas some just buy patents from other entities and then institute lawsuits against infringers instead of supporting the development or transfer of technology. Many of the patent claims get settled out of court due to the fact that proceeding with a lawsuit is very expensive. Patent infringement claims asserted by patent trolls are a type of nuisance lawsuit—

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<sup>8</sup> Eric Gregerson, *Patent Troll*, ENCYCLOPEDIA BRITANNICA (Jan 6, 2015), <http://www.britannica.com/EBchecked/topic/1816645/patent-troll>.

<sup>9</sup> Jason Rantanen, *Slaying the Troll: Litigation as an Effective Strategy against Patent Threats*, 23 SANTA CLARA HIGH TECH. L.J. 159 (2006).

<sup>10</sup> Ivan Barajas, *Meet Newegg’s Chief Troll Hunter*, UNSCRAMBLED: THE OFFICIAL NEWEGG BLOG (May 23, 2014), <http://blog.newegg.com/lee-cheng-holds-reddit-ama-explains-fights-patent-trolls/>.

a lawsuit in which the defendant pays to make the lawsuit go away simply to avoid expending the considerable costs associated with litigation, not because the lawsuit has any significant merit or chance of success.<sup>11</sup> Over decades, “patent trolls” have become very rampant in the U.S. and with high litigation costs involved, it has become a popular business strategy to extract money from other entities, force them to exit the market, discontinue a product line, or pay an unwarranted royalty, thereby hindering competition.

One of the most prominent examples of a non-practicing entity allegedly trolling for profit was the lawsuit filed by NTP, Inc. against BlackBerry alleging that the BlackBerry system infringed over forty independent and dependent system and method claims from its five patents.<sup>12</sup> On March 3, 2006, RIM and NTP finally settled the matter out of court. As part of the settlement, RIM paid NTP \$612.5 million in full and final settlement of all claims against RIM, as well as for a perpetual, fully-paid license going forward.”<sup>13</sup>

### III. ORIGIN OF PATENT TROLLS

The term patent troll originated in the late 1990s in reference to the trolls in Norwegian folktales, who exact tolls from travelers passing over bridges.<sup>14</sup> The first definition of a “patent troll” was given by the author of this concept, Peter Detkin, who is a former lawyer and assistant general counsel at Intel Corporation, a famous U.S. chip manufacturer. After having been sued for libel for calling another company a patent “extortionist,” he came up with the concept of “patent trolls.”<sup>15</sup> He defines them as “somebody who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing and in most cases never practiced.”<sup>16</sup>

### IV. SOCIO-ECONOMIC IMPLICATIONS OF PATENT TROLLS

The objective of patent law is to encourage and incentivize scientific research and development of new technology. Article I, Section 8, clause 8 of the United States Constitution, empowers the United States Congress: “To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”

The goal of a patent troll is simply to obtain a Patent that it can use to extract licensing revenues without developing a new technology that producers can use. In contrast, an innovator seeks not just to obtain a patent, but also to create an

<sup>11</sup> Eric Rogers and Young Jeon, *Inhibiting Patent Trolling: A New Approach for Applying Rule 11*, 12 NW. J. TECH. & INTELL. PROP. 291 (2014).

<sup>12</sup> NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1282, 1287 (Fed. Cir. 2005).

<sup>13</sup> Rob Kelley, *BlackBerry maker, NTP ink \$612 million settlement*, CNN (March 3, 2006, 7:29pm), [http://money.cnn.com/2006/03/03/technology/rimm\\_ntp/](http://money.cnn.com/2006/03/03/technology/rimm_ntp/).

<sup>14</sup> Eric Gregerson, *Patent Troll*, ENCYCLOPEDIA BRITANNICA (Jan 6, 2015), <http://www.britannica.com/EBchecked/topic/1816645/patent-troll>.

<sup>15</sup> Elizabeth D. Ferrill, *Patent Investment Trusts: Let's Build a PIT to Catch the Patent Trolls*, 6 N.C. J.L. & TECH. 367, 367—78 (2005).

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

underlying technology that has some value.<sup>17</sup> Amongst the many disadvantages, the patent trolls affect the legitimacy of the Patent System and degrade the quality of patents. One of the defenses to an infringement action is that of invalidity. As more and more entities are settling disputes initiated by trolls, the baseless actions go untested on merits. A further unfortunate consequence is that patent trolls amount to an unfair trade practice and are anti-competitive.

Patent trolls are creating a threat amongst competitors in the market and hence stifling innovation. In other words, many inventors who have a genuinely unique technology give up their commercial interests in said technology for fear of losing the litigation and incurring large expenses in the form of damages and litigation costs from defending lawsuits. In patent disputes where between \$1 million and \$25 million is at stake, the average defense costs amount to \$1.6 million through discovery and \$2.8 million through trial.<sup>18</sup> This creates a world where new technology is taken off the market even before it can reap benefits, coercing the innovators of the new technology to pay exorbitant fees in favor of obscure patents. Thus, the patent-trolling problem creates economic deadweight loss for society.<sup>19</sup> Moreover, unlike a producer, a patent troll has no product that can be targeted by a counter-patent suit, thus enabling it to assert its patents without obvious repercussions.<sup>20</sup>

Patent trolls are discouraging inventors who, despite being visionaries ahead of their time, have little hope of success in commercializing their technology and contributing to society, thus delaying research and making technology less accessible and more expensive. In 2011, Apple and Google spent more money on patent litigation and defensive patent acquisitions than on research and development.<sup>21</sup> Rampant patent litigation is impeding innovation and ultimately increasing the costs of gadgets for consumers, according to legal experts and industry observers.<sup>22</sup> As per the statistics collected by Patent Freedom, a company that tracks patent troll lawsuits, patent lawsuits involving NPEs have increased dramatically over the last decade—by an average of 22% per year since 2004.<sup>23</sup>

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<sup>17</sup> Jason Rantanen, *Slaying the Troll: Litigation as an Effective Strategy against Patent Threats*, 23 SANTA CLARA HIGH TECH. L.J. 159, 168 (2006).

<sup>18</sup> Phil Goldberg, *Stumping Patent Trolls on the Bridge to Innovation*, (Progressive Policy Institute) (Oct 2013), [http://www.progressivepolicy.org/wp-content/uploads/2013/09/10.2013-Goldberg\\_Stumping-Patent-Trolls-On-The-Bridge-To-Innovation.pdf](http://www.progressivepolicy.org/wp-content/uploads/2013/09/10.2013-Goldberg_Stumping-Patent-Trolls-On-The-Bridge-To-Innovation.pdf).

<sup>19</sup> James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 CORNELL L. REV. 387, 400 (2014).

<sup>20</sup> Jason Rantanen, *Slaying the Troll: Litigation as an Effective Strategy against Patent Threats*, 23 SANTA CLARA HIGH TECH. L.J. 159 (2006).

<sup>21</sup> Sam Gustin, *Viewpoint: Obama's 'Patent Troll' Reform: Why Everyone Should Care*, TIME (June 8, 2013), <http://business.time.com/2013/06/08/viewpoint-obamas-patent-troll-reform-why-everyone-should-care/>.

<sup>22</sup> *Id.*

<sup>23</sup> See Aria Soroudi, *Defeating Trolls: The Impact Of Octane and Highmark On Patent Trolls*, 35 LOY. L.A. ENT. L. REV. 319, 325 (Jun 1, 2015), <http://digitalcommons.lmu.edu/elr/vol35/iss3/3>.

## V. ATTEMPT TO COMBAT PATENT TROLLS BY US COURTS

*A. eBay and the Injunctive Relief Standard*

The first time that the U.S. Supreme Court showed its disdain for settlement and the current culture of patent trolls was in its ruling in *eBay v. MercExchange, LLC*, 547 U.S. 388 (2006) wherein MercExchange sued eBay, a leading online auction site, for infringing its patents with its “Buy It Now” feature, which allowed for instant sale of products.<sup>24</sup> Raising the bar of the Injunctive Relief standard, in a unanimous opinion, Justice Thomas delivered the judgment of the Supreme Court and drastically reduced the ability of a patentee to obtain a permanent injunction against an infringer.

The Court held that, according to well-established principles of equity, a Plaintiff seeking a permanent injunction must demonstrate: “(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”<sup>25</sup>

In his concurring opinion, Justice Kennedy stated that an industry has developed in which firms use patents not as a basis for producing and selling goods but instead, primarily for obtaining licensing fees.<sup>26</sup> For these firms, an injunction and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.<sup>27</sup> Thus, while the Court stopped short of stating that injunctions are to be denied where the patentee is a patent troll, it seems implicit that the likely impact is that it would be challenging for patent trolls to obtain an injunction going forward. The *eBay* four-factor test has proven most difficult for NPEs. An injunction is a strong weapon in any litigation proceeding and the allowance or acceptance of the same determines the fate of a litigant in a lawsuit. Clearly, if the ability of a patentee/patent troll to obtain a permanent injunction has been lessened, the same will impact their chances of settlement as the alleged infringers will be more optimistic of the chance of successfully defending the lawsuit. Even in a scenario where the parties are willing to settle, the settlement may be for a lesser amount where injunction is not available.

As predicted, *eBay* did significantly impact the results in permanent injunction cases. In cases that involved competition-related injuries such as lost market share, lost profits, and price erosion, irreparable harm has typically been found and thus, injunctions granted.<sup>28</sup> In contrast, in cases that did not involve competition-related injuries, injunctions have typically been denied.<sup>29</sup> Some of the cases involving NPEs

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<sup>24</sup> Bates Lovett, *The Rise of the ‘Patent Troll’*, (Nov 1, 2012), E-COMMERCE LAW & POLICY, <http://www.huntermaclean.com/news-publications/the-rise-of-the-patent-troll/>.

<sup>25</sup> *eBay v. MercExchange LLC*, 547 U.S. 388, 391 (2006).

<sup>26</sup> *Id.* at 396.

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

<sup>28</sup> Darryl J. Adams and Victoria Wicken, *Permanent Injunctions after eBay v. MercExchange: the year in review*, 15 TEX. INTELL. PROP. L.J. 417.

<sup>29</sup> *Id.*



which followed the ruling in *eBay*, are *Paice LLC v. Toyota Motor Corp.*,<sup>30</sup> *z4 Technologies, Inc. v. Microsoft Corp.*,<sup>31</sup> and *Amado v. Microsoft Corp.*,<sup>32</sup> amongst others. Thus, patent-holders seeking to assert a troll-like strategy are discouraged from seeking overcompensation by relying on the availability of permanent injunctions.

### *B. Fee-Shifting Provisions*

Prior to 1946, the U.S. Patent Act did not authorize the awarding of attorney's fees to the prevailing party and each litigant paid his own attorney's fees, win or lose. In 1946, Congress amended the Act to add a discretionary fee-shifting provision which was then codified as 35 U.S.C. § 70, which stated that a court "may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment in any patent case." Six years later, Congress amended the fee-shifting provision and re-codified it as 35 U.S.C. § 285<sup>33</sup> wherein the Courts in exceptional cases may award reasonable attorney fees to the prevailing party, also known as the Patent Act's shifting provision. The two-step test for applying 35 U.S.C. § 285 emerged from the *Brooks Furniture* case<sup>34</sup> wherein the Court held that "a case may be deemed exceptional" under Section 285 only in two limited circumstances: "when there has been some material inappropriate conduct," or when the litigation is both brought in subjective bad faith and objectively baseless. The Court further held that because "[t]here is a presumption that the assertion of infringement of a duly granted patent is made in good faith . . . the underlying improper conduct and the characterization of the case as exceptional must be established by clear and convincing evidence."<sup>35</sup>

However, subsequently, the decisions in *Highmark Inc. v. Allcare Health Management System Inc.*<sup>36</sup> and *Octane Fitness v. Icon Health and Fitness*<sup>37</sup> clarified the circumstances under which attorney's fees may be awarded in patent litigation, making it much easier for a prevailing party to collect attorney's fees in "exceptional" cases.

For example, in *Octane*<sup>38</sup>, ICON had sued Octane. The Court took into account the fact that ICON is a bigger company and never commercialized the patent at issue. Additionally, an e-mail exchange between two ICON sales executives, which Octane offered as evidence, showed that ICON had brought the infringement action as a matter of commercial strategy. The court in *Octane*<sup>39</sup> held that *Brooks* was unduly rigid, impermissibly encumbered the statutory grant of discretion to district

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<sup>30</sup> *Paice LLC v. Toyota Motor Corp.*, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. Aug. 16, 2006).

<sup>31</sup> *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006).

<sup>32</sup> *Amado v. Microsoft Corp.*, 2007 U.S. Dist. LEXIS 96487 (C.D. Cal. Mar. 13, 2007).

<sup>33</sup> See 35 U.S.C. § 285 (2012) ("Attorney fees. The court in exceptional cases may award reasonable attorney fees to the prevailing party").

<sup>34</sup> *Brooks Furniture Mfg. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005).

<sup>35</sup> *Id.* at 1382

<sup>36</sup> *Highmark Inc. v. Allcare Health Mgmt. Sys.*, 134 S. Ct. 1744 (2014).

<sup>37</sup> *Id.* at 1749.

<sup>38</sup> *Id.*

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

courts, and that the power under Section 285 is reserved for “exceptional” cases—meaning “uncommon,” “rare,” or “not ordinary.” Nothing in Section 285 justifies such a high standard of proof. Section 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one. On remand, the District awarded almost \$2 million to Octane, the prevailing accused infringer.<sup>40</sup>

Although neither of these cases pertained to patent trolls, by broadening the scope of discretion for fee-shifting, a patent owner who brings a lawsuit without merit is unlikely to get off the hook and, if the provision is implemented in a flexible manner, the “fee-shifting” provision is likely to discourage patent trolling by making it less lucrative. Thus, to make beneficial use of the attorney fees provision, it is best that the party who has been sued and faces a vexatious and frivolous lawsuit should gather evidence of coercion or threat of any kind. The ripples from *Highmark* and *Octane* are being strongly felt as District Courts have followed the Supreme Court’s lead, awarding attorneys’ fees in dozens of cases in the last year.<sup>41</sup> Further, the Supreme Court did, in effect, pave the way to implementing the “fee-shifting” provision to patent trolls through various patent litigation reform bills introduced and currently pending in Congress. The same will be dealt with in detail below.

### *C. Revisiting Patent Eligibility Standards of Patent Software in Alice Corp. v. CLS Bank*

According to a news report from PricewaterhouseCoopers, in a dramatic shift from recent years, the annual number of patent actions filed in 2014 declined for the first time since 2009. Approximately 5,700 cases were filed in 2014, representing a drop of 13%.<sup>42</sup> The report credits the Supreme Court’s decision in *Alice Corp. v. CLS Bank*<sup>43</sup> for much of the drop in patent litigation. *Alice Corp.*, which was decided in June 2014, raised the bar for software patents—in particular, the sort that many non-practicing entities feed upon.

Following *Alice Corp.*,<sup>44</sup> when determining whether a patent claim meets the statutory requirements for patent-eligibility, one must determine whether the claim is directed to a patent-ineligible law of nature, natural phenomenon, or abstract idea. If so, then one has to evaluate whether any additional claim elements transform the claim into a patent-eligible application that amounts to significantly more than the ineligible concept itself.

Considering that a substantial amount of NPE litigation involves patents in software and business methods, as these patents have “fuzzy boundaries” and are thus the easier targets, the decision in *Alice Corp.* indirectly affects patent trolls.

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<sup>40</sup> *Icon Health & Fitness, Inc. v. Octane Fitness, LLC*, No. CIV. 09-319 ADM/SER, 2015 WL 5122905 (D. Minn. Sept. 1, 2015) *amended*, No. CIV. 09-319 ADM/SER, 2015 WL 5638033 (D. Minn. Sept. 24, 2015).

<sup>41</sup> *Summit Data Sys., LLC v. EMC Corp.*, No. CV 10-749-GMS, 2014 WL 4955689 (D. Del. Sept. 25, 2014).

<sup>42</sup> Chris Barry, Roman Arad, et al., *2015 Patent Litigation Study A change in patentee fortunes*, (May, 2015) [http://www.pwc.com/en\\_US/us/forensic-services/publications/assets/2015-pwc-patent-litigation-study.pdf](http://www.pwc.com/en_US/us/forensic-services/publications/assets/2015-pwc-patent-litigation-study.pdf).

<sup>43</sup> *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2354 (2014).

<sup>44</sup> *Id.*

While the decision has been strongly criticized as vague and absurd, and for blurring the lines between the assessment of patent-eligibility and other patentability requirements, there may be a silver lining for the victims of patent trolls.

It may, however, be argued that with the ruling in *Alice Corp.*, because hundreds of thousands of software patents are potentially at risk, the approach in *Octane* and *Highmark* is more balanced. *Octane* and *Highmark* attack the plaintiff's purpose for bringing the claim instead of the underlying nature of the patent and therefore are likely to serve as a better solution than *Alice Corp.*<sup>45</sup>

#### *D. Supreme Court Ruling in Commil USA LLC v. Cisco Systems – Court to Issue Sanctions in Case of Frivolous Patent Claims*

In a recent ruling of the Supreme Court in *Commil USA, LLC v. Cisco Systems, Inc.*<sup>46</sup> where Commil succeeded against Cisco on counts of direct infringement and induced infringement, Justice Kennedy did not hesitate to reiterate that it is the duty of Judges to take strict measures to ensure frivolous patent cases are dissuaded despite duly acknowledging that there was no issue of frivolous claims in the said case. It was held that

[t]he Court is well aware that an industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. . . . Some companies may use patents as a sword to go after defendants for money, even when their claims are frivolous. This tactic is often pursued through demand letters, which may be sent very broadly and without prior investigation, may assert vague claims of infringement, and may be designed to obtain payments that are based more on the costs of defending litigation than on the merit of the patent claims . . . .

The Court further recognized that some of the methods that may be implemented for penalizing frivolous suits include attorney sanctions and the award of attorneys' fees in exceptional cases.

## VI. EXECUTIVE ACTIONS AGAINST PATENT ABUSE UNDER THE OBAMA ADMINISTRATION

In order to address the explosion of patent litigation initiated by NPEs that America faced, President Obama took direct aim at the companies and their practices, announcing several executive orders "to protect innovators from frivolous litigation" by patent trolls.<sup>47</sup> The actions included tightening restrictions on

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<sup>45</sup> See Aria Soroudi, *Defeating Trolls: The Impact Of Octane and Highmark On Patent Trolls*, 35LOY. L.A. ENT. L. REV. 319 (Jun 1, 2015), <http://digitalcommons.lmu.edu/elr/vol35/iss3/3> (internal quotations omitted).

<sup>46</sup> *Commil USA, LLC v. Cisco Sys.*, 135 S. Ct. 1920 (2015).

<sup>47</sup> Edward Wyatt, *Obama Orders Regulators to Root Out 'Patent Trolls'*, THE NEW YORK TIMES (June 4, 2013), [http://www.nytimes.com/2013/06/05/business/president-moves-to-curb-patent-suits.html?\\_r=0](http://www.nytimes.com/2013/06/05/business/president-moves-to-curb-patent-suits.html?_r=0).

functional claiming, requiring patent holders to provide updated patent ownership information to stop PAEs from setting up shell companies to hide their activities, educating small businesses and end-users of their rights when pursued by PAEs, and focusing resources on continuing to identify solutions.

On June 4, 2013, President Obama issued a report entitled *Patent Assertion and U.S. Innovation*,<sup>48</sup> which focused on the challenges posed by patent trolls and how they are dis-incentivizing innovation. As per the report, frivolous litigation would likely be reduced by fostering clearer patents with a high standard of novelty and non-obviousness, reducing disparity in the costs of litigation for patent owners and technology users, and increasing the adaptability of the innovation system to challenges posed by new technologies and new business models.<sup>49</sup>

Based on the report, President Obama announced five executive actions and seven legislative recommendations<sup>50</sup> “to help bring about greater transparency to the patent system and level the playing field for innovators”<sup>51</sup> and “to protect innovators from frivolous litigation” by patent trolls.<sup>52</sup> Some of the Legislative recommendations and executive actions include:<sup>53</sup>

- A. requiring patentees and applicants to disclose the “Real Party-in-Interest” so as to reduce abusive patent litigation by helping the public better defend itself against abusive assertions by identified parties and to stop PAEs from setting up shell companies to hide their activities, educating small businesses and end-users of their rights when pursued by PAEs, and focusing resources on continuing to identify solutions;<sup>54</sup>
- B. permitting more discretion in awarding fees under 35 U.S.C. § 285 to prevailing parties in case of abusive litigation;
- C. expanding the PTO’s transitional program for covered business method patents to include a broader category of computer-enabled patents and permit a wider range of challengers to petition for review of issued patents before the Patent Trial and Appeals Board (“PTAB”);
- D. protecting off-the-shelf use by consumers and businesses by providing them with better legal protection against liability for a product being used off-the-shelf and solely for its intended use;

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<sup>48</sup> *Patent Assertion and U.S. Innovation prepared by the President’s Council of Economic Advisers, the National Economic Council, and the Office of Science & Technology Policy*, THE WHITE HOUSE (June 2013), [https://www.whitehouse.gov/sites/default/files/docs/patent\\_report.pdf](https://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf).

<sup>49</sup> *Id.*

<sup>50</sup> *FACT SHEET: White House Task Force on High-Tech Patent Issues*, THE WHITE HOUSE (June 04, 2013), <https://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues>.

<sup>51</sup> *USPTO-led Executive Actions on High Tech Patent Issues*, UNITED STATES PATENT AND TRADEMARK OFFICE (Aug 18, 2015, 10:12am), <http://www.uspto.gov/patent/initiatives/uspto-led-executive-actions-high-tech-patent-issues>.

<sup>52</sup> Edward Wyatt, *Obama Orders Regulators to Root Out ‘Patent Trolls’*, THE NEW YORK TIMES (June 4, 2013), [http://www.nytimes.com/2013/06/05/business/president-moves-to-curb-patent-suits.html?\\_r=0](http://www.nytimes.com/2013/06/05/business/president-moves-to-curb-patent-suits.html?_r=0).

<sup>53</sup> See *supra* note 51.

<sup>54</sup> See Phil Goldberg, *Stumping Patent Trolls on the Bridge to Innovation*, PROGRESSIVE POLICY INSTITUTE (Oct 2013), [http://www.progressivepolicy.org/wp-content/uploads/2013/09/10.2013-Goldberg\\_Stumping-Patent-Trolls-On-The-Bridge-To-Innovation.pdf](http://www.progressivepolicy.org/wp-content/uploads/2013/09/10.2013-Goldberg_Stumping-Patent-Trolls-On-The-Bridge-To-Innovation.pdf).

- E. changing the standard for obtaining an injunction, consistent with *eBay Inc. v. MercExchange*;
- F. expanding Dedicated Outreach and Study by providing more robust data and research on the issues of abusive litigation; and
- G. using demand letter transparency to help curb abusive suits, incentivizing public filing of demand letters in a way that makes them accessible and searchable to the public.

The White House launched an online toolkit to help entrepreneurs deal with demand letters.<sup>55</sup> The online toolkit—a mix of educational materials and information—features a search facility that enables startups to search government databases for information about patent trolls and patents without spending too much money.<sup>56</sup>

President Obama required the Patent and Trademark Office to ensure that companies are more specific about exactly what their patent covered and how it was being infringed.<sup>57</sup> Thereafter, on February 20, 2014, the President announced three new initiatives aimed at encouraging innovation and strengthening the “quality and accessibility of the patent system including crowd sourcing prior art, more robust technical training and expertise, and patent *pro bono* and *pro se* assistance.”<sup>58</sup>

Concurrent with the recommendations, on February 20, 2014, the PTO published a draft rule that required the attributable owner, including the ultimate parent entity, be identified during the pendency of a patent application at specified application and at specified times during the life of a patent in order to ensure patent owners accurately record and regularly update ownership information when they are involved in proceedings before the PTO.<sup>59</sup>

## VII. PATENT TROLLS AND THE AMERICA INVENTS ACT, 2011 AND PENDING PATENT AMENDMENT BILLS

President Obama first declared war on patent trolls in 2011 when he signed the America Invents Act. It was supposed to reduce the number of lawsuits, but has not even slowed the growth rate.<sup>60</sup> Thereafter, many proposed amendments to current patent law have surfaced in the U.S. in order to address the explosion of patent litigation initiated by NPEs. The same will be dealt with herein below.

<sup>55</sup> Rakesh Sharma, *The USPTO Makes Patent Trolls Searchable*, (Feb 21, 2014, 01:22pm), <http://www.forbes.com/sites/rakeshsharma/2014/02/21/the-uspto-makes-patent-trolls-searchable/>.

<sup>56</sup> *Id.*

<sup>57</sup> *FACT SHEET: White House Task Force on High-Tech Patent Issues*, THE WHITE HOUSE (June 04, 2013), <https://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues>.

<sup>58</sup> *FACT SHEET - Executive Actions: Answering the President's Call to Strengthen Our Patent System and Foster Innovation*, THE WHITE HOUSE (Feb 20, 2014), <https://www.whitehouse.gov/the-press-office/2014/02/20/fact-sheet-executive-actions-answering-president-s-call-strengthen-our-p>.

<sup>59</sup> Notice of Public Hearings and Extension of Common Period on the Proposed Changes to Require Identification of Attributable Owner, 79 Fed. Reg. 34 (February 20, 2014), <http://www.gpo.gov/fdsys/pkg/FR-2014-02-20/pdf/2014-03629.pdf>.

<sup>60</sup> *Obama goes troll-hunting*, THE ECONOMIST (June 8, 2013), <http://www.economist.com/news/business/21579011-president-proposes-new-round-intellectual-property-reform-obama-goes-troll-hunting>.

*A. The America Invents Act of 2011*

The first major step in almost sixty years of patent jurisprudence of United States towards patent reform was the Leahy-Smith America Invents Act (“AIA”) signed into law by President Obama on September 16, 2011. While the shift from ‘first to invent’ to ‘first to file’ system, post grant review and inter partes review, etc. grabbed most of the attention, one major milestone of the AIA was towards tackling the patent troll problem through new section 299.<sup>61</sup> Prior to the AIA, joinder in patent suits was governed by Rule 20<sup>62</sup> of the Federal Rules of Civil Procedure under “the same transaction or occurrence” standard. Further, under Rule 42<sup>63</sup> of the Federal Rules of Civil Procedure, the court could consolidate actions so long as the actions before the court involved “a common question of law or fact.” Thus, by invoking the above provision, even if suits involving the same patent were filed separately, the same could be consolidated at a later stage thereby significantly reducing litigation costs.

Under the garb of the same, it was easy for NPEs to institute a single lawsuit against multiple parties for infringement of a single patent, the most notable being in the Eastern District of Texas.<sup>64</sup> As a result, by filing a suit in the Eastern District of Texas, patent holders could bring a suit against each alleged patent infringer in one action without any limitation in the number of defendants. For example, one company could sue dozens of other entities claiming patent infringement, eventually leading all such entities to pay settlements worth millions of dollars each.

However, with the introduction of 35 U.S.C. § 299, plaintiffs may only join multiple defendants if plaintiffs can demonstrate that any asserted right arises out of the same transaction or occurrence and can show that questions of fact are common to all joined defendants. The section also specifically states that defendants may not be joined as parties merely on the basis of the fact that the defendants are alleged to have infringed the same patent. The change was intended to disrupt the NPE tactic of joining large numbers of disparately located defendants in one lawsuit and forcing the defendants to litigate in the non-practicing entity’s chosen forum.<sup>65</sup> This strategy had at least two benefits. First, there was a reduction in litigation costs. Second, the presence of multiple defendants made it more difficult to transfer the case to a more convenient forum. This strategy was particularly effective in districts that interpreted the permissive joinder rule as allowing defendants to be joined based on little more than the plaintiff’s claim that the defendants had infringed the same patent.<sup>66</sup>

As a result, the number of NPE suits increased significantly from 2011-2013 due to the changes in joinder provisions by the AIA. For cases filed post-AIA, infringement suits would become more difficult and expensive for patent monetization entities. However, in some cases such consolidation and joinder could

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<sup>61</sup> See 35 U.S.C. § 299 (2012).

<sup>62</sup> See Fed. R. Civ. P. 20.

<sup>63</sup> See Fed. R. Civ. P. 42.

<sup>64</sup> Sara Jeruss, et al., *The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation*, 11 DUKE LAW & TECHNOLOGY REVIEW 357–389 (2012).

<sup>65</sup> Tracie L. Bryant, Note, *The America Invents Act: Slaying Trolls, Limiting Joinder*, 25 HARV. J.L. & TECH. 673, 675–76 (2012).

<sup>66</sup> *Id.*

have been beneficial for the defendants where they could jointly put together all their strength, expertise, experience, knowledge, finances, and resources in order to defend a frivolous battle, which they could not otherwise solely withstand. Particularly, the earlier joinder rules were beneficial in the case of a small company or a start-up who, if sued, would prefer to be joined in a case with a large co-defendant for their deep pockets which would benefit them to invalidate the patent, thus creating a distinct and newer set of concerns. However, in the larger scheme of things, it was still the prerogative of the plaintiff as to which strategy to adopt; the plaintiffs could always assess the cumulative strength of the defendants before even joining them as parties.

While it is categorically clear and ascertained in 35 U.S.C. § 299 that “accused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit;” the provision is still silent on when a joinder or consolidation may be permissible under the newly added provision. Thus, leaving a little window where patent trolls may still continue to evoke the one suit, multiple defendants strategy. Until it is tried and tested, one may just bask in the glory that at least there is continuous reformation towards curbing patent trolls and that’s how the law eventually evolves.

### *B. The Innovation Act (H.R. 9):*<sup>67</sup>

To curb abusive patent litigation, Representative Bob Goodlatte introduced the Innovation Act in the House of Representatives on Oct 23, 2013, which was passed by the House on December 5, 2013 (H.R. 3309) but was never passed by the U.S. Senate. Thereafter, the Innovation Act of the 114th Congress (H.R. 9) was introduced on February 5, 2015 as a reintroduction of the failed bill.

Some of the key provisions of the Innovation Act H.R. 9 are as follows:

1. Fee-shifting:<sup>68</sup> The bill would amend 35 U.S.C. § 285 to state “[t]he court shall award to a prevailing party, reasonable fees and other expenses incurred by that party in connection with a civil action . . . unless the court finds that the position of the non-prevailing party or parties was reasonably justified or that special circumstances make an award unjust.”<sup>69</sup> By the proposed amendment and adding a rider, there will be a shifting of the burden of proof.

Currently, 35 U.S.C. § 282 reads as “the court in *exceptional cases* may award reasonable attorney fees to the prevailing party”—i.e., the winning party has the burden of demonstrating that fee-shifting is warranted and thus has to meet the ‘exceptional case’ standard. The proposed legislation would shift the burden to the non-prevailing party, which would include a patent troll. Such non-prevailing party or patent troll has to prove why an award/fees should not be granted to the prevailing party.

Unlike *Octane*, however, the Innovation Act would automatically require the losing party to pay the attorney’s fees for the other side instead of an award of

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<sup>67</sup> See The Innovation Act, H. R. 9, 114th Cong., (July 29, 2015), available at <https://www.govtrack.us/congress/bills/114/hr9>.

<sup>68</sup> See *id.* § 3(b).

<sup>69</sup> See *id.* § 3(b)(1).

fees only in exceptional cases, thus further diluting the standard. The proposed amendment, if passed, would allow fee awards in many more cases and would be something worth pondering over by the NPEs before filing a frivolous lawsuit. However, despite the positive aspects of the Innovation Act, this provision has been criticized because the consequences of adopting such a measure are severe and will not attack only NPEs, but also those companies that initiate litigation in good faith. For small innovators, there will be reluctance to file a legitimate claim because they will fear that they will lose a lawsuit and end up paying exorbitant costs.<sup>70</sup> Therefore, the critics feel that Section 285 under *Octane* and *Highmark* is a better solution because it addresses the merits of the claim itself, while maintaining an even playing field between big and small innovators.<sup>71</sup>

2. Recovery of fees – joinder of parties:<sup>72</sup> The amended Section 285 further provides that if a patent assertion entity is unable to pay a fee award, the Court may make another party who has been joined in the action liable to pay. Further, the Bill proposes an amendment to Section 299<sup>73</sup> which provides for joinder of parties wherein if a non-prevailing party is unable to pay a fee award, the prevailing party may join an interested party and recover fees from such party which could be an assignee of patent, hold a right to enforce or sublicense the patent, or have a direct financial interest in the patent.
3. Pleading requirements for patent infringement actions:<sup>74</sup> The Bill introduces a new Section 281A<sup>75</sup> for pleading requirements for patent infringement actions. Plaintiffs typically rely upon the Federal Rules of Civil Procedure Form 18 to structure their patent infringement complaint which only required that “On date, United States Letters Patent No. \_\_\_\_\_ were issued to the plaintiff for an invention. . . . The plaintiff owned the patent throughout the period of the defendant’s infringing acts and still owns the patent. The defendant has infringed and is still infringing the Letters Patent by \_\_\_\_\_ and . . . will continue to do so unless enjoined by this court.”

However, as per the amendment, a complainant will be obligated to specifically identify the following, in the pleadings in an infringement action:

- a) each patent allegedly infringed;
- b) each claim of each patent allegedly infringed;
- c) for each claim, identify each accused process, machine, manufacture or composition of matter alleged to be infringed;
- d) the name and model number and detailed description of the accused products; and
- e) an explanation of infringement—i.e., identifying where each element of each claim is found in the accused product.

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<sup>70</sup> See Aria Soroudi, *Defeating Trolls: The Impact Of Octane and Highmark On Patent Trolls*, 35 LOY. L.A. ENT. L. REV. 319 (Jun 1, 2015), <http://digitalcommons.lmu.edu/elr/vol35/iss3/3>.

<sup>71</sup> *Id.*

<sup>72</sup> H. R. 9, § 3(c), 114th Cong., (July 29, 2015), available at <https://www.govtrack.us/congress/bills/114/hr9>.

<sup>73</sup> *See id.*

<sup>74</sup> *See id.* § 3(a).

<sup>75</sup> *See id.*



4. Discovery in patent infringement action:<sup>76</sup> The Bill introduces a new Section 281B<sup>77</sup> which allows postponing discovery if the defendant makes a motion to (1) sever a claim or drop a party for misjoinder; (2) transfer the action to another venue; or (3) dismiss the action.

There are however four exceptions to this stay of discovery provision:

- (1) the court may allow such discovery that the court deems is necessary to decide the motion to sever, drop a party, dismiss, or transfer the action;
  - (2) the provision does not apply to an action in which the patent holder seeks a preliminary injunction to prevent harm arising from the manufacture, use, sale, or importation of an allegedly infringing product that competes with a product made or sold by the patent holder;
  - (3) parties may consent to voluntary exclusion from these proposed limitations on discovery; and
  - (4) the provision does not apply to any civil action that includes a claim for relief arising under 35 U.S.C. § 271(e)(2) relating to certain drug claims.
5. Demand letters:<sup>78</sup> A patent demand letter is a letter sent by a patent-holder to a company or an individual accusing the recipient of patent infringement. A patentee may use demand letters to prove wilfulness in a patent infringement lawsuit, which is set at a high bar following recent court decisions. In order to protect against frivolous demands, the Bill precludes a plaintiff from relying on pre-suit demand letters to establish willful infringement unless the letters specify the asserted patent, the accused product or process, the plaintiff's ultimate parent entity, and, to the extent possible, reasonable investigation or inquiry for the alleged infringement.
  6. Patent-owner transparency:<sup>79</sup> The Bill imposes a requirement on a plaintiff to disclose to the Patent and Trademark Office (PTO), the court, and each adversary party (1) the assignee of patents in questions, (2) any entity having rights to sub-license or enforce the patent or having a financial interest in the patent, and (3) the plaintiff's ultimate parent entity. It further requires the complaint to describe the plaintiff's principal business and any prior litigation concerning the patent and whether there is a standard essential patent involved.
  7. Stay of customer suits:<sup>80</sup> The Bill proposes amendment of Section 296 to direct that where the same patent has been asserted against a manufacturer and its customer, a court shall grant a stay of the customer suit if the manufacturer and the customer consent in writing to the stay and the customer agrees to be bound by any final decision on common issues in the manufacturer suit.
  8. Claim construction in post-grant and inter partes reviews:<sup>81</sup> The Bill proposes to change the standard when construing patent claims in post-grant and inter partes reviews under the AIA by the Patent Trial and Appeal Board (PTAB) from the "broadest reasonable interpretation" to the narrower claim construction standard followed by district courts. The new test would require construing each claim of

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<sup>76</sup> See *id.* § 3(d).

<sup>77</sup> See *id.*

<sup>78</sup> See *id.*

<sup>79</sup> See *id.* § 4.

<sup>80</sup> See *id.* § 5.

<sup>81</sup> See *id.* § 9.

the patent in accordance with the ordinary and customary meaning of such claim as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent. The purpose of inter-partes review was to allow the public a relatively quick way to ask officials at the PTO to take a second look at patents that should not have been issued in the first place. As per the critics, the amendment changes the evidence and pleading rules for the inter partes review process, which will make the challenge process akin to a full-blown patent litigation and eliminate the incentive for companies to use it.

9. Venue for action relating to Patents:<sup>82</sup> The Bill incorporates strict venue provisions and seeks to ensure that patent infringement suits are brought in only judicial districts that have a reasonable connection to the dispute. It requires that plaintiffs file patent infringement lawsuits where the defendant has (1) its principal place of business or is incorporated; (2) committed the infringement and has a physical presence that gives rise to the infringement; or (3) consented to be sued, or where the Plaintiff has a regular and established physical facility involving research and invention prior to the filing date of the patent, manufacturing a tangible product that embodies the claimed invention. This was specifically done to curb practices where patent trolls would file in districts that had a reputation for selecting juries that rule in favor of patent trolls such as federal district court in East Texas.<sup>83</sup>

On June 14, 2015, the House Judiciary Committee approved the Innovation Act by a vote of 24–8 even though the Innovation Act has been widely criticized as being harmful to small businesses, technology based start-ups, universities and independent inventors, while at the same time being extremely beneficial to a handful of giant corporations that use patented technology, a group that some have dubbed the “infringer lobby.”<sup>84</sup>

### *C. The PATENT Act of 2015 (S. 1137)* <sup>85</sup>

Even the Senate introduced its own patent reform bill called the “PATENT Act.” It was introduced on April 29, 2015 by Senator Chuck Grassley of the Senate Judiciary Committee. The PATENT Act includes many provisions similar to the Innovation Act but differs in various ways in which the said provisions have been implemented. The U.S. Senate Committee on the Judiciary approved the PATENT Act on June 4, 2015.

Some of the key provisions of the PATENT ACT of 2015 (S. 1137) are as follows:

1. Heightened pleading: Like the Innovation Act, the Senate’s PATENT Act<sup>86</sup> heightened pleading requirements under a new Section S. 281 A<sup>87</sup> to be introduced, including such details as:

<sup>82</sup> See *id.* § 3(d).

<sup>83</sup> Sara Jeruss et al., *The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation*, 11 DUKE LAW & TECHNOLOGY REVIEW 357–389 (2012).

<sup>84</sup> Gene Quinn, *With Boehner gone will House Freedom Caucus be conservative on patent reform?*, IP WATCHDOG (Sep 28, 2015), <http://www.ipwatchdog.com/2015/09/28/boehner-gone-will-house-freedom-caucus-be-conservative-on-patent-reform/id=62067/>.

<sup>85</sup> See PATENT Act, S. R. 1137, 114th Cong., (Sep 8, 2015), <https://www.govtrack.us/congress/bills/114/s1137/text>.

- (a) the identification of each patent allegedly infringed;
  - (b) the identification of each claim of each patent that is allegedly infringed;
  - (c) the identification (including the name, model number, or description) of the accused instrumentality that has allegedly infringed the patent;
  - (d) a description of how the accused instrumentality is allegedly infringing specific elements of the claim; and
  - (e) a description of the acts of the alleged infringer that allegedly contributed to or induced the direct infringement, for claims of indirect infringement.
2. Fee-shifting provision:<sup>88</sup> The Bill would require the court to award attorney fees to the prevailing party if the court finds out that the non-prevailing party's position was "not objectively reasonable in law and fact" and whether its conduct was "not objectively reasonable" by amending 35 U.S.C. § 285.<sup>89</sup> The prevailing party shall bear the burden of demonstrating that it is entitled to an award of attorney fees, thereby creating no presumption or default rule in favour of fee-shifting.
  3. Stay of customer suits:<sup>90</sup> The Bill introduced Section 299A<sup>91</sup> which would require courts to stay infringement cases against a customer where there is a pending case against a manufacturer. This provision purports to protect consumers who are targeted for infringement simply because they purchased a product from a manufacturer. Unlike the Innovation Act, consent of the manufacturers is not required for customer stay.
  4. Discovery Limits:<sup>92</sup> The Bill, through new Section 299 B,<sup>93</sup> delays discovery until after initial trial motions—like motion to dismiss, a motion to transfer, or a motion to sever accused infringers—are decided. Therefore, the Bill makes it more affordable to defend against unmeritorious claims by eliminating unnecessary discovery costs where the suit is dismissed on the initial trial motions
  5. Demand letters: The Bill provides for both demand letters as a pre-suit notification<sup>94</sup> as well as pre-suit abusive demand letters.<sup>95</sup> The proposed new Section 299 C<sup>96</sup> precludes a plaintiff from relying on pre-suit demand letters to establish willful infringement unless the letters specify the asserted patent, the accused product or process, the Plaintiff's ultimate parent entity, and the basis for any proposed compensation. Under new Section 299 D,<sup>97</sup> civil penalty can be imposed on a person who has engaged in widespread abusive demand letter practices and has committed an unfair or deceptive act within the meaning of Section 5 of the Federal Trade Commission Act. Abusive demand letters have

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<sup>86</sup> *See id.* § 3.

<sup>87</sup> *See id.* § 3(b).

<sup>88</sup> *See id.* § 7

<sup>89</sup> *See id.* § 7(b).

<sup>90</sup> *See id.* § 4.

<sup>91</sup> *See* PATENT Act, S. R. 1137, 114th Cong., (Sep 8, 2015), <https://www.govtrack.us/congress/bills/114/s1137/text>.

<sup>92</sup> *See id.* § 5.

<sup>93</sup> *See id.*

<sup>94</sup> *See id.* § 8.

<sup>95</sup> *See id.* § 9.

<sup>96</sup> *See id.* § 8.

<sup>97</sup> *See id.* § 9.

been referred to as communications that falsely represent judicial relief or threaten litigation, and contain assertions that lack a reasonable basis in law or fact for reasons of the person lacking the right to assert the patent, the expiration of the patent, the unenforceability of the patent, or the person's false representation that an infringement has occurred.

6. Other provisions: Like the Innovation Act, the Bill requires transparency regarding patent-ownership.<sup>98</sup> The plaintiff is required to disclose to the court, the Defendant(s), and the PTO (1) any entity having a right to enforce the patent or a financial interest in the patent, and (2) the plaintiff's ultimate parent entity. Further, the PATENT Act also contains a mechanism<sup>99</sup> by which fees may be recovered from interested parties. The Bill further provides that educational resources and awareness regarding resources be made available to small businesses targeted in patent suits and to provide support thereof.<sup>100</sup>

#### *D. Other Patent Reform Amendments*

1. The Targeting Rogue and Opaque Letters (TROL) Act of 2015 (H.R. 2045):<sup>101</sup> This bill was referred to the House Committee on Energy and Commerce on April 28, 2015. The Committee approved the bill by a 30-to-22 vote on April 29, 2015. The bill authorizes the Federal Trade Commission and state attorneys general to bring enforcement actions and obtain civil penalties against sending bad faith demand letters asserting patent infringement.
2. The Demand Letter Transparency Act of 2015 (H.R. 1896):<sup>102</sup> This bill was assigned to a congressional committee on April 20, 2015, which will consider it before possibly sending it on to the House or Senate as a whole. The Bill requires a demand letter to include specific information and in case of non-compliance, authorizes a court in a patent infringement or validity action to sanction such entity for an amount to be awarded to the adverse party to cover any costs incurred as a result of such violation. Even a recipient of such demand letter may file a petition with the PTO in case of non-compliance. In case the PTO determines that a requirement has not been met, the PTO is authorized to notify the patent owner that the patent will be voided unless a fee is paid.

### VIII. CONCLUSION

In the midst of the pending pieces of legislation and their uncertain future, it is too soon to predict the fate of patent trolls and the significant changes that will be

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<sup>98</sup> See PATENT Act, S. R. 1137, § 10, 114th Cong., (Sep 8, 2015), <https://www.govtrack.us/congress/bills/114/s1137/text>.

<sup>99</sup> See *id.* § 7.

<sup>100</sup> See *id.* § 13.

<sup>101</sup> See Targeting Rogue and Opaque Letters Act of 2015, H. R. 2045, 114th Cong., (April 28, 2015), <https://www.govtrack.us/congress/bills/114/hr2045>.

<sup>102</sup> See Demand Letter Transparency Act of 2015, H. R. 1896, 114th Cong., (April 20, 2015), <https://www.govtrack.us/congress/bills/114/hr1896>.

brought about. While the amendments that have been proposed seem promising, strong concerns are surfacing with inventors about protection of their own patent rights as the implications of these provisions could impact the other entities outside the ambit of patent trolls. There is a growing worry that every few years the American government seems to be stripping inventors of their rights, whereas the bar is being lowered for infringers. Some of the significant changes that have been heavily criticized for weakening the patent regime are the America Invents Act and court decisions like *eBay*, *KSR*, and *Alice*. Thus, legislators must be mindful of the fact that in the pursuit of curbing patent misuse, they may end up making the filing of infringement suits less attractive and more difficult to pursue. Wouldn't that stifle innovation? In an attempt to eradicate patent trolls from the industry, the purpose of patent law should not be depreciated.

It is true that patentees who seek to misuse the patent system can even do so within the four corners of the legal system, and some of the entities who are indulging in patent trolling do have strong business strategies in place. But there is no iota of doubt that the U.S. government has to make the reforms happen soon. While so much has been discussed and written about, the Patent Reform Bills are moving at a rather slow pace. Currently, the reform measures must go to a vote before the full House and Senate, and then members of both chambers will be voting again on the final bill and the final version once passed will go to the President for assent. Although it may be a while before the patent reforms may actually materialize, for now we should at least bask in the glory that substantial efforts are being made to eradicate this looming threat.