

Strategies For Discouraging Nuisance Patent Suits

By **Greg Schodde and Amber Carpenter** (April 10, 2020)

Recently, the patent assertion entity Labrador Diagnostics LLC sued BioFire Diagnostics LLC and its parent company, the French manufacturer BioMérieux Inc.[1] In early March, BioMérieux announced that it had completed testing on a real-time test for SARS-CoV-2 — the virus that causes COVID-19.[2] BioMérieux also submitted the test to the FDA for emergency authorization.[3]

With the world in the grips of a pandemic, Labrador asked that:

Defendants be enjoined from infringing the Asserted Patents, or if their infringement is not enjoined, that Defendants be ordered to pay ongoing royalties to Labrador for any post-judgment infringement of the Asserted Patents.[4]

After receiving significant blowback for perhaps the most poorly timed, if not tone-deaf prayer for relief ever, Labrador offered royalty-free licenses for its patented diagnostics technology for use in COVID-19 tests.[5]

The Labrador story brings into focus that under the American rule for legal fees there is little downside to bringing a lawsuit and losing, other than the opportunity cost of the litigation. This allows people of limited means but good claims to find lawyers willing to work on a contingent basis without the risk that failure will result in a ruinous legal bill.

However, cases with weak merits but high defense costs may be brought and settled for a value that is based on avoided defense costs rather than the risk-adjusted value of the merits. These cases are also referred to as nuisance suits.

Patent litigation is vulnerable to nuisance claims. Patent cases have very high defense costs due to demanding pretrial disclosure requirements, subject matter requiring specialized experts and highly technical and complex legal defenses. These all drive the cost of committing to a credible defense on the merits, to six figures or higher.

It has been shown that, faced with a plausible complaint, rational decision-makers will often quickly settle for less than those defense costs, even though the merits are weak.[6] The greater the cost to the defendant of refusing a quick settlement and committing to a merit-based defense, the more leverage the plaintiff has to extract a fast nuisance settlement.

There can be a valid role for patent monetization campaigns by nonpracticing patent owners. Contingent fee arrangements, or the sale of patent assets to entities with the resources to dedicate to a resolution on the merits, may be the only way for parties that cannot sue to realize value for innovators or those who have invested in innovators.

However, some entities may be tempted to assert patents solely for the settlement value rather than a realistic prospect of success on the merits. Some nonpracticing entities are referred to as high-volume plaintiffs because they file a large number of suits asserting the infringement of one patent portfolio. In the past decade, approximately 19,000 cases were filed by these high-volume plaintiffs.[7]



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Although high-volume plaintiff filings have dropped by 14% since 2018, those filers still launched more than 30% of all patent cases in 2019.[8] The U.S. Court of Appeals for the Federal Circuit has reasoned that:

The appetite for licensing revenue cannot overpower a litigant's and its counsel's obligation to file cases reasonably based in law and fact and to litigate those cases in good faith.[9]

This second type of patent litigation does little to promote innovation since, often, the patents are already near the end of their term. The original inventors will gain little if anything from these cases because the patents have long since been transferred, and the current owners are more likely to invest the proceeds into more litigation than new innovation.

Nor are the targets incentivized to innovate around these assertions, since there is often no credible injunctive threat and a portfolio of owned patent rights is of no defensive use against assertion entities that have no business except litigation.

The Federal Circuit has affirmed that a nonpracticing entity is not a villain just because it is seeking the protection of a constitutionally granted patent right, but the courts cannot turn a blind eye to file-and-settle strategies by nonpracticing entities.[10]

Every case has a different merits calculation and neutral observers may disagree regarding where on the merits spectrum a particular case lies. There are, however, tools available that could discourage true nuisance patent litigation. These strategies involve raising the negative outcome costs to the nuisance plaintiff and lowering the cost of committing to a merits defense for the defendant.

Recognize Low-Merit, Volume-Filed Patent Cases as Exceptional Under Title 35 of U.S. Code, Section 285

Nuisance patent cases rarely reach the point that they are tested under the exceptional case doctrine because, by design, the settlement demands are so low there is little incentive to pursue a defense all the way to a discretionary fee award after showing that the case is exceptional.

The Federal Circuit has endorsed fee-shifting in cases that fit this profile.[11] In *Blackbird Tech LLC v. Health in Motion LLC*, the court confirmed that even voluntarily dismissing with a zero value walkaway will not insulate a volume filer from an exceptional case finding. Routine findings of exceptionality in this fact pattern raise the potential outcome costs to a failed nuisance campaign and reduce the long-run costs of committing to a defense.

Exceptional case factors could include filing many cases against numerous defendants and rapidly settling them with no merits proceedings,[12] targeting smaller industry players while avoiding upstream suppliers with more incentive to defend,[13] a history of settling for amounts substantially less than the cost of litigation,[14] and losing the case after summary determination.[15]

Embedding this thinking in the weave of exceptional case law would warn nuisance filers that the American rule might be the exception for their exceptional case.

Decrease Costs for Defendants to Commit to a Defense

In most districts, patent cases are subject to detailed process rules that include mandatory disclosures of prior art, invalidity theories, documents describing the accused device and a time-consuming series of contention exchanges. The plaintiff has reciprocal obligations, but since the nuisance patent plaintiff typically has no business other than litigation, the plaintiff's discovery process costs are lower and can be scaled across many cases.

The Federal Circuit has noted that nonpracticing entities have the "ability to impose disproportionate discovery costs" on defendants because "accused infringers often possess enormous amounts of potentially relevant documents that are ultimately collected and produced." [16]

It is the gating disclosure requirements on the defendant and long process before reaching any merits that create high costs of defense. The cost of the complaint is already committed, but if the plaintiff wants to demonstrate a commitment to defend, the path is long and expensive and the larger those costs are, the more attractive early settlement with the plaintiff is. [17]

Instead of setting a long and process-laden schedule at the first status conference, courts can reduce the cost of committing to a defense by allowing the defendant to propose an expedited hearing on one or more carefully selected dispositive issues — the ones that make the case a nuisance case. This is allowed, but not frequently sought by defendants. Patent cases are complex, with multiple, potential defenses. Defendants intuitively understand that over time, the plaintiff's case will weaken as flaws emerge, and a lengthy, rules-driven process advances that goal.

However, a rapid pivot to a few issues is the short path to disposing of a nuisance case. Multiple defenses typically require the legal step of claim construction, and in a nuisance case, the claim construction process will expose one or more fatal problems with a claim, frequently an issue with definiteness or claim scope. However, claim construction can still be expensive for defendants.

The Federal Circuit has noted that:

Meritless cases ... require the district court to engage in excessive claim construction analysis before it is able to see the lack of merit of the patentee's infringement allegations. [18]

Instead of a long schedule laden with process steps, a quick hearing focused on a few dispositive issues, typically around claim construction, allows the development of a record to support a summary determination.

Briefing and holding an early dispositive hearing limited to select dispositive issues carries a far lower price tag than working through a typical patent local rules schedule all the way to a summary judgment hearing. Routinely setting such a hearing at the defendant's request reduces the nuisance filer's imposed cost leverage against the defendant and puts the entire nuisance campaign at risk.

Centralized Multidistrict Litigation

Most nuisance campaigns involve large numbers of similarly situated defendants, each of which is sued in multiple forums across the U.S. Once a campaign is identified, using the multidistrict litigation rules it should be possible to provide the defendants the same economies of scale for common defenses already being leveraged by the plaintiffs.

Absent a major industry supplier's stepping in and coordinating a defense, as soon as it is apparent that the same entity is asserting the same patents against multiple players, the multidistrict panel could step in and centralize the cases for pretrial in front of a single judge under the panel's authority to centralize matters sua sponte.[19] With all actors before a single judge, the defendants are in a much better position to coordinate defenses, achieve economies of scale and reduce the costs of committing to a defense.

Empirically, there has been little appetite among defendants for seeking centralization because there is little or no constituency for multidistrict centralization in the nuisance scenario. Each defendant generally has a preferred counselor who may not be interested in ceding control of a defense and sees a common defense firm as potential competition for the client relationship.

Furthermore, the effort involved in organizing defendants and filing a centralization request by a single defendant can approach the settlement demand, and the plaintiff's strategy is to make the settlement position so attractive that the defense is not incentivized to commit resources to any defense, common or otherwise.

Despite the potential power of this tool to corral nuisance patent filers who pursue 10, 20 or 30 cases across the country, we could find no instance in which the panel used its sua sponte authority under Title 28 of U.S. Code Section 1407 to order pretrial consolidation in a patent matter.

Sua sponte assignment by the panel, however, eliminates the transaction cost and client-firm political considerations associated with seeking centralization while requiring the plaintiff to face a much more coordinated set of defendants.

Unfortunately, while the panel is generally favorably disposed to centralizing patent actions,[20] one fact pattern that the panel cites in denying centralization is the multidistrict plaintiff rapidly settling cases in volume, which is a flag for potential nuisance patent litigation[21]

Allowing defendants to more aggressively centralize volume patent litigation filers despite a pattern of rapid dismissals would allow defendants that chose not to make a quick nuisance payment to lower their cost of defense.

Conclusion

The game theory behind a nuisance patent suit is compelling as long as future defense costs are high relative to accepting a quick settlement offer. The nuisance patent filing campaign works because the certainty of a large legal bill relative to the plaintiff's settlement demand drives settlement without regard to the merits.

The hourly fee model is the plaintiff's best friend, since the cost of a committed defense is felt immediately and grows rapidly. Most defense lawyers will advise a potential client that, even if victory is nearly certain, recovery of fees and expenses is highly uncertain and years in the future.

The process responses discussed above reduce nuisance patent litigation because they lower the cost of defense and raise the risk to the plaintiff of facing a committed defendant. Consolidated, coordinated defenses under a single roof is a much more difficult target for

nuisance plaintiffs. Weak cases will continue to be brought, but the volume can be reduced by creatively finding ways to make defending a case a more rational economic decision.

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[1] Complaint, Labrador Diagnostics LLC v. Biofire Diagnostics, LLC, No. 1:20-CV-348 (D. Del.).

[2] First of 3 Diagnostic Tests for SARS-Cov-2 Coronavirus Available from BioMérieux, BioMérieux Press Release (Mar. 11, 2020), <https://www.biomerieux.com/en/novel-coronavirus-covid-19>.

[3] Id.


[4] Complaint at 62, Labrador Diagnostics LLC v. Biofire Diagnostics, LLC, No. 1:20-CV-348 (D. Del.).


[5] Labrador Diagnostics Will Grant Royalty-free Licenses for COVID-19 Testing, Bloomberg Business (Mar. 16, 2020), <https://www.bloomberg.com/press-releases/2020-03-17/labrador-diagnostics-will-grant-royalty-free-licenses-for-covid-19-testing>.

[6] See William H. J. Hubbard, Sinking Costs to Force or Deter Settlement, 32 J. L., Econ. & Org. 545 (2014).

[7] Geneva Clark, 2019 Lex Machina Patent Litigation Report, 4 (2020).



[8] Id. at 4-5.

[9] See Eon-Net LP v. Flagstar Bancorp , 653 F.3d 1314, 1328 (Fed. Cir. 2011) (court awarded fees where plaintiff filed over 100 suits followed by a demand for a quick settlement at a price far lower than the cost of litigation).

[10] See ThermoLife Int'l, LLC v. Myogenix Corp. , No. 13CV651 JLS (MDD), 2017 WL 1235766, at *7 (S.D. Cal. Apr. 4, 2017), aff'd, 922 F.3d 1347 (Fed. Cir. 2019) (court awarded fees where non-practicing entity filed 81 suits and engaged in predatory file-and-settle strategy).



[11] See Blackbird Tech LLC v. Health in Motion LLC , 944 F.3d 910 (Fed. Cir. 2019).

[12] See ThermoLife Int'l, LLC, 2017 WL 1235766, at *7 (court awarded fees where plaintiff filed 81 suits); Rothschild Connected Devices Innovations, LLC v. Guardian Prot. Servs., Inc. , 858 F.3d 1383, 1389 (Fed. Cir. 2017) (court awarded fees where plaintiff filed 58 suits); Eon-Net LP, 653 F.3d at 1327 (court awarded fees where plaintiff filed over 100 suits); Shipping & Transit, LLC v. 1A Auto, Inc. , 283 F. Supp. 3d 1290, 1302 (S.D. Fla. 2017) (court awarded fees where plaintiff filed over 120 suits); Edekka LLC v. 3balls.com,

Inc. , No. 2:15-CV-541 JRG, 2015 WL 9225038, at *4 (E.D. Tex. Dec. 17, 2015) (court awarded fees where plaintiff filed against more than 200 defendants); Novartis Corp. v. Webvention Holdings LLC , No. CCB-11-3620, 2015 WL 6669158, at *4 (D. Md. Oct. 28, 2015) (court awarded fees where plaintiff filed against 88 defendants).


[13] See Shipping & Transit, LLC, 283 F. Supp. 3d at 1302. (court awarded fees where plaintiff filed 120 suits against small companies, by “execut[ing] a calculated business strategy to secure relatively small and quick settlements from defendants who wished to avoid protracted and costly patent litigation.”).

[14] See Rothschild Connected Devices Innovations, LLC., 858 F.3d at 1389 (court awarded fees where the vast majority of settlements were “significantly below the average cost of defending the infringement suit.”); Eon-Net LP, 653 F.3d at 1327 (court awarded fees where settlement offer was less than 10% of the cost defendant expended to defend suit).

[15] See Big Baboon, Inc. v. SAP Am., Inc. , No. 17CV02082HSGEDL, 2019 WL 5088784, at *9 (N.D. Cal. Sept. 9, 2019) (court awarded fees after plaintiff lost summary judgment); Andersen Mfg. Inc. v. Wyers Prods Gp., Inc. , 2019 WL 4007772, *6-*12 (D. Colo. 2019) (court awarded fees after plaintiff lost summary judgment).


[16] See Eon-Net LP, 653 F.3d at 1327.

[17] See Novartis Corp., 2015 WL 6669158, at *4 (quoting Eon-Net LP, 653 F.3d at 1327) (court awarded fees where non-practicing entity had multiple waves of litigation against 88 defendants and settlements were reached before the start of expensive discovery litigation).

[18] See Eon-Net LP, 653 F.3d at 1327 (citing Allen Eng’g Corp. v. Bartell Indus., Inc. , 299 F.3d 1336, 1346 (Fed.Cir.2002)).

[19] See 28 U.S.C. §1407(c)(i).

[20] 31 of 45 requests for centralization in multi-district patent cases in the last 10 years reviewed by the author were granted.

[21] See In re ArrivalStar S.A. Fleet mgmt. Sys. Patent Litig. , 802 F. Supp. 2d 1378 (J.P.M.L. 2011) (denying centralization because centralization would not serve the convenience of the parties and witnesses and centralization doesn’t further the just and efficient conduct of litigation).