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SHIELD Act May Be a Double-Edged Sword

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Special to the Legal

Two U.S. congressmen, Representative Peter DeFazio, D-Ore. and Representative Jason Chaffetz, R-Utah, introduced legislation (HR 6245, the Saving High-Tech Innovators from Egregious Legal Disputes Act, or SHIELD Act), in the U.S. House of Representatives on August 1. The SHIELD Act seeks to dissuade nonpracticing entity patent owners (“NPEs,” or sometimes derogatorily called “patent trolls”) from filing patent infringement lawsuits that do “not have a reasonable likelihood of succeeding” against computer hardware and software companies by awarding costs and attorney fees to the accused infringer. The purported goal of the SHIELD Act is to discourage NPEs from filing “frivolous” lawsuits in the high-tech industry:

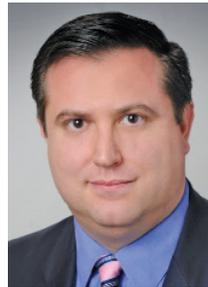
“Patent trolls often buy broad patents that allow them to file flimsy lawsuits against multiple companies for infringement. Despite very thin evidence to back their lawsuits, companies are often forced to settle because going to court can easily cost over \$1 million in legal costs, even if the company prevails. Patent trolls most often target software and computer hardware companies. According to a recent Boston University study, patent troll suits cost American technology companies over \$29 billion in 2011 alone,” according to a press release from DeFazio regarding the SHIELD Act.

The bill seems to enjoy some bipartisan and industry support, but it appears that the SHIELD Act may be too broad and loosely written to successfully accomplish its stated purpose without also creating a number of pitfalls and unintended consequences. The SHIELD Act fails to distinguish NPEs from any other “party alleging infringement.” In fact, the SHIELD Act does not even mention NPEs. The proposed SHIELD Act would be inserted after 35 U.S.C. §285 and provides in relevant part:



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“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 fees, other than the United States.”

Arguably the SHIELD Act would not only apply to plaintiffs asserting patent infringement claims, but also to defendants who are sued and decide to assert infringement counterclaims against the plaintiff in an attempt to level the playing field. Because the SHIELD Act would apply to any patent litigation involving computers or software, it would include cases where two large, high-tech companies that each practice their own patented technology face off. In this situation, the SHIELD Act would unintentionally up the ante in patent litigation between two competitors where the stakes are already extremely high.

In addition to unintentionally affecting computer and software developers that practice their own patented technology, the SHIELD Act may also inadvertently target companies that utilize computers and software, but generally are not considered to be “software and computer hardware companies.” The SHIELD Act applies to anyone asserting “a computer hardware or software patent.” It defines a computer hardware patent as “a patent that covers computer hardware, including a device or component of such device.”

In turn, proposed 35 U.S.C. §285A(b)(1) of the SHIELD Act broadly defines a computer as any “high-speed data processing device performing logical, arithmetic or storage functions.” Similarly, proposed 35 U.S.C. §285A(b)(3) of the SHIELD Act also broadly defines a “software patent” as “a patent that covers any process that could be implemented in a computer regardless of whether a computer is specifically mentioned in the patent or any computer system that is programmed to perform a process described [above].” Conceivably, the SHIELD Act could unintentionally affect many different industries ranging from financial institutions to car manufacturers. For instance, many banks have systems that incorporate patented computer or software components.

Similarly, much of the innovation in the auto industry employs computers, which control and monitor various mechanical parts, such as fuel injectors. Accordingly, patents involving these types of technology would likely fall into the SHIELD Act's broad definition of “a computer hardware or software patent.”

Beyond potentially adversely affecting companies and whole industries that it was not intended to target, the SHIELD Act provides courts with very little guidance concerning its application. It is unclear when a defendant could receive an award of attorney fees — following a successful motion to dismiss, summary judgment or verdict? In particular, the SHIELD Act has been criticized because it does not define the

standard for judging when an infringement claim lacks “a reasonable likelihood of succeeding.” A recent report by the Congressional Research Service suggests that courts are familiar with and potentially could employ the similarly sounding “likelihood of success on the merits” prong of the four-part test courts use to determine whether to issue a preliminary injunction.

Arguably, however, such an interpretation of this standard would create a new and unfairly high burden to impose on a potential plaintiff drafting a complaint in the fields of hardware and software — a burden that would not apply to others. A preliminary injunction is an extraordinary equitable remedy, and on average courts grant less than one-third of the preliminary injunction motions filed. See Legal Metric’s “Nationwide Patent Litigation Statistics,” available at www.legalmetric.com/presentations/nationwide_patent_litigation_statistics.pdf.

Moreover, unlike in the preliminary injunction context, where a plaintiff frequently receives some amount of expedited discovery to prove that it is likely to succeed on the merits, a patent owner deciding whether to sue is unlikely to receive much information voluntarily concerning possible infringement from a potential defendant prior to filing the complaint. Thus, a potential plaintiff may have to file suit simply to determine whether the defendant infringes. This is particularly true if the alleged infringement stems from method claims that may not be readily discernable by reverse-engineering an accused product without the aid of discovery.

Moreover, determining the likelihood of success of infringement allegations can be particularly difficult in the patent context. On average, only approximately 25 percent of contested patent litigations (excluding consent and default judgments) result in a plaintiff’s win, according to Legal Metric.

To demonstrate a likelihood of success in the patent context, a plaintiff may have to show that not only is the patent likely infringed, but that it is also unlikely to be proven invalid. See *Reebok Int’l. v. J. Baker*, 32 F.3d 1552, 1555 (Fed. Cir. 1994) (“A reasonable likelihood of success requires a showing of validity and infringement”). In addition, claim construction — which is unique to patent law and fundamental to determining whether a specific technology infringes — is notoriously unpredictable and can make patent litigation particularly susceptible to uncertainty. For example, a

number of studies show that anywhere from 28-32 percent of claim construction orders by district courts are reversed by the U.S. Court of Appeals for the Federal Circuit, as opposed to an 18 percent reversal rate for all federal civil litigation. See Ted Sichelma’s “Myths of (Un)certainty at the Federal Circuit.”

Thus, importing the “likelihood of success” standard from the extraordinary equitable remedy of a preliminary injunction seems to be an unduly heavy burden to place on a potential plaintiff drafting a complaint in the high-tech sector — especially when seemingly nonfrivolous claims are frequently unsuccessfully asserted against accused infringers. Accordingly, if courts do not import the known but unduly burdensome standard employed in preliminary injunction motions, they will likely struggle to apply the SHIELD Act’s undefined “reasonable likelihood of succeeding” standard for at least some period of time.

In addition to providing a vague standard, the SHIELD Act arguably is duplicative of protections already in place that are designed to minimize frivolous and vexatious litigation. For example, Federal Rule of Civil Procedure 11 provides that a court may sanction a party (or its attorneys) for asserting frivolous claims, defenses or other legal contentions by awarding reasonable attorney fees to the prevailing party. Similarly, 35 U.S.C. §285 allows a court to award reasonable attorney fees to a prevailing patent litigant in “exceptional cases.” The Federal Circuit has held that to demonstrate an exceptional case for bringing a frivolous infringement claim, the defendant must show that “(1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.” See *Highmark v. Allcare Health Management Systems*, 687 F.3d 1300, 1308-1309 (Fed. Cir. 2012). Because courts already have two means of awarding attorney fees to punish patent plaintiffs who assert frivolous claims, it is unclear how adding a third in the form of the SHIELD Act will provide any incremental benefit over Rule 11 and 35 U.S.C. §285.

Finally, it is uncertain whether the SHIELD Act is even necessary at this point in time — before other aspects of recently enacted patent reform have had a chance to fully take effect. Congress enacted the America Invents Act just a little more than a year ago. This sweeping patent reform legislation contained a number of provisions designed to curb some undesired practices in patent litigation. For instance, the AIA’s

35 U.S.C. §299 targeted lawsuits where patent plaintiffs would sue en masse a large number of unrelated manufacturers for infringement in a single litigation by immediately limiting the joinder of unrelated defendants. Moreover, some of the AIA’s provisions designed to facilitate the relatively quick and inexpensive administrative adjudication of questionable patents with lowered burdens of proof to demonstrate their invalidity, such as post-grant review (35 U.S.C. §§321-29) and inter partes review (35 U.S.C. §§ 311-19), are just starting to take effect.

Congress may decide to wait to see whether some of these new provisions begin to limit the number of truly frivolous lawsuits brought by patent plaintiffs. Various patent reform acts were introduced into Congress each year from 2005 through 2010 before Congress passed the AIA in 2011. Given the amount of time Congress spent enacting patent reform legislation and the potential overlap between aspects of the SHIELD Act, the AIA and pre-AIA filters to regulate potentially abusive litigation practices, it seems highly unlikely that the SHIELD Act will generate any serious traction toward its enactment this year.

Although the SHIELD Act is an attempt to address legitimate concerns about certain NPEs asserting frivolous claims of questionable patents in the high-tech industry, it seems to be a hastily-conceived, blunt instrument that could inflict unintended consequences on high-tech manufacturers, other industries and NPEs legitimately trying to protect their property rights in a highly complex area of the law. Moreover, it would be extremely burdensome to all potential plaintiffs asserting computer-related patents if courts imported the “likelihood of success” standard from preliminary injunction motions into the SHIELD Act’s undefined standard for determining when a lawsuit has a “reasonable likelihood of succeeding.” Accordingly, Congress would be wise to proceed with caution by assessing the full effect of the AIA and better tailoring the SHIELD Act to specifically address the problem at hand, before quickly embarking on another round of patent reform. •