Skadden

Skadden, Arps, Slate, Meagher & Flom LLP & Affiliates

June 6, 2013

White House Addresses Frivolous Patent Litigation

On June 4, 2013, the White House announced a set of executive actions and legislative recommendations to address the issue of frivolous litigation brought by companies that assert patents without also manufacturing a product based on those patents. That same day, the National Economic Council, the Council of Economic Advisers, and the Office of Science & Technology Policy released a report, *Patent Assertion and U.S. Innovation*, detailing the effects that these companies, also known as Patent Assertion Entities (PAEs), have on the U.S. economy.

In the announcement, President Obama outlined five executive actions and seven legislative recommendations designed to protect innovation and help make the patent system more efficient. Several of the legislative recommendations are included in proposed or pending patent reform bills, such as the proposed Saving High-Tech Innovators from Egregious Legal Disputes (SHIELD) Act, the proposed Patent Quality Improvement Act and the proposed Patent Abuse Reduction Act. Additionally, although the White House proposal does not seek to use the antitrust laws directly to combat frivolous PAE litigation, some of the recommendations contained in the proposal address concerns expressed by the Antitrust Division of the Department of Justice and the Federal Trade Commission.

Executive Actions

The Obama administration stated that it will take the following actions to address frivolous PAE litigation:

1. **Require identification of the "ultimate parent entity."** The United States Patent and Trademark Office (USPTO) will enact new rules requiring patent owners to regularly update ownership information when involved in proceedings before the USPTO, thereby limiting the ability of PAEs to hide behind their shell companies.
2. **Increase scrutiny on functional claiming.** The USPTO will provide new training to its examiners and seek other ways to improve patent quality to ensure that patents with overly broad claims are not issued.
3. **Empower and educate end-users, retailers and customers.** The USPTO will publish information, including a plain-English website, for end users, retailers and customers targeted by PAEs to inform them of their rights and options.
4. **Expand outreach and research.** The USPTO will bring in academic experts and sponsor research on the issues presented by abusive PAE litigation. It would also continue discussions with the DOJ and FTC to address challenges to U.S. innovation.
5. **Strengthen enforcement process of exclusion orders by the International Trade Commission (ITC).** The U.S. Intellectual Property Enforcement Coordinator will review existing procedures and work to ensure effective and efficient conduct during exclusion order enforcement activities.

If you have any questions regarding the matters discussed in this memorandum, please contact any of the attorneys listed on Page 3 or call your regular Skadden contact.

* * *

Four Times Square, New York, NY 10036
Telephone: 212.735.3000

WWW.SKADDEN.COM

Legislative Recommendations

Along with the executive actions outlined above, the White House also recommended that Congress pass legislation to do the following:

1. **Require disclosure of "real party-in-interest."** Patent owners would be required to file updated ownership information with the USPTO before sending a demand letter, filing a complaint in court or seeking USPTO review of a patent. Failure to do so could subject the patent owner to sanctions. Like the corresponding executive action, this would limit the ability of PAEs to obfuscate their activities by creating and hiding behind shell companies.
2. **Permit more discretion in awarding fees in patent cases.** District courts would be given more discretion to award attorneys' fees as a way to deter abusive and frivolous filings in court. The issue of fees and recovery of costs also is addressed in the Patent Abuse Reduction Act and the SHIELD Act.
3. **Increase options to challenge certain patents.** Congress is urged to expand the USPTO's transitional program for business method patents to cover a broader spectrum of patents involving software and computers. Also, a wider range of challengers would be allowed to seek review of issued patents before the Patent Trial and Appeals Board (PTAB). This also is addressed in the Patent Quality Improvement Act.
4. **Protect customers and businesses using off-the-shelf products.** Customers and businesses embroiled in patent litigation solely for off-the-shelf use of a product would be better protected against infringement liability. Also, judicial proceedings against customers would be stayed when the retailer, manufacturer or vendor also is sued on the same patents.
5. **Change ITC standard for obtaining injunctions.** The standard used by the ITC in granting injunctions would be changed to be better aligned with the *eBay Inc. v. MercExchange* four-factor test used in federal courts. Coincidentally, this issue was highlighted when, on the same day as the White House announcement, the ITC issued an exclusion order against Apple. If not overturned, the order would ban the importation of certain models of iPhones and iPads because of infringement of a single Samsung 3G standard essential patent.
6. **Increase demand letter transparency though public filings**. Companies would be incentivized to publicly file demand letters and make them available and accessible to the general public.
7. **Increase flexibility of ITC to hire qualified administrative law judges (ALJ)**. The ITC would have adequate flexibility in the hiring of qualified ALJs to handle the increasing ITC caseload.

The Proposal's Impact on Competition Issues

As noted above, the DOJ and FTC have been actively monitoring the potential impact that PAEs have on competition and innovation. Some of the recommendations contained in the proposal address concerns expressed recently by both agencies. For example, the agencies have expressed concern with how holders of FRAND-encumbered standard essential patents (SEPs) could use the lenient requirements for obtaining an ITC exclusion order to extract onerous licensing terms or foreclose competing products from the marketplace. Requiring the ITC to use the four-factor test in *eBay* would greatly diminish the ability of firms to resort to the ITC to hold up potential licensees of SEPs. The agencies also have advocated for improved disclosure of real party-in-interest in order to foster bilateral licensing, combat royalty stacking, improve the agencies' ability to monitor the competitive impact of patent acquisitions and assist defendants in infringement suits in determining whether a competitor is behind the lawsuit.

Also, the accompanying report by the National Economic Council highlights many of the same issues that were addressed at last December's joint DOJ/FTC workshop on PAE activities, at which the agencies explored the impact of PAEs on innovation and competition. In written public comments solicited after the workshop, a number of companies requested that the FTC use its powers under Section 6(b), 15 U.S.C. § 46(b), to further investigate PAE activities by compelling PAEs and operating companies alike to answer written questions or make reports to the Commission. The White House's engagement on this issue may make such an investigation more likely, which could spur future enforcement activity by the DOJ or FTC.

While the exact implementation and effects of these directives remain to be seen, the president's action is a significant development in the debate regarding PAEs and the U.S. patent system.

Contacts in the Intellectual Property and Technology Group

James F. Brelsford	Palo Alto	650.470.3196	jim.brelsford@skadden.com
Daniel A. DeVito	New York	212.735.3210	aniel.devito@skadden.com
James J. Elacqua	Palo Alto	650.470.4510	james.elacqua@skadden.com
Jose A. Esteves	New York	212.735.2948	jose.esteves@skadden.com
Edward V. Filardi	New York	212.735.3060	edward.filardi@skadden.com
Bruce Goldner	New York	212.735.2972	bruce.goldner@skadden.com
David W. Hansen	Palo Alto	650.470.4560	david.hansen@skadden.com
Stuart D. Levi	New York	212.735.2750	stuart.levi@skadden.com
Douglas R. Nemec	New York	212.735.2419	douglas.nemec@skadden.com
Kenneth A. Plevan	New York	212.735.3410	kenneth.plevan@skadden.com
Rita A. Rodin	New York	212.735.3774	rita.rodin@skadden.com
P. Anthony Sammi	New York	212.735.2307	anthony.sammi@skadden.com
Andrew N. Thomases	Palo Alto	650.470.4580	andrew.thomases@skadden.com
Matthew B. Zisk	New York	212.735.3056	matthew.zisk@skadden.com

Contacts in the Antitrust and Competition Group

Clifford H. Aronson	New York	212.735.2644	clifford.aronson@skadden.com
Simon Baxter	Brussels	32.2.639.0310	simon.baxter@skadden.com
Jess Biggio	New York	212.735.2060	jessica.biggio@skadden.com
Alec Y. Chang	New York	212.735.4142	alec.chang@skadden.com
C. Benjamin Crisman, Jr.	Washington, D.C.	202.371.7330	benjamin.crisman@skadden.com
Frederic Depoortere	Brussels	32.2.639.0334	frederic.depoortere@skadden.com
Paul M. Eckles	New York	212.735.2578	paul.eckles@skadden.com
Shepard Goldfein	New York	212.735.3610	shepard.goldfein@skadden.com
Peter E. Greene	New York	212.735.3620	peter.greene@skadden.com
Matthew P. Hendrickson	New York	212.735.2066	matthew.hendrickson@skadden.com
Ian G. John	New York	212.735.3495	ian.john@skadden.com
James A. Keyte	New York	212.735.2583	james.keyte@skadden.com
Karen Hoffman Lent	New York	212.735.3276	karen.lent@skadden.com
John H. Lyons	Washington, D.C.	202.371.7333	john.h.lyons@skadden.com
Gary A. MacDonald	Washington, D.C.	202.371.7260	gary.macdonald@skadden.com
Jeffrey A. Mishkin	New York	212.735.3230	jeffrey.mishkin@skadden.com
John M. Nannes	Washington, D.C.	202.371.7500	john.nannes@skadden.com
Sharis Pozen	Washington, D.C.	202.371.7555	sharis.pozen@skadden.com
Neal R. Stoll	New York	212.735.3660	neal.stoll@skadden.com
Steven C. Sunshine	Washington, D.C.	202.371.7860	steve.sunshine@skadden.com
Ingrid Vandenborre	Brussels	32.2.639.0336	ingrid.vandenborre@skadden.com
James S. Venit	Brussels	32.2.639.0300	james.venit@skadden.com

Palo Alto patent litigation associate Matthew Paik and Washington, D.C. antitrust associate Sean Tepe assisted in the preparation of this memorandum.