

# Stumping Patent Trolls On The Bridge To Innovation



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President Obama brought much needed attention this June to “patent trolling,” a growing area of litigation abuse vexing America’s high-tech industries. In these lawsuits, shell businesses called Patent Assertion Entities (PAEs) or Non-Practicing Entities (NPEs)—some of which have been nicknamed “patent trolls”—game the patent and litigation systems.<sup>1</sup> They purchase dormant patents, wait for others to independently develop comparable technology, and assert patent infringement suits. As the President explained, PAEs “don’t actually produce anything themselves.” Their quest is to “see if they can extort some money” by claiming they own the technology upon which the other companies’ products are built.

An attorney who used to defend these claims, Peter Detkin, is generally credited with popularizing the “patent troll” moniker. For software, consumer electronics, retail and the many other companies on the receiving end of these lawsuits, PAEs are reminiscent of the mythical trolls that hide under bridges they did not build, but nevertheless require people to pay them a toll to cross. Patent trolling, it turns out, is a better path to the holy grail than hiding under bridges. An oft-cited economic study pegged the overall impact of PAEs in terms of “lost wealth” at \$83 billion per year, with legal costs alone amounting in 2011 to \$29 billion, up from \$7 billion in 2005.<sup>2</sup> At least fifteen PAEs are now publicly traded companies.<sup>3</sup>

This policy brief seeks to address three questions: what caused this recent and rapid rise in PAE litigation, what can be done to stop it, and what is the role for progressives? First, it identifies the confluence of factors that have come together in the past two decades to create the patent equivalent of a 100-year flood, focusing mostly on the explosion of new, widely used technologies, increasing ambiguity in the boundaries of today’s patents, and a litigation system incentivizing “ransom” settlements for even questionable infringement claims.

The brief then examines the adverse impact PAE litigation is having on the development and use of innovation, as well as on traditional patent cases brought by inventors the patent system was created to protect. It discusses the rich history of progressives in leading efforts to stop litigation prospecting, concluding that progressives should be at the forefront of this reform too. It then explores specific

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proposals the President, Senators Schumer and Leahy, and others have offered to safeguard the patent system from trolling abuse.

## The Conditions for Litigation Abuse Have Existed Since the Beginning of Patents

The exclusive right inventors have to their discoveries for certain periods of time is a constitutional right inscribed in Article I of the United States Constitution.<sup>4</sup> The goal of the American patent system is to encourage inventors to publicly disclose how their inventions work in their patent applications so that others can understand and build off their technologies in an effort to quicken innovation. Inventors seeking to use patented technology during the patent holder's period of exclusivity must license it from that patent holder.

The civil justice system provides patent holders with a strict liability tort to safeguard a patent holder's intellectual property from being misappropriated. In a patent infringement case, the patent holder does not need to prove the infringer knew of the patent or willfully infringed on it, just that the infringer made, used, sold, imported or offered for sale a product that included technology covered by the patent. Remedies include an injunction against the infringer's use of the patented technology, compensation for lost profits from competing against the infringing product, and a reasonable royalty for the infringer's use of the patented invention.

Patent infringement claims from those who do not "practice" their patents is not a new phenomenon. Eli Whitney, the famed inventor of the cotton gin, was among the first to generate proceeds from patent infringement litigation.<sup>5</sup> He did not achieve success in commercializing the cotton gin and spent years suing infringers. One of the first "patent trolls" was probably George Selden, a nineteenth century patent lawyer. Selden filed an automobile engine patent, but was able to delay the issuance of the patent for 16 years so the industry could grow around his unknown pending application. The "trap" worked, and he secured licensing agreements by threatening automobile companies with litigation. The U.S. Court of Appeals conceded that Selden "merely took advantage of the delays which the law permitted him."<sup>6</sup>

This combination of being empowered with a strict liability tort and the ability to manipulate the patent and litigation systems provides the underlying current for patent trolling. Additional factors, though, are often needed to lead to wide scale trolling. Some of them were present after the Civil War, which is when the first major flood of patent infringement cases occurred. There was a rapid proliferation of patents over minute aspects of broadly-adopted technology. For example, there were 647 patents on a corn planter, 378 patents on a corn sheller, and 6,211 on the plow.<sup>7</sup> Also, "patent sharks," as they were called then, brought infringement suits accusing farmers for unwittingly using protected technology.<sup>8</sup> Rather

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than fight the claims, farmers often agreed to settle for less than the cost of defending themselves.

Complaints about these “patent sharks” have a familiar ring. One U.S. Senator said that “patent-sharks ... procure an assignment of [a] ... a useless patent, and at once proceed to levy black-mail ... upon any man who has ever manufactured or sold, or even used, the later and valuable invention.”<sup>9</sup> The Supreme Court also suggested that a patent shark’s practices play on “fears and apprehensions of concealed liens and unknown liabilities” to “lay a heavy tax upon the industry of the country without contributing anything to the real advancement of the art.”<sup>10</sup>

Since the 1880s, there have been many others who have found ways to make money gaming the patent and litigation systems.<sup>11</sup> None of these other episodes, though, achieved the massive scale or interruptive force of today’s PAE litigation.

## Today’s Perfect Storm for Patent Litigation

Today’s 100-year flood of patent litigation is the result of a perfect storm of three cross winds from the software and consumer electronic boom that started in the 1990s.

The first cross wind is opportunity. According to the U.S. Patent and Trademark Office (PTO), there has been a rapid rise in applications over the past twenty years. Between 2010 and 2012, the PTO received an average of 540,000 applications a year, compared with 340,000 applications per year from 2000 to 2002 and 180,000 applications a year from 1990 to 1992. This has led to a significant rise in the number of patents issued.

Also, today’s programs, devices, and machines often incorporate many patented technologies. For example, a smartphone can implicate some 250,000 separate patents.<sup>12</sup> Additionally, many products use overlapping technologies to operate on common platforms, such as Wi-Fi networks, or to conform with industry standards. This convergence of a massive influx of patents, complex products incorporating many technologies, and widespread adoption of standardized protocols and platforms has created seemingly endless opportunities for patent holders to allege that others’ products are infringing on their patents.

The second element of the perfect storm is increasing uncertainty over where one patent ends and another begins. Patent infringement is a strict liability tort because, given the fact that patents are publicly available, people are theoretically on notice of what technology is patented. In practice, though, many patents are not well-defined and do not provide adequate notice.

In part, patent applications are inherently ambiguous because applicants intentionally use vague or expansive terms to define what they have invented. Their goal is to claim the broadest property right possible. If an inventor were to file an overly specific patent, where one uses exacting terms to describe only the parame-

According to patent practitioners, patent ambiguity has reached epic proportions in recent years.

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ters of a prototype, it could be easy for others to misappropriate that inventor's ideas without infringing on the specific patented design.

Here is an example. Suppose we invent the desk. We could file an application for a patent accurately describing our invention: a horizontal writing surface made of wood supported by four legs. After seeing our patent, people could steal our idea, but make products not covered by our specific claims. They could make the writing surface out of metal, incline the surface a few degrees, or support it with three legs. To guard against this, we would try to use broader language to describe our invention in filing our patent. For example, we might claim a patent for any flat surface used for writing. If a person creates a lap desk with a pillow on one side and a flat writing surface on the other, we could allege infringement. That inventor, though, would argue that a lap desk is not covered by our patent because a lap desk and a free-standing desk are separate technologies. Litigation is the only way to resolve this dispute.

Expansive claiming has been taken to higher levels since 2001, when the United States Court of Appeals for the Federal Circuit, the appellate court specializing in patents, relaxed the standard for when a patent can be invalidated for being so expansive the it becomes indefinite.<sup>13</sup> Before this ruling, terms had to be "plain on their face." Now, a patent can be invalidated for indefiniteness only if its terms are "insolubly ambiguous" and subject to "no narrowing construction."<sup>14</sup> The U.S. Federal Trade Commission (FTC) remarked that as a result of this ruling, along with other factors that are specific to areas of innovation, the "zone of uncertainty" has notably widened over the scope and meaning of many of today's patents.<sup>15</sup>

PAEs thrive on this uncertainty. Neither inventors nor courts are able to readily determine whether a design infringes on existing patents, so PAEs can often find a way to file a credible infringement claim. Before an infringement trial begins, courts will typically hold what are called "Markman hearings" to resolve the ambiguities in a patent. These hearings are helpful, but often come late in the process. As a result, defendants must spend hundreds of thousands dollars (sometimes millions of dollars) in litigation costs just to find out the precise scope and meaning of the patent they are accused of infringing.

Third, the risks and harms resulting from ambiguous patents, and the high cost of clarifying them through litigation are disproportionately borne by defendants. The average defense costs are \$1.6 million through discovery and \$2.8 million through trial in which \$1 million to \$25 million is at stake.<sup>16</sup> Beyond its expense, discovery can be invasive for defendants, requiring companies to disclose their trade secrets and other confidential technical and financial information, as well as distracting personnel from their business pursuits.

In contrast, PAEs face little risk in pursuing an infringement claim. Pretrial and discovery costs are asymmetrically borne by defendants, and the costs PAE plaintiffs do incur are generally borne by contingency fee counsel. Also, because they

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do not have competing products, PAEs generally face little or no possibility of liability from counterclaims. They also do not face the same risks and costs as operating company defendants with respect to reputational harm, the loss of productivity from employees focusing on litigation rather than their usual jobs, or the substantial costs of managing the risk of a potential injunction halting product sales or the use of technologies essential to competing in the marketplace.

PAEs leverage these asymmetrical costs to their advantage. They often wait until technology is broadly commercialized before claiming infringement, enabling them to threaten litigation against a large pool of potential defendants at a time when the cost and difficulty of switching to an alternative technology is high. They will assert multiple claims to drive up the defendants' costs of discovery and preparing the defense, but drop some of the claims when it comes time for them to prepare for trial. They also often make the same infringement claims against a large number of defendants, accepting low dollar settlements with many of the defendants that can be leveraged against the few who remain for trial. Finally, PAEs use creative damage models to raise the stakes of the litigation, even though the damages alleged are unlikely to be awarded and often have nothing to do with the cost or value of the patented invention.

In short, three cross winds—the opportunity created by the explosion of new patented technologies; substantial uncertainties over the scope, strength and validity of patents; and the high, one-sided costs of litigation—have created a favorable business climate for PAEs. By filing plausible claims raising sufficient risk of loss for defendants, they force companies to choose between expending millions of dollars to litigate the claims or settle for less than the cost of the litigation. Some PAEs may succeed at trial, even when defendants developed their own technology, but most patent assertions are meant to drive settlements.

## The Adverse Impact of PAE Litigation on Innovation

The public saw a dramatic demonstration of the impact of PAEs in 2006, when a PAE almost shut down the Blackberry wireless service.<sup>17</sup> A court held that Research in Motion (RIM), which manufactures the Blackberry, infringed on patents from the 1990s owned by NTP, Inc. NTP owned several dozen patents related to enabling mobile users to receive e-mails through wireless networks, but did not commercialize them.<sup>18</sup> In 2000, after several companies marketed wireless email services, NTP alleged that they were all infringing on NTP's patents.

After a jury ruled that RIM's technology infringed on NTP's patents, the court ordered an injunction barring RIM from using this technology. At the time, injunctive relief was a nearly automatic remedy in patent infringement cases. The injunction meant that Blackberry users would no longer be able to send and receive emails, giving NTP enormous negotiating leverage.<sup>19</sup> RIM settled the suit for \$612.5 million to have the injunction set aside.

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PAE litigation has mushroomed, now accounting for well over half of all patent cases filed in the United States.

Since this lucrative payday, PAE litigation has mushroomed, now accounting for well over half of all patent cases filed in the United States.<sup>20</sup> The explosion prompted the FTC and Congress to hold hearings over the past year to better understand the scope, causes, and impacts of PAE litigation prospecting. The testimonies presented at these hearings offer compelling accounts of the real-life adverse impacts PAEs are having on today's companies and consumers, in the technology sectors and in other areas of the economy, without countervailing benefits.

Barnes & Noble testified about the impact on retailers, who are purchasers of software and other technology. It stated that PAEs have sued the company more than twenty-five times. Even though it has never lost in court, the company has spent "tens of millions of dollars...to defend against these suits."<sup>21</sup> In one case, a PAE sued many retailers claiming it owned the technology used on websites, such as BN.com, for returning search results that do not exactly match the terms a customer enters into the search field. The PAE kept suing more companies even as each suit failed. Barnes & Noble explained its Hobson's choice of "paying extortionate ransoms and settling the claim, or fighting in a judicial system ill equipped to handle baseless patent claims at costs that frequently reach millions of dollars."<sup>22</sup>

Innovator companies told of similar experiences. Microsoft stated that it typically has 60 pending PAE infringement claims, costing it tens of millions of dollars every year to defend.<sup>23</sup> Google, Blackberry, Earthlink and Red Hat submitted joint remarks detailing that their litigation defense costs have gone up 400% since 2005.<sup>24</sup>

Newegg testified that it, like others, "would prefer to prove its non-infringement or invalidate the [PAE's] patent in court," but these defense costs "greatly outweigh[s] the settlement offers."<sup>25</sup> Newegg said that one PAE "was so blunt as to explain to Newegg that it was pricing its settlement offer 'well below the pain level'—i.e., below the price where it may be worthwhile for Newegg to defend instead of settle."<sup>26</sup>

A case against Cisco Systems provided a glimpse into a PAE litigation model.<sup>27</sup> In that case, the PAE sent out more than 8,000 demand letters to potential defendants. Many targets agreed to pre-litigation settlements, and the PAE filed only 26 cases. Statistics show why PAEs want to avoid litigation. Once a case is filed, PAEs receive an award only 23% of the time. When cases go to trial that number goes down to a mere 8%, compared with a 40% win rate in traditional patent cases.<sup>28</sup> Consequently, it is not uncommon for PAEs to agree to small settlements with many targets to lock in a profit, while leaving one or two defendants standing for trial in hopes of securing a large verdict.

For small and medium companies, the Hobson's choice may be no choice at all; they may not be able to afford the defense costs. Studies have shown that 55% of the companies PAEs target have \$10 million or less in revenue,<sup>29</sup> and 82% have

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revenues of less than \$100 million.<sup>30</sup> These companies can be easy marks because they almost always have to settle.

David Friend, CEO of Carbonite, explained the magnified impact PAE suits can have on small companies. Carbonite, along with eighteen other online computer back-up businesses, was sued on “a set of obscure and nearly 20-year-old business method patents.”<sup>31</sup> The demand was ongoing royalties plus \$20 million, which Carbonite said was a third of all its money in the bank. The jury sided with Carbonite and invalidated the PAE’s patents, but the suit “depressed our stock price and prevented us from growing... Also relations among my Board members were strained as arguments ensued over whether to settle or fight.”<sup>32</sup>

The counter-narrative PAEs offer is that they bring money to small inventors. Yet PAE litigation acts as a perverse deterrent to venture capitalists, who fear litigation if the venture is successful. Also, some venture capitalists who specialize in intellectual property are investing in PAEs, viewing them as safer than individual inventors. And as the FTC concluded, PAEs hurt small inventors because they encourage paying inventors only to “invent and patent,” but “not generate more innovation,” which is the lifeblood for all inventors.<sup>33</sup> In June, the FTC announced it will launch an extensive inquiry into the impact PAEs are having on the economy.

## The Impact of PAE Litigation on the Patent Property Right

Another way PAE litigation is impacting actual inventors is that courts, in trying to make it more difficult for PAEs to improperly leverage the litigation system, have altered the burdens of proof for remedies in patent infringement cases. These new standards have helped bring needed sanity to PAE litigation, but have created challenges for traditional patent holders.

In 2006, the U.S. Supreme Court, in *Ebay v. MercExchange*,<sup>34</sup> reduced access to the most powerful weapon in a patent holder’s arsenal: permanently enjoining the use of the infringing technology. *MercExchange*, which did not engage in any commercial activity, owned patents related to hosting Internet-based sales among private individuals and alleged that *Ebay* was infringing on those patents. Before this case, the rule was that any patent holder who could prove infringement could get a permanent injunction “absent exceptional circumstances.”<sup>35</sup>

In this case, the Supreme Court held that district courts could no longer impose injunctive relief as a default mechanism. Rather, a plaintiff must prove that injunctive relief is appropriate based on the traditional four-factor test for when permanent injunctions can be granted in other areas of the law. A plaintiff must demonstrate irreparable injury, that monetary damages are inadequate to redress the injury, that the hardship on the plaintiff warrants such a remedy, and that the injunction would not harm the public’s interest.

Progressives have been at the heart of solving many of the high-profile litigation prospecting scandals of the past decade, including in patent litigation.

Ever resourceful, some PAEs responded to this ruling by shifting the venue for their patent infringement claims to the International Trade Commission (ITC).<sup>36</sup> The ITC is a quasi-federal agency that can grant “exclusion orders” to bar infringing technology from being imported into the U.S.<sup>37</sup> Most consumer electronics are manufactured overseas, providing the ITC a platform for hearing these PAE suits. In 2011, a record 70 patent suits were filed with the ITC, though that number has reportedly waned in the past year.<sup>38</sup>

PAE litigation has also increased the standard of proof for proving damages in a patent infringement case. There had been a generally accepted rule that the minimum reasonable royalty rate was 25 percent of the profits from the infringing technology. In *Uniloc USA, Inc. v. Microsoft Corp.*, the Federal Circuit abolished this rule, stating that a patent holder must demonstrate a basis in fact for establishing whatever reasonable royalty rate it seeks. In addition, the court held that patent holders could no longer base royalties on the profits of an entire product when the infringing technology does not directly contribute to those profits. In *LaserDynamics v. Quanta Comp., Inc.*, the court refined this point, holding that royalties must be based on “the smallest salable patent-practicing unit.”<sup>39</sup>

As a result of these rulings, remedies are now more closely focused on the facts of a case. Taking the extra steps to secure the appropriate remedy, though, can come with greater costs, risks and uncertainties. Again, these safeguards are important in stemming PAE litigation, but also add new hurdles for traditional inventors.

## Progressives Should Protect Civil Litigation from Prospecting Abuse

When attempts to game the legal system have resulted in unfair litigation results, as here, progressives have come together to find solutions. As defenders of the American civil litigation system, progressives have been at the heart of solving many of the high-profile litigation prospecting scandals of the past decade, including in patent litigation.

Judge Janis Graham Jack, a Clinton-appointee, uncovered one of the biggest systemic episodes of fraud and abuse against the American civil justice system, leading to hundreds of thousands of asbestos and silica lawsuits in the early 2000s. She found that nearly every one of the 10,000 silicosis claims consolidated before her court was purely “manufactured for money.”<sup>40</sup> She also found that lawyers were intentionally “overwhelming the system” with massive filings “to extract mass settlements.”<sup>41</sup> The ramifications of her ruling reverberated throughout asbestos and silica litigation.

Last year, Senator Feinstein helped clamp down on Californians who found a state cause of action for litigation prospecting involving the American with Disabilities Act (ADA). The individuals were going to small businesses looking for



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technical ADA violations. They threatened or filed lawsuits, offering to drop them for less than the cost of retaining counsel. Senator Feinstein wrote to the California Legislature that “the ‘shakedown’ tactics . . . unfairly and unnecessarily threaten the viability of some small businesses.”<sup>42</sup> Soon thereafter, the Legislature enacted reforms to stem these abuses.

Along these same veins, Senator Leahy’s America Invents Act ended the practice of misusing whistleblower statutes to bring false marketing claims against companies merely over the fact that their products had the technical violation of having expired patent numbers on them. Also, the only major piece of civil litigation reform in the past decade, the Class Action Fairness Act, had Senator Kohl as a lead sponsor and passed with broad bipartisan support because it helped deal with litigation gamesmanship.<sup>43</sup>

What makes these issues ripe for progressive leadership is that in each example, as with PAE suits, the tactics at issue are pure money plays. No greater good is being served. The suits merely seek to take advantage of the inefficiencies and transaction costs of litigation.

## The Search for the Right Solutions to PAE Litigation

In recognition of the need for progressive leadership, President Obama, Senators Schumer and Leahy, among others have been leading the charge against patent trolling.

In June, President Obama proposed a 12-part agenda of five executive actions and seven legislative proposals. The actions included tightening restrictions on functional claiming, requiring patent holders to provide updated patent ownership information to stop PAEs from setting up shell companies to hide their activities, educating small businesses and end-users of their rights when pursued by PAEs, and focusing resources on continuing to identify solutions.

On the legislative front, the President is seeking bills that would help businesses respond to demand letters, provide companies with access to administrative proceedings before the Patent Office to challenge the validity of business method patents, and provide trial judges with more discretion to award attorneys fees against PAEs.

In Congress, several patent litigation reform bills have been introduced. The SHIELD Act, sponsored by Reps. DeFazio and Chaffetz, requires courts to award costs and attorneys’ fees to prevailing parties, but carves out several entities from this obligation, including inventors, original patent holders, those who can show a substantial investment to commercialize the product, institutions of higher education, and organizations focused on commercializing technology. In doing so, it tries to isolate PAEs by who they are, not what they do. The bill also discourages

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Patent trolling adds no economic value, is a threat to our innovation-based economy, and is an affront to American ingenuity.

speculative litigation by creating bonding requirements for bringing patent infringement claims and by limiting discovery.

Several companies have advocated for an expanded “loser pays” system in patent cases because it would directly address the asymmetrical litigation costs between plaintiffs and defendants that PAEs leverage for settlements. While the U.S. personal injury bar has opposed “loser pays” in personal injury cases, policymakers can explore whether the pertinent dynamics in commercial litigation are different from those in personal injury, employment discrimination and other individual-based suits to overcome any such concerns. British civil litigation can provide a helpful guide, as loser pays is widely used in that country.

Other bills offer other approaches. Sen. Schumer’s Patent Quality Improvement Act proposes to expand the PTO’s Covered Business Method program to a broader range of patents and litigants. Sen. Cornyn’s Patent Abuse Reduction Act would require a PAE to pay the costs of discovery if it seeks information beyond “core documentary evidence.” Others have suggested a dormancy tax to raise fees for maintaining patents, which could discourage a patent holder from keeping a patent it has no intention of commercializing.<sup>44</sup>

State governments have also been getting involved. Vermont’s legislature enacted a law in May 2013 to create a right to sue for “bad faith assertion” of a patent infringement claim. The state attorney general then sued a company, MPHJ Technology Investments LLC, that wrote to Vermont businesses saying it owned patents for attaching any scanned document to an email and demanding \$1,000 per employee to license the technology. The company reportedly operated through 40 shell companies to “shield it from paying fees and costs in the event its letter’s recipients prevail in litigation.”<sup>45</sup> The Nebraska attorney general has since filed a similar suit.

These and other ideas need to be weighed carefully. The trick will be to find solutions tailored to curbing litigation prospecting, while not eroding legitimate rights of traditional patent holders. Philip Johnson of Johnson & Johnson explained at a Congressional hearing that PAEs have not invaded pharmaceutical patents, in part because of the high cost of securing a patent for a new drug. He urged that changes to the patent system to address PAE litigation against other industries should not adversely impact the patent rights of pharmaceutical manufacturers.

## Conclusion

Innovation has long been the essential ingredient to U.S. economic growth. Patent trolling adds no economic value. It is an affront to American ingenuity and threatens our innovation-based economy. As Senator Leahy said, “We must combat [this] abusive behavior to preserve and advance the patent system envisioned by the founders and provided for in our Constitution.”<sup>46</sup> When Thomas Jefferson and the other founders granted Americans the right to patent

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and protect intellectual property, litigation arbitration was not the ideal they had in mind.

## Endnotes

- 1 White House Press Release, Fact Sheet: White House Task Force on High-Tech Patent Issues, June 4, 2013.
- 2 See James Bessen, et al., *The Private and Social Costs of Patent Trolls* 17, Boston Univ. School of Law Working Paper No. 11-45 (2011); James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes* 18-19, Boston Univ. School of Law, Law and Economics Research Paper No. 12-34 (2012).
- 3 Investment Research, *Envisionip*, Apr. 15, 2013.
- 4 U.S. Const. art. I, §8, cl. 8 (“To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”).
- 5 *History of the Patent Troll and Lessons Learned*, Robert H. Resis, Esq., *Intellectual Property Litigation*, Vol. 17, No. 2 (2006).
- 6 See *Columbia Motor Car Co. et al. v. C.A. Duerr & Co. et al.*, 184 F. 893, 895 (2d Cir. 1911).
- 7 See also Colleen V. Chien, *Reforming Software Patents*, 50 *Hous. L. Rev.* 325 (2012).
- 8 Gerard N. Magliocca, *Blackberries and Barnyards: Patent Trolls and the Perils of Innovation*, UC Berkeley Recent Work, Mar. 22, 2007, at 4.
- 9 8 Cong. Rec 307-308 (1878) (Stmt. Of Sen. Christancy)
- 10 *Atlantic Works v. Brady*, 107 U.S. 192, 200 (1883).
- 11 The most well-known in the late 20th Century was probably Jerome Lemelson, who generated \$1.3 billion in recoveries using Selden’s “submarine patent” trap, where patents applications are kept secret during long periods of intentional delay to allow others to unwittingly adopt the patented technology. In response to submarine patent abuse, Congress changed the patent term to be 20 years from the date of filing the application as opposed to 17 years from its issuance.
- 12 Colleen V. Chien, *Reforming Software Patents*, 50 *Hous. L. Rev.* 325, 336 at nn. 62-63 (2012).
- 13 *Exxon Research & Eng’g Co. v. United States*, 265 F.3d 1371 (Fed. Cir. 2001).
- 14 *Id.* at 1375.
- 15 Federal Trade Commission, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 94 (2011). Other factors practitioners point to tend to be specific to areas of innovation. For example, in 1998, the Federal Circuit affirmed that the 1952 Patent Act allows one to patent “business methods,” meaning that someone can patent a process for analyzing data, not just the software used for that analysis. See, e.g., *State St. Bank & Trust Co. v. Signature Fin. Grp., Inc.*, 149 F.3d 1368, 1375-77 (Fed. Cir. 1998). Also, Mark Lemley has suggested that software patents have inherent ambiguities because they are written in a “means plus function” format. See Mark A. Lemley, *Software Patents and the Return of Functional Claiming*, Stanford Public Law Working Paper No. 2117302 (July 2, 2012). This practice could make sense for software patents, but has been disfavored in other contexts because, as Lemley writes, it could allow infringement claims against a product that “bears little resemblance to what the patentee actually invented.” *Id.*
- 16 American Intellectual Property Law Assn, *2011 Report of the Economic Survey* (2012).
- 17 Gerard N. Magliocca, *Blackberries and Barnyards: Patent Trolls and the Perils of Innovation*, 82 *Notre Dame L. Rev.* 1809 (2007).

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- 18 See *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1287 (Fed. Cir. 2005).
  - 19 See *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1287 (Fed. Cir. 2005).
  - 20 Research has shown that most plaintiffs in patent cases in the country are trolls (62%) and most defendants in patent litigation are defendants in troll litigation (59%). Colleen Chen, Subcommittee on Courts, Intellectual Property and the Internet, April 16, 2013.
  - 21 Barnes & Noble Comments to Federal Trade Commission and U.S. Department of Justice Concerning Patent Litigation, p. 8. Available at <http://www.ftc.gov/os/comments/pae/pae-0012.pdf>
  - 22 *Id.*
  - 23 Comments of Microsoft Corporation on the Impact of Patent Assertion Entity Activities on Innovation and Competition to Federal Trade Commission and U.S. Department of Justice Concerning Patent Litigation, available at <http://www.ftc.gov/os/comments/pae/pae-0046.pdf>.
  - 24 Comments of Google, Blackberry, Earthlink & Red Hat to the Federal Trade Commission and U.S. Department of Justice available at <http://www.ftc.gov/os/comments/pae/pae-0047.pdf>.
  - 25 Public Comment of Lee C. Cheng, Chief Legal Officer of Newegg Inc., Regarding the FTC and DOJ Investigation of “Patent Assertion Entities” available at <http://www.ftc.gov/os/comments/pae/pae-0004.pdf>.
  - 26 *Id.*
  - 27 *Cisco Systems Inc., et al. v. Innovatio IP Ventures LLC*, Case No. 1:11cv09309 (N.D. Ill. filed Dec 28, 2011).
  - 28 See John R. Allison, Mark A. Lemley & Joshua Walker, Patent Quality and Settlement Among Repeat Patent Litigants 99 *Geo. L.J.* 677, 694 (2011).
  - 29 Nick Grossman, The Patent Quality Improvement Act, May 9, 2013 available at [www.usv.com/2013/05/the-patent-quality-improvement-act.php](http://www.usv.com/2013/05/the-patent-quality-improvement-act.php).
  - 30 Ingrid Lunden, Senator Charles Schumer Targets Patent Trolls, Wants USPTO to Review Infringement Suits Before They Head to Court, May 1, 2013.
  - 31 Letter from David Friend, CEO of Carbonite, to the Federal Trade Commission and the U.S. Department of Justice available at <http://www.ftc.gov/os/comments/pae/pae-0059.pdf>.
  - 32 *Id.*
  - 33 The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition at 69 available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>.
  - 34 547 U.S. 388 (2006).
  - 35 *Id.* at 391 (internal quotation omitted).
  - 36 See John Horvack, Patent Trolls’ New Forum: The ITC, *Law360*, Aug. 23, 2010.
  - 37 Colleen V. Chien & Mark A. Lemley, Patent Holdup, the ITC, and the Public Interest, available at <http://ssrn.com/abstract=2022168>.
  - 38 Jenna Greene, ITC Docket Returning to ‘Normal,’ *Nat’l L.J.* June 17, 2013.
  - 39 694 F.3d 51 (Fed. Cir. 2012).
  - 40 Order No. 29: Subject-Matter Jurisdiction, Expert Testimony and Sanctions, In re: Silica Products Liability Litig., MDL Docket No. 1553, 150 (S.D. Tex. June 30, 2005).
  - 41 *Id.* at 239.
  - 42 Letter from Sen. Feinstein to Hon. Darrell Steinberg, Senate President pro Tempore, California State Senate, Mar. 8, 2012.
  - 43 *Scott v. Blockbuster Inc.* (No. DI62–535, Jefferson County, Texas, 2001); Judge OKs Blockbuster Plan On Fees, *Associated Press*, Jan. 11, 2002. One of the worst abuses

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was a case generated against Blockbuster over how it charged late fees. The class action attorneys received \$9.25 million in the settlement, while the class members got coupons for \$1 off future rentals and the settlement allowed Blockbuster to continue charging late fees the same way it had before the lawsuit.

- 44 Gerard N. Magliocca, *Blackberries and Barnyards: Patent Trolls and the Perils of Innovation*, UC Berkeley Recent Work, Mar. 22, 2007, at 57.
- 45 Jason McClure, *Vermont Becomes First State to File “Patent Troll” Suit*, Nat’l L. J. May 22, 2013.
- 46 Jenna Greene, *FTC to Launch Broad Study of Patent Trolls*, Legal Times, June 20, 2013.

## About the Author

Phil Goldberg is a partner in the Washington, D.C.-based Public Policy Group of Shook Hardy & Bacon L.L.P. He previously worked for three Democratic Members of the House of Representatives, including one who served on the House Judiciary Committee. Goldberg regularly contributes for PPI on liability issues.

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