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PATENTS

In this 10th installment in a series of Bloomberg BNA Insights by attorneys at Ropes & Gray LLP addressing PTAB-related subjects, the authors review the relatively recent phenomenon of “reverse trolling” attacks against patents in post-grant proceedings.

‘Reverse Patent Trolls’: Patent Law’s Newest Strategy Unfolds



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The advent of inter partes review (IPR) has attracted a new breed of participants. While traditional players, such as patent litigation defendants, remain active in IPR filings at the Patent Trial and Appeal Board (PTAB), new players have emerged, ranging from enterprising physicians to not-for-profit organizations to hedge funds, all of whom have used IPRs tactically. Some have dubbed the use of IPRs by non-

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traditional patent dispute participants a “reverse patent troll” strategy.¹

Two drivers appear to be behind IPR filings from non-traditional patent players—(1) recognition that “the best defense can be a good offense,” and (2) financial gain. We explore each motivation in further detail below.

I. Motivation #1: The Best Defense Is a Good Offense

The adage of “the best defense is a good offense” appears to have animated several of the first offensive IPR

¹ Academics such as Mark Lemley at Stanford Law School have dubbed this “the patent troll problem, only in reverse.” Patience Haggin, *Trolls Taste Own Medicine*, THE RECORDER (Dec. 12, 2014), available at <http://www.therecorder.com/id=1202678962497/Trolls-Taste-Own-Medicine>; see also Joseph Walker & Rob Copeland, *New Hedge Fund Strategy: Dispute the Patent, Short the Stock*, THE WALL STREET JOURNAL (Apr. 7, 2015, 7:24 pm), available at <http://www.wsj.com/articles/hedge-fund-manager-kyle-bass-challenges-jazz-pharmaceuticals-patent-1428417408> (quoting Acorda Therapeutics Inc. Chief Executive Rob Cohen's description of “reverse patent trolls”).

petition filings. The offensive use of IPR petitions may be a new wrinkle, but it aligns with one of the original drivers that led to passage of the Leahy-Smith America Invents Act (AIA)—the need for a mechanism to combat patent trolls.² The players motivated by defense-related goals are not uniform in their aspirations, however.

First, non-profit organizations such as the Electronic Frontier Foundation have sought to challenge, on behalf of the public, what they perceive as bad patents.³ For example, after embarking on a fundraising campaign to “Save Podcasting,” the EFF successfully invalidated patent claims asserted against podcasters in a recent win before the PTAB.⁴

Other players, such as defensive entity Iron Dome, have reportedly filed IPRs against patent owners intending to benefit their constituents or clients.⁵ The emergence of non-traditional participants has even evolved new monikers for challengers, including Iron Dome’s self-styled “chief of patent surgery™,”⁶ which states its aim as “excising the cancerous growth of overbroad patent claims.”⁷

Finally, the motivation of some filers remains a mystery. In late 2013, an entity called New Bay Capital dropped its pursuit of IPR petitions it filed against patents held by non-practicing entity VirnetX.⁸ VirnetX subpoenaed New Bay Capital to see if it was secretly working at the behest of a target of VirnetX’s patent litigation.⁹ New Bay Capital denied that it was,¹⁰ but the scenario suggests that a benevolent third party could swoop in to challenge patents in litigation that a litigant could be prevented from challenging because of the one-year bar rule for IPRs.¹¹

Patent holders must be cognizant of the array of new challengers enhancing the risk of IPR filings. Whether motivated by altruistic aspirations, client concerns or other reasons, patent holders need to prepare for the prospect of entities initiating challenges at the PTAB.

II. Motivation #2: Financial Gain

In a twist, another apparent motive behind offensive PTAB challenges dovetails with a major factor in creating such post-grant proceedings in the first

place. The AIA post-grant procedures were implemented in large part as a response to counter assertions by non-practicing entities (NPEs) or “patent trolls” seeking to exploit patents for financial gain. The desire for financial gain is now also at the forefront of this “reverse patent troll” phenomenon. The use of offensive inter partes reviews to profit, as opposed to provide additional protection to defendants as contemplated by the AIA, has prompted criticism.¹²

In one form of “reverse patent trolling,” as exemplified by New Bay Capital, an entity identifies a patent owner who has just won a large damages award or extracted a large settlement, threatens to file a petition with the PTAB challenging the validity of the patent, and offers to drop the petition in exchange for payment.¹³ Targets of these offensive IPRs have derided pre-filing settlement demands as “extortion.”¹⁴ If the entity proceeds with the IPR, the entity may actually lose leverage in settlement demands, as patent owners face the prospect of a “hundred-headed hydra”—there is generally nothing to stop another entity from re-filing the same petition.¹⁵ Defendants in infringement suits have already revived previously terminated IPRs filed by other parties,¹⁶ and a patent owner facing a demand from a reverse patent troll should consider the risk of future re-filings before writing a large settlement check to any one party.

Another IPR approach has been deployed by hedge fund manager Kyle Bass and his “Coalition for Affordable Drugs.” Under the self-styled banner of challenging patents in an effort to drive down drug costs for the public, Bass has filed several IPR petitions against patents covering well-known brand name pharmaceuticals used for treating multiple sclerosis and narcolepsy, among others.¹⁷ At the same time, Bass and his investors have reportedly bet against targeted pharmaceutical companies by taking a short position on their stock, a strategy Bass is said to have used to great success when betting against the subprime mortgage market.¹⁸ This strategy’s success thus far is unclear, as there have been multiple targets, and not all stock prices have been significantly affected.¹⁹ Nonetheless, the strategy continues to earn significant attention, including in ongoing debates on Capitol Hill over new patent-related legislation.

III. What’s Next?

Whether or not “reverse patent trolling” is here to stay remains to be seen. Currently, the hurdles to filing

² See, e.g., 157 Cong. Rec. H4485–86 (daily ed. June 23, 2011) (statement of Rep. Lamar Smith) (explaining sense of Congress amendment regarding the predatory behavior of patent trolls).

³ Daniel Nazer, *EFF to Patent Office: There’s Nothing Wrong With Throwing Out Bad Patents*, ELECTRONIC FRONTIER FOUNDATION (Oct. 17, 2014), available at <https://www.eff.org/deeplinks/2014/10/eff-patent-office-theres-nothing-wrong-throwing-out-bad-patents>.

⁴ *Electronic Frontier Found. v. Personal Audio, LLC*, IPR2014-00070, Paper 41 at 28 (P.T.A.B. Apr. 10, 2014) (89 PTCJ 1697, 4/17/15).

⁵ See, e.g., Haggin, *supra* note 1 (noting IPRs filed by Iron Dome).

⁶ *About Us*, IRON DOME, available at <http://www.irondome.com/#!about/cjg9> (last visited May 5, 2015).

⁷ *Id.*

⁸ See, e.g., *New Bay Capital, LLC v. Virnetx, Inc.*, IPR2013-00375, Paper 16 at 1-2 (P.T.A.B. Nov. 12, 2013).

⁹ *In re: VirnetX Inc.*, C.A. No. 13-mc-237-GMS, slip op. at 1-2 n.1 (D. Del. Apr. 29, 2015), ECF No. 29.

¹⁰ See Opening Brief in Support of Motion to Quash, *In re: VirnetX Inc.*, C.A. No. 13-mc-237-GMS, at 11 n.8 (D. Del. Aug. 6, 2013), ECF No. 2 (describing discovery requests as a “classic fishing expedition”).

¹¹ 35 U.S.C. § 315(b).

¹² See e.g., Walker & Copeland, *supra* note 1 (noting the negative reaction of the pharmaceutical industry).

¹³ See Haggin, *supra* note 1.

¹⁴ See, e.g., First Amended Complaint, *Chinook Licensing DE, LLC, v. RozMed LLC*, C.A. No. 14-598-LPS (D. Del. June 13, 2014), ECF No. 9.

¹⁵ Haggin, *supra* note 1.

¹⁶ Compare, e.g., Petition for *Inter Partes* Review of U.S. Patent No. 5,839,108, IPR2014-01429, Paper 2 (P.T.A.B. Aug. 29, 2014), with Petition for *Inter Partes* Review of U.S. Patent No. 5,839,108, IPR2015-01120, Paper 1 (P.T.A.B. April 28, 2015).

¹⁷ See Walker & Copeland, *supra* note 1.

¹⁸ Haggin, *supra* note 1.

¹⁹ Don Seiffert, *Should Biogen and Shire investors be wary of the latest patent challenges?*, BOSTON BUSINESS JOURNAL (Apr. 23, 2015 1:57pm), available at <http://www.bizjournals.com/boston/blog/bioflash/2015/04/should-biogen-and-shire-investors-be-wary-of-the.html>.

an IPR petition are not high for parties willing to commit the necessary resources: The basic filing fee is \$23k,²⁰ and there is no requirement that the petitioner be a litigation target in order to have standing.²¹ Thus, critics of this new phenomenon are contemplating ways to counter offensive IPRs.

One counter-measure, which has thus far not been effective at least on its first attempt, is the use of Racketeer Influenced and Corrupt Organizations (RICO) Act claims alleging extortion. One target of Iron Dome, the non-practicing entity Chinook Licensing DE LLC, filed a complaint against Iron Dome and related defendants in Delaware federal court, alleging that Iron Dome's threat of an IPR and concomitant settlement demands constituted extortion, mail fraud and other RICO predicate offenses.²² Judge Leonard P. Stark dismissed Chinook's claims and agreed with the defendants that an unprovoked threat to initiate an IPR—even when accompanied by a draft settlement proposal contradictorily admitting the validity of the patent—cannot constitute extortion or fraud.²³ Thus, at least one court has held that a third-party IPR challenge was not an improper “shakedown.”²⁴

While existing defenses such as RICO claims may not have gained traction, patent holders and interested parties are lobbying for legislative remedies. The post-AIA success of petitioners before the PTAB has prompted some to call for reform to swing momentum back towards patent holders.²⁵

²⁰ 37 C.F.R. § 42.15.

²¹ See *America Invents Act (AIA) Frequently Asked Questions*, U.S. PAT. AND TRADEMARK OFFICE, available at <http://www.uspto.gov/patent/laws-and-regulations/america-invents-act-aia/america-invents-act-aia-frequently-asked> (last visited May 7, 2015).

²² See First Amended Complaint, *Chinook Licensing DE, LLC, v. RozMed LLC*, C.A. No. 14-598-LPS (D. Del. June 13, 2014), ECF No. 9.

²³ *Id.* at 46-47.

²⁴ *Id.* at 8.

²⁵ See, e.g., *BIO Statement of Support for the Introduction of the STRONG Patents Act of 2015*, Biotechnology Industry Organization (Mar. 3, 2015), available at <https://www.bio.org/media/press-release/bio-statement-support-introduction-strong-patents-act-2015> (commending legislation that “re-

Three different patent reform bills have been proposed this Congress—the Innovation Act,²⁶ the STRONG Patents Act of 2015²⁷ and the PATENT Act.²⁸ Of these proposals, only the STRONG Patents Act squarely tackles the perceived abuse of IPRs by “reverse trolls.” The STRONG Patents Act would amend 35 U.S.C. § 311 to add the requirement that an IPR petitioner must have been either sued for infringement or charged with infringement such that the petitioner would have federal declaratory judgment standing.²⁹ Interested parties may argue that such a requirement would prevent Kyle Bass and others from filing IPRs strictly to earn a financial windfall.

Whether further patent reform passes Congress and becomes law remains to be seen. The reaction to the reverse patent troll trend is reminiscent of the backlash against the wave of *qui tam* false marking claims filed after the Federal Circuit's decision in *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 93 U.S.P.Q.2d 1097 (Fed. Cir. 2009) (79 PTCJ 247, 1/8/10). The America Invents Act quashed the rise of “marking trolls who [brought] litigation purely for personal gain,”³⁰ as it removed the statutory per-item penalty available to private litigants.³¹ Thus far the number of reverse patent troll filings is less dramatic than the flood of false marking suits, particularly in proportion to the overall number of filings at the PTAB, but the concept may be as amenable to legislative attention.

* * *

Whether “reverse patent trolling” is durable and its proponents have staying power remains to be seen. In the meantime, patent holders should be prepared for collateral attacks on their patent assets.

balances post-grant proceedings to ensure fairness for both patent owners and challengers”).

²⁶ H.R. 9, 114th Cong. (2015).

²⁷ S. 632, 114th Cong. (2015).

²⁸ S. 1137, 114th Cong. (2015).

²⁹ S. 632, 114th Cong. § 102(d) (2015).

³⁰ *Forest Group*, 590 F. 3d. at 1303 (internal citation and quotation marks omitted).

³¹ Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 16(b), 125 Stat. 284, 329 (2011).