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Patent litigation reform has become a fashionable topic for Beltway politicians whose stated goal is “to eliminate the abuses of our patent system, discourage frivolous patent litigation and keep U.S. patent laws up to date.” Part of that effort involves curbing spiking litigation costs perceived to result from an explosion of infringement suits brought by non-practicing entities (“NPE”). Sometimes maligned as “patent trolls,” these litigants have been the target of recent legislative activity, including the America Invents Act and the recently proposed Innovation Act. Among the proposed legislation, the House Subcommittee on Courts, Intellectual Property, and the Internet is considering the Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013, otherwise known as the “SHIELD Act.”

Passage of the SHIELD Act would add a section to the Patent Act, § 285A, providing special remedies for defendants facing certain types of trolls. These remedies include a combination of delayed discovery, a one-way troll-pays-upon-losing regime, and a requirement that the plaintiff post a bond to proceed with litigation once determined to be a troll. While the principle aim of the SHIELD Act is to curtail abusive patent troll litigation, it does so by injecting a cumbersome new procedure that may lead to added delay and, in some cases, increased costs—for which a defendant obtains no recompense if the troll prevails. And because the statute defines trolls indirectly by awkwardly defining what is not a troll, trolls may work around the statute or, at the very least, find ways to litigate the issue.

As an alternative model, Congress might consider the underutilized, underappreciated potential of Rule 68 as a reasonable settlement mechanism to curb abusive patent litigation. Under Rule 68, a defendant “may serve on an opposing party an offer to allow judgment on specified terms, with the costs then accrued.” The plaintiff then has 14 days to accept the offer, after which either party may file it with the court, and it becomes a final judgment. But if the plaintiff fails to accept the offer, proceeds to trial, and obtains a judgment “not more favorable than the unaccepted offer, the [troll] must pay the costs incurred [by the defendant] after the offer was made.”

Before delving into the possible advantages of a Rule 68 loser-pays model, consider the procedural regime created by the SHIELD Act. First, the proposed statute creates a novel procedure in which a defendant claiming invalidity or noninfringement may move for an order certifying the case as one brought by a patent troll. The court then considers whether the plaintiff falls into one of four exempt categories. If not, the court declares the case as one brought by a troll (without using that word), thereby triggering a series of protections and shifting the defendant’s attorney’s fees to the troll if the troll loses.

A defendant may invoke the proposed procedures at any one of three stages in the case: (1) before initial disclosures are due, thereby limiting discovery to that necessary for the disposition of the motion and allowing the court to delay issuing its scheduling order; (2) after initial disclosures are due, giving the court discretion to delay ruling on the motion until after final judgment; or, (3) as part of a motion for fees after entry of final judgment. The plaintiff then has up to 90 days to prove that it is not a troll under § 285A(d), and the statute contemplates discovery on the issue. Once the issue is ripe for a decision, the court must decide whether the plaintiff is a troll within 120 days after the motion was filed.

Although § 285A may produce some of its desired effects, there may be unintended consequences depending on when the motion is filed and the nature of the NPE plaintiff involved. Filing before initial disclosures adds a new layer to the litigation, possibly delaying already time-consuming patent litigation by several months. Filing after initial disclosures but before resolution of the merits leaves to the court’s discretion whether to inject the procedure during the case or at the end. Raising the issue at the end of the case avoids unnecessary delay, but does not give the added security of a bond or the advantageous litigation posture that the other options offer. And, regardless of when the defendant files the motion, the proposed procedure opens the floodgates for discovery on a new issue—whether the plaintiff is a patent troll as defined under the statute.

Also problematic, NPEs may work around the statute by conforming patent portfolios to avoid classification as a troll. One option is to build a patent portfolio consisting only of patents assigned directly from inventors. Or, an NPE could try to posture its portfolio to qualify as a “Technology Transfer Organization” so long as its “primary purpose is to facilitate commercialization of technology developed by one or more institutions of higher education.” If its “secondary purpose” is to purchase questionable patents and use them to file frivolous lawsuits, the NPE is not a troll under § 285A(d)(3) (B). And, as with any “loser-pays” rule, a fee award is worthless if the troll lacks the means to pay. Undercapitalization and complicated corporate structures could offer trolls safe haven from collectability.

While Rule 68 offers an alternative to the SHIELD Act, it also suffers from limitations that have rendered it impotent as a tool to resolve cases. For example, Rule 68’s cost-shifting regime is not triggered when a fact finder returns a complete defense verdict, but only when the plaintiff obtains a judgment less favorable than the unaccepted offer. Chief among Rule 68’s faults is its inability to shift attorney’s fees in all cases. A number of states, commentators, and even the Civil Rules Advisory Committee have long recognized the added potency that an offer of judgment would carry if Rule 68 always shifted attorney’s fees. For example, Texas “loser-pays” statute is modeled in part after Rule 68, but specifically includes attorney’s fees as part of the shifted costs. One commentator has recognized that, at the federal level, expanding the scope of Rule 68 through the rule-making process might create substantive rights that run afoul of the Rules Enabling Act. This may explain why the Advisory Committee has done little to expand Rule 68’s reach since adoption of the Federal Rules.
of Civil Procedure in 1937. But by statute, Congress has the power to give Rule 68 its full potential by addressing this and other shortcomings of an offer of judgment model, including as a possible way to deal with patent troll suits.

The SHIELD Act creates a novel, potent procedure that might deter meritless litigation by at least some patent trolls. But, this unwieldy procedure is untested and has potential limitations. Perhaps Rule 68 offers an alternative model for patent reform, with Congress tailoring a statutory offer of judgment rule designed for patent litigation. A Rule 68 model would allow a defendant to settle the case on its own terms, conditioning the offer as appropriate. The merits of the case and value of the patents could drive the fee-shifting procedure, rather than the status of the plaintiff as a patent troll. Defendants facing frivolous claims would have the option of making an early offer, quickly curtailing legal fees or shifting them at an early stage. Using Rule 68 as a model, Congress could strike an appropriate balance between the property rights of a patent holder and costly litigation facing those defendants sued by patent trolls, while also avoiding some of the unintended consequences of the SHIELD Act.  

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Endnotes


While the statute never uses the term “patent troll,” it is clear that this category of non-practicing entities is the target of the litigation. For simplicity sake, this article uses the term “patent troll” or simply “troll.”


4H.R. 845, 113th Cong. § 1 (2013) (hereinafter the “SHIELD Act”).

5Admittedly, the limited scope of this commentary renders it impractical to provide a thorough analysis of either the SHIELD Act or Rule 68. To access the full text of the SHIELD Act, the reader is directed to http://thomas.loc.gov/cgi-bin/query/z?c113:H.R.845:


8Id.


10Id. at proposed 35 U.S.C. § 285A(a). The statute uses of the term “judgment” to refer to this ruling, but this term is misleading. A “judgment” suggests finality, but a review of the entire § 285A procedure reveals that the drafters meant simply to allow district courts to qualify a case as one brought by a patent troll, thereby triggering additional remedies. In this way, the statute’s use of the term “judgment” appears to be a misnomer.

11Id. at proposed 35 U.S.C. § 285A(a)(4), (d).

12Id. at proposed 35 U.S.C. §285A(c).


14Id. at proposed 35 U.S.C. § 285A(a)(3).

15Id. at proposed 35 U.S.C. § 285A(d)(1).


18Marek v. Chesney, 473 U.S. 1, 9 (1985) (“[A]bsent Congressional expressions to the contrary, where the underlying statute defines ‘costs’ to include attorney’s fees, we are satisfied such fees are to be included as costs for purposes of Rule 68.”).


21Horowitz, Rule 68: The Settlement Promotion Tool that has Not Promoted Settlements, 87 Denver U. L. Rev. at 508.

22Id. at 492-93.