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Means to Control the Patent Trolls

By William Thomashower

Recent months have seen a dramatic increase in public focus on “patent troll” enforcement and litigation. What is it, and how fast and efficiently can it be brought under control?

Defining the “Patent Troll” Problem

Legislation, Official Actions, and Media Coverage

With increasing frequency, legal publications, Congressional hearings, judicial opinions, media

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reports, news stories, CLE programs, and first person accounts are detailing the problem of “patent trolls,” also known as “patent assertion entities” (PAEs) or “non-practicing entities (NPEs). The problem has percolated to the Presidency. On February 14, 2013, President Obama highlighted the issue in responding to a question at a “Fireside Hangout” chat as follows:

The folks that you’re talking about [PAEs] are a classic example. They don’t actually produce anything themselves. They’re just trying to essentially leverage and hijack somebody else’s idea and see if they can extort some money out of them. And sometimes these things are challenging. Because we also want to make sure that patents are long enough that people’s intellectual property is protected. We’ve got to balance that with making sure that they’re not so long that innovation is reduced.¹

The “patent troll” story begins well before the President took note, but it is convenient for this article to pick up the trail at this point.

On March 14, 2013, the House Committee on the Judiciary, Subcommittee on Courts, Intellectual



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Property and the Internet (the Subcommittee), held a hearing entitled “Abusive Patent Litigation: The Impact on American Innovation & Jobs, and Potential Solutions.” In a fast paced, three hour hearing, six lawyer witnesses with varying patent backgrounds represented a range of different views on the “patent troll problem.” They submitted lengthy written testimony (available at the same Web site) and gave five minute summaries. They then answered questions from the Subcommittee members. The Webcast is recommended viewing for anyone interested in this issue.²

The title of the hearing assumes that there is “Abusive Patent Litigation.” The opening statement of Committee Chairman Goodlatte set the stage as follows:

Abusive patent litigation is a drag on our economy. Everyone from independent inventors, to start-ups, to mid and large sized businesses face this constant threat. The tens of billions of dollars spent on settlements and litigation expenses associated with abusive patent suits represent truly wasted capital—wasted capital that could have been used to create new jobs, fund R&D, and create new innovations and technologies that would “promote the progress of science and useful arts.”

Non-practicing entities (NPEs) are those that hold patents but do not practice or produce an actual product based on those patents. The term NPE covers everything from universities to high technology companies that focus on R&D but monetize their research through legitimate licensing. But within that universe there are specific subsets of entities—PAEs—which often times acquire weak or poorly-granted patents, and proceed to send blanket demand letters or file numerous patent infringement lawsuits against American businesses with the hopes of securing a quick payday.

Many of these PAEs file lawsuits against small and medium-sized businesses, targeting a settlement just under what it would cost for litigation, knowing that these businesses will want to avoid costly litigation and probably pay up.

PAE lawsuits claim ownership over basic ideas, such as sending a photocopy to email, podcasting, aggregating news articles, offering free Wi-Fi in your shop, or using a “shopping cart” on your Web site—something is terribly wrong here.

The patent system was never intended to be a playground for trial lawyers and frivolous claims. We need to work on reforms to discourage frivolous patent litigation and keep U.S. patent laws up to date. Abusive patent troll litigation strikes at the

very heart of American innovation and job creation. That is why Congress, the Federal Courts and the PTO should continue to take the necessary steps to ensure that the patent system lives up to its Constitutional underpinnings.

On June 4, 2013, a *New York Times* Op Ed piece, co-authored by Chief Judge Rader of the US Court of Appeals for the Federal Circuit and two other authors, agreed with the President that patent trolls use the expense of litigation rather than the merits of a patent to “extract a financial settlement.” Their proposed solution, until the Congress acts on any of the pending legislative initiatives, was for the courts to implement the attorney fee penalties of 35 U.S.C. § 285 and Fed. R. Civ. P. Rule 11 with more “vigor.” As discussed below, the “problem” with this solution is it still burdens the accused party with substantial litigation expense to get through the merits of the action and “win” to become entitled to such fees. This does not disrupt the troll business model of imposing large “expense of litigation” to “extract” an early, less expensive settlement. And many patent troll plaintiffs are shell companies, making actual recovery of a fee award problematic.

The White House Paper coincided with issuance of five executive actions and seven legislative proposals directed at the patent troll problem.

Also on June 4, 2013, the White House issued a “white paper” entitled “Patent Assertion and US Innovation” (WH Paper), a well-researched and thoughtful summary of the problem and possible solutions, citing over 20 references and scholarly articles.³ The WH Paper coincided with issuance of five executive actions and seven legislative proposals directed at the patent troll problem. Again, it will be some time before these proposed solutions have effect on the daily patent troll litigations clogging our courts and burdening legitimate businesses.

On June 20, 2013, FTC Chairwoman Edith Ramirez said in an address: “There is mounting evidence that NPE activities may have an adverse impact on competition and consumers. But at this stage, analysis of the costs and benefits of NPE activities is limited.... The Commission can contribute to a broad policy response to NPEs by using its Section 6(b) authority to collect more comprehensive information on a variety of NPE business models and the scope of their activities.” As part of this study, the Commission could issue subpoenas to patent troll companies.⁴ This represents another useful

proposal to address the problem, but again, with no immediate impact.

A July 13, 2013 article in the *New York Times* reported an interview with the owner of an acknowledged NPE that reportedly has sued or threatened over 1600 companies for patent infringement in the last five years. The NPE owner's financial success reportedly included a personal fortune of 16 cars, a mansion, and a trailer truck of expensive wines.

On July, 30, 2013, 44 major companies, as diverse as Amazon to Morgan Stanley, issued a joint letter to the Senate and House Committees on the Judiciary, calling for legislative action to halt "abusive litigation" by patent trolls alleged to have cost productive companies \$29 billion in direct payouts in 2011, less than 1/5 of which went to inventors. The bulk of the money went to NPEs and their lawyers or to pay for defendants' own legal fees.⁵ The joint letter to Congress described the patent troll model in a nutshell, that "settlement payouts [are] based on the costs of litigation, not the merits of the case." Why pay "millions in legal fees to prove that an NPE patent is invalid" when defendants could settle for much less?⁶ Once again, the prospect of a Congressional response will not address the current flood of litigation soon enough.

In August, 2013, Public Radio International produced a documentary exposing the patent troll model as involving multiple shell companies with uncertain ownership, and filing multiple patent suits to economically extort settlements.⁷

Some individual states and state attorneys general, such as in Vermont, Minnesota, and Nebraska, have enacted legislation or pursued enforcement actions to halt harassment of downstream consumers with NPE patent infringement litigation.

Finally, on August 22, 2013, the Government Accountability Office (GAO) issued a lengthy report, mandated by the AIA, entitled "Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality."⁸ The GAO Report summarized several of the above and other initiatives to control the excesses of patent litigation. Relying on data believed to show an "estimate" that 89 percent of the increase in patent defendants in 2007 to 2011, (and most of the suits by NPE's) involved "software-related patents",⁹ the GAO Report suggested that "the focus on the identity of the litigant—rather than the type of patent—may be misplaced."¹⁰ This survey estimate has not been independently confirmed.

Statistical Data

In short, what has been an undercurrent over the last eight or more years of nuisance litigation for patent

defense counsel and their clients, both big and small businesses alike, has mushroomed since 2010. According to one often quoted report, NPE patent actions now account for the bulk of patent litigation filed in the federal courts, 62 percent in 2012, up from 45 percent in 2011, while non-NPE filings have remained nearly constant.¹¹ Some of this "increase" in NPE filings may very well be due to the AIA's relatively new requirement, ironically intended to control patent troll litigation, that suit on a patent could not be brought in a single case against multiple defendants, but had to be separately filed against each defendant. This legislative strategy was ineffective, as discussed further below.

Burdens on the Courts

This flood of NPE patent litigation would be crisis enough in our busy federal courts, but the current effects of the sequester legislation, requiring across the board cutbacks including at the federal judiciary, make swift corrective action against patent trolling even more important. After all, the federal courts have no power to reduce the number or complexity of cases filed. Each must be litigated until a conclusion, whether by settlement, pretrial motion practice, or trial and appeal. These cases are commenced in 94 district courts of the country and encompass every area of federal jurisdiction, not merely patents. Our Article III courts perform a constitutional function that is irreplaceable and imperative in our system of three branches of government. In the face of these crises in the federal courts and in patent litigation in particular, the White House's executive orders and seven legislative recommendations, Congressional, and FTC efforts are welcome. Respectfully, there are faster, more assured means at hand to end the patent troll abuse.

Concept for the Proposed Solution

The patent troll problem is the result of a number of factors, discussed below, but has at its core the cost of litigation imposed, or the threat of it. Therefore, the most immediate and effective solution should be at the functional level where the problem manifests, the district courts. The solution must alter the stakes so that patent troll cases are identified early on and dealt with specially and efficiently, to remove the economic extortion on which the patent troll model relies. At the same time, the solution cannot be so over inclusive as to short circuit legitimate patent infringement claims by NPE's such as universities and patent pools, or other bona fide "patent intermediaries," who seek to monetize genuine inventions. They can connect small inventors, or others, with manufacturers who can pay for, use, and sell products or methods incorporating innovations of real merit, to the great benefit of the public.

Thus federal district judges, who face NPE issues routinely and in increasing numbers, must apply consistent means to define true troll cases and expedite their resolution. Such guidance, proposed below, would stem the flood much faster than legislative, executive, or agency level solutions which will be of much longer gestation. This will reverse the economics of the currently successful patent troll business model, and yet reasonably preserve the right of other non-practicing entities, such as universities and small inventors, to “secur[e] for limited times . . . the exclusive right to their respective . . . discoveries.”¹²

The Constitution and the Patent Code, 35 U.S.C. § 100, *et seq.*, enacted to effectuate the Founders’ intent to promote innovation, do not require inventors to commercialize or practice their inventions. The Founders did not anticipate that entities which did not make, use, or sell the invention would use the inherent costs of current day federal patent litigation as a means of “economic extortion.” This reality makes it less expensive to pay off an NPE or license its alleged technology, than to prove in federal court that the asserted patent is invalid or being applied beyond the reasonable scope of its claims, for which there should be no infringement. Before we address the solution to “abusive patent litigation,” we need to define the scope of the problem and define terms.

What Is Abusive Patent Troll Litigation?

Abusive litigation practices are not a new phenomenon and not unique to patent law. From the term “Rambo litigator”¹³ in the 1980s, to the more recent patent trolls or NPEs, lawyers and clients in all fields of litigation, state and federal, can be subjected to litigation abuse.

For a number of reasons unique to patent law, this field has become a fertile ground for abusive litigation at what appears to be an accelerating pace since 2006 (see studies cited herein). Consider some examples of “abusive patent litigation” from the Subcommittee hearing and this author’s experience.

Subcommittee Witnesses

- Cisco’s General Counsel described an NPE that had acquired a set of patents that previously had been assigned and reassigned to and from various suppliers of telecommunications equipment. These patents already were subject to commitments to license all comers, and were nearing the end of their patent terms. Nevertheless, the patent owner had sent out over 13,000 letters threatening small, downstream providers of WiFi, such as coffee shops and retirement homes, with patent infringement, based on a

\$40 product bought from Cisco. Demand was made from \$2000 to \$3000 for each location with WiFi. Cisco has been forced to defend these cases. The witness analogized NPE’s using patent litigation to find monetary rewards as “rats running through a maze [to find] food at the end.”¹⁴

- J.C. Penney’s (JCP) General Counsel stated that over the last four years, the retailer has had to defend over 24 patent infringement suits having nothing to do with products sold, but attacking use of drop down menus on the JCP Web site, activating a gift card, or enabling an online customer to put items in an electronic shopping cart.¹⁵
- Adobe’s VP of IP and Litigation stated that since 2009, Adobe had been named in 33 patent infringement suits compared to 19 in the first 26 year history of the company. NPE suits against downstream customers had resulted in over 100 requests to Adobe for indemnification. Adobe is defending one set of lawsuits by an NPE against retailers in six different district courts.¹⁶
- General Counsel for SAS, a large privately held software company, described a suit by an NPE that cost SAS \$1.5 million just to gather responsive emails. SAS eventually won summary judgment but the case is on appeal to the Federal Circuit.

Other Examples

Although only anecdotal and nonstatistical, the author’s own experience in 2012 and 2013 reflects a dramatic increase in the number of clients being threatened with patent infringement by non-practicing entities who qualify as “trolls” under a more refined definition, as outlined below. If this is a window into the state of patent litigation on the East Coast, or nationwide, when added to the evidence before the Subcommittee, it is a disturbing vista on NPE abuse.

In one typical case, what appears to be an NPE obtained an old AT&T patent that had never before been sued on and with barely one year left before expiration, on one day in October, 2012, filed virtually the same complaint in 16 separate actions, all in the District of Delaware, each assigned sequential index numbers by the clerk. The complaints asserted the patent against such companies as Panasonic, Canon, Lexmark, Samsung, and NEC. Plaintiff had incorporated in Delaware a few months earlier. This shows that the recent AIA amendment in 35 U.S.C. § 299(b), prohibiting joinder of defendants in a single action based solely on infringement of the same patent, did not have the intended

effect of limiting NPE activity. It actually multiplied the number of individual cases filed (and affecting the statistical reports on “number” of filed NPE cases). The AIA change simply means the patent owner plaintiff needs to print multiple similar complaints created on the word processor, changing each defendant’s name and address, and then pay a \$400 filing fee to get each one on file. Because plaintiff (and many defendants) are Delaware corporations, the cases can all be filed in one trip to one clerk’s office.

What Is a Patent Troll and When Is an NPE Not a Troll?

The term “patent troll” generally is credited to Peter Detkin in 2001, who had been an assistant general counsel of Intel. He is reported to have explained the etymology of “patent troll” by alluding to an old folk-tale called Billy Goats Gruff.¹⁷ Mr. Detkin is reported to have said that the term means “someone lying under a bridge they didn’t build, demanding payment from anybody who passed.”¹⁸ Wikipedia reports that the “patent troll” concept was earlier displayed in the humorous “The Patents Video” released in 1994, an excerpt of which is available on YouTube.¹⁹

As now developed by subsequent case law and the patent troll business model, instead of a troll guarding a bridge he did not build, the term might be aptly used to describe a troll claiming to stand guard over patents for subject matter it did not invent, and demanding a toll from anyone using that technology, which the troll has no intention of using.

Some reported decisions and a variety of published articles seem to assume that all NPEs are patent trolls. As discussed below, this is an over inclusive assumption and therefore, an improper definition. As Chief Judge Rader has aptly explained on several occasions, the term is not applicable to any NPE, which might include Thomas Edison or universities, but rather should refer to plaintiffs abusing the patent litigation system by asserting a patent far beyond the value of its contribution to the field of technology in which it is found.²⁰ As discussed above, the challenge is by what means this value can and the scope of its assertion be resolved early enough in a litigation to avoid the extreme costs that make the troll business model so viable. Many of the remedies currently in place or that have been proposed fail in this regard.

To further understand why not all NPEs are trolls, consider for example, the Subcommittee submitted remarks of Mr. Johnson at p. 5:

Some of our best and most productive inventors do not manufacture or market their own inventions.

Among these are America’s independent inventors, university and government based inventors, and many small businesses and start-ups. NPEs, especially universities, start-ups and other research organizations serve as important sources of technology that are, or become components of, innovations that are developed and brought to market by others, including many of the members of our Coalition. Johnson & Johnson’s companies, for example, pay hundreds of millions of dollars a year to NPEs, including their R&D partners, universities, independent inventors and small businesses, for licenses under valuable technologies that are or that we hope will be incorporated in our products.

For some NPE’s, the decision not to pursue manufacturing and marketing is a matter of choice. They may, for example, prefer to concentrate their energies on originating inventions rather than in developing them, leaving the commercialization to licensees who are better positioned to manufacture and market them. Or they may sell or license their patents to venture capitalists who will attend to raising the capital needed for commercialization.

NPE’s prefer to concentrate their energies on originating inventions rather than in developing them, leaving the commercialization to licensees who are better positioned to manufacture and market them.

For others, superseding circumstances may effectively prevent or limit the inventors from commercializing their inventions. For example, if the invention is an improvement on existing patented technology, the owner of the original patent rights on that technology may be the only licensee for the improvement, at least until the original patents expire. Or should an existing unlicensed competitor copy and begin marketing the inventor’s invention before the inventor is able to, the inventor’s ability to later market that invention may be substantially impaired.

Another witness’ prepared remarks made similar arguments:

Although these [non-practicing] entities are politically unpopular, they are not new. Thomas Edison was one of the original NPEs. And they serve an important role in the patent ecosystem, providing a

mechanism to reward innovators, which is the goal of the patent system.

Numerous operating companies today depend on NPEs to generate revenues from the companies' patent portfolios, revenues that then can be fed back into R&D and further innovation. These companies do so by selling patents directly to an NPE, which often pays a sum up-front payment and sometimes includes a share of future licensing revenues.

NPEs also can help investors in startups recover their investments. When an NPE acquires patents from an unsuccessful startup, the investor can reinvest those proceeds in new ventures. Moreover, getting investment money back in this fashion incentivizes further new investments.

Finally, by creating more demand for patent assets, NPEs increase the monetary value of those assets and makes them a more liquid asset....

Because NPEs do serve such a role, legislation targeting them based on their status, rather than on activities that are economically detrimental like the nuisance level suits, could have negative ramifications that we cannot fully anticipate.²¹

One illustrative district court opinion denied Texas Instruments' motion to transfer from Delaware, rejecting the argument that the plaintiff was an NPE and recently incorporated in Delaware "as an artifice of litigation" which choice of forum should therefore be accorded little weight. The court explained:

[M]any businesses and academic institutions enforce their patent rights through private companies (like Cradle IP); such business strategy is not nefarious. The court declines to treat such non-practicing entities as anything less than holders of constitutionally protected patent rights.... *Cradle IP, LLC v. Texas Instruments, Inc.*, 11 Civ. 1254 (D. Del.), Slip Op. D.I. 152 at 4 (Feb. 13, 2013).

In contrast, the court in *Highmark, Inc. v. Allcare Health Management Systems, Inc.*,²² concluded after entering summary judgment against the plaintiff patent owner that plaintiff was a "patent troll," and awarded Rule 11 sanctions and attorney fees under § 285. The district court explained:

"Patent troll" is pejorative term used to describe an entity that "enforces patent rights against accused infringers in an attempt to collect licensing fees, but does not manufacture products or supply services based upon the patents in question [2007 citation

omitted]. In this case [patent owner] Allcare's actions align with the sort of conduct that gives the term "patent troll" its negative connotation. Allcare used a survey with a stated purpose of identifying leaders in the medical-information-processing industry as a ruse to identify potential targets for licensing demands, accused Highmark of infring[ment]... having never performed an adequate investigation of such claims, and along the way engaged in questionable and, at times, deceitful conduct."

On appeal, the panel by a vote of 2-1 affirmed the § 285 award as related to one claim of infringement and reversed as to another and rejected the finding of litigation misconduct. Judge Mayer in dissent would have affirmed the awards in their entirety. Now the Supreme Court has granted review.²³

One of the leading "patent troll" cases to reach the Federal Circuit was *Eon-Net LP v. Flagstar Bancorp.*²⁴ In that case, the district court found noninfringement and based on a host of factors, held the case to be exceptional and awarded the defendant \$489,150 in attorney fees and costs under § 285 and awarded \$141,984 in sanctions under Rule 11 for plaintiff Eon-Net and its counsel's litigation conduct. The Federal Circuit affirmed.

First, the appellate court found ample evidence of "litigation misconduct" such as destruction of documents, submission of incomplete and misleading evidence on claim construction, and a "cavalier attitude" toward the patent litigation process as a whole.

More to the point of determining "patent troll"-like conduct, the court found the following factors under the heading "objectively baseless litigation in bad faith" as supporting the award and sanctions:

1. Plaintiff's attorney had filed over 100 lawsuits on behalf of Eon-Net or its related entities asserting infringement of the Patent Portfolio. Almost all of these cases resulted in early settlements or dismissals.
2. Eon-Net's case against Flagstar had "indicia of extortion" because it was part of Eon-Net's history of filing nearly identical patent infringement complaints against a plethora of diverse defendants, where Eon-Net followed each filing with a demand for a quick settlement at a price far lower than the cost to defend the litigation.
3. Eon-Net acted in bad faith by exploiting the high cost to defend complex litigation to extract a nuisance value settlement from Flagstar. Eon-Net and

its related entities, had filed over 100 lawsuits against a number of diverse defendants alleging infringement of one or more patents from the Patent Portfolio. Each complaint was followed by a demand for a quick settlement at a price far lower than the cost of litigation, a demand to which most defendants apparently have agreed. In this case, as with the other cases, Eon-Net offered to settle using a license fee schedule based on the defendant's annual sales.

4. Eon-Net's low settlement offers—less than ten percent of the \$600,000 that Flagstar expended to defend suit—effectively ensured that Eon-Net's baseless infringement allegations remained unexposed, allowing Eon-Net to continue to collect additional nuisance value settlements.
5. Eon-Net had the ability to impose disproportionate discovery costs on Flagstar. This is, at least in part, because accused infringers often possess enormous amounts of potentially relevant documents and emails concerning their business, compared to an NPE which has only the patent documents and no business utilizing the patented technology.
6. Eon-Net placed little at risk when filing suit. As a non-practicing entity, Eon-Net was generally immune to counterclaims for patent infringement, antitrust, or unfair competition because it did not engage in business activities that would potentially give rise to those claims and had no business risk in potential loss of patent protection of any of its product or processes.
7. Eon-Net filed an objectively baseless infringement action against Flagstar and brought that action in bad faith, specifically to extract a nuisance value settlement by exploiting the high cost imposed on Flagstar to defend against Eon-Net's baseless claims.

On the Rule 11 issue, applying the law of the local circuit of the district court (Ninth Cir.), the Federal Circuit affirmed on the ground that the plaintiff's attorney failed to perform a reasonable pre-suit investigation.

As the foregoing discussion should make clear, not every NPE or PAE should be branded a "patent troll" but virtually all patent trolls are NPEs.²⁵

Factors Conducive to Patent Troll Conduct

As Chief Judge Rader of the Court of Appeals for the Federal Circuit explained recently, "There is nothing

wrong with the patent system ... [which is to] promote the progress of science and the useful arts. It is there to create more investment and more incentive for innovation and invention. ... [T]he abuse we are talking about is not an abuse of the patent system. It is an abuse of the patent system by litigators."²⁶

Respectfully, the problem is beyond just the lawyers. Litigation abuse may not be merely by litigators acting as hired guns, or for their own interest working on a contingent fee basis as the patentee's counsel. Patent litigation abuse also is the result of businessmen who hire these counsel to execute a business model that is dependent on taking advantage of the inherent complexities and asymmetries in patent litigation. Foremost among these is that because patents have been examined and issued by the US Patent and Trademark Office (PTO), an issued patent is by statute "presumed valid,"²⁷ and the presumption may only be overcome by "clear and convincing evidence," a very high standard.²⁸ Unfortunately, the frequency with which issued patents are invalidated suggests that the presumption is misplaced, either because of the lack of quality of the examination process at the PTO, or because the PTO does not have access to prior art existing in the relevant industry, either unpatented and disclosed or actually in public use by others, but not readily available in a printed publication.

Other asymmetries promoting the patent troll business model include large discovery costs, experts' fees, and attorney fees imposed on defendants by any complex litigation (litigation expenses), as is typical of patent cases, compared with markedly reduced expenses to the plaintiff NPE who has no business to risk, counsel working on contingency, and minimal documents to produce, compared to the accused infringer who is manufacturing and selling real products.²⁹ These asymmetries set the stage for a purely economic choice by defendants—or more explicitly, a Hobson's choice or "blackmail"—where defendants must choose either to settle even questionable or provably specious claims or to expend six to seven figures in litigation expenses and countless hours of experts, engineers, and lawyers time to defend the case. Multiply this by the ease with which an entity can acquire what had been a fallow, aged, or unasserted patent and file multiple cookie-cutter complaints against numerous small defendants or remote, downstream users, and the favorable economics of this business model become even more apparent. Even making the decision to expend the funds to litigate, if a defendant can afford to do so, is rarely ameliorated with recovery of those expenses even with a successful outcome for the accused infringer on the merits.³⁰

As one of the Subcommittee witnesses explained, the "nature of patent cases is such that they may be

prone to more abuse than is seen in other types of commercial litigation ... [because] the subject matter is complex, extensive document discovery is available, a large number of potential witnesses may be deposed, and expert testimony is a practical necessity.”³¹ The problem then is how to deter, efficiently, only the specious claims without the remedy being so overbroad as to stifle enforcement of bona fide, valid patents, which is all within the goal of the patent system.

In the normal course of any litigation, the elimination of specious claims cannot be done without “the benefit of a trial or other consideration of the merits,” as for example on partial summary judgment.³² As discussed below, many of the “solutions” being considered, such as the Shield Act,³³ are “overinclusive,” such as putting special requirements or lower standard for fee shifting on non-practicing entities or plaintiffs who acquire a patent rather than invent it. Such proposals have two inherent deficiencies. First, they suffer the overbreadth of making a judgment solely on the type of plaintiff rather than on the strength of the invention, or misconduct of plaintiffs or other troll indicia recited above. This could chill the rights of plaintiffs, even NPEs, with legitimate patent claims. Second, solutions based on “lower standards” to shift fees to unsuccessful plaintiffs still require defendant to expend substantial funds to litigate until the merits can be reached, which only supports the patent troll business model.

The elimination of specious claims cannot be done without “the benefit of a trial or other consideration of the merits.”

Accordingly, there is a need to “invent” a method of addressing the patent litigation abuse problem without such overbreadth and without having to wait until the expensive conclusion on the merits of each case. Such a method is addressed in the last two sections below.

Ethical Considerations

As noted, litigation abuse can occur in any case, not just patent lawsuits. This occurs despite requirements such as the ABA Model Rules of Professional Responsibility (adopted in some form in most states) or Federal Rule of Civil Procedure 11. For example, ABA Model Rule 3.1 expressly states that “A lawyer shall not bring or defend a proceeding ... unless there is a basis in law and fact for doing so that is not frivolous, which includes a good faith argument” for an extension or change of existing law. The ABA Model Rules

Annotations (6th ed.) observes that frivolous claims “are often occasioned by intent to harass, embarrass, or otherwise injure or inconvenience a party, or by some other improper motive.” For example, to the same effect is New York Rules of Professional Conduct 3.1(a) and 3.1(b) (which adopts part of the ABA comment as an operative rule, such as prohibiting a purpose to “delay” or “harass”) and Virginia Rules of Professional Conduct Rule 3.1, to list just a few. These concepts already have been expressed in *Eon-Net*: “[A]n attorney, in addition to his obligation to his client, also has an obligation to the court and should not blindly follow the client’s interests if not supported by law and facts.”³⁴ Compare this obligation to the conduct described by Subcommittee witness Boswell of SAS in dealing with one NPE:

We demonstrated without a question that there’s no way that our product that they accused could violate their patent. His answer was, “I don’t care.” He wanted us to pay him money so we could prevent ourselves having to go through the expense of litigating. And he knew and I knew that even if we won on all counts, we weren’t going to get any money back.³⁵

Abusive patent litigation or threats run afoul of the above ethical rules when it is used to extract relatively “low cost” settlements by threatening disproportionate six-figure or million dollar discovery and claim construction on patents of questionable validity, or imposing litigation expense on nearly expired patents. The same abuse exists in suing numerous, small downstream users, and especially absent a diligent pre-filing investigation to establish a basis for infringement. But the ethics and fee shifting remedies are elusive, because defense counsel is not likely to bring a disciplinary complaint or obtain attorneys’ fees prior to the Court determining the merits. And this will not occur until after the very expenses sought to be avoided.

Federal Rule of Civil Procedure 11 echoes the ethical concepts by providing, at least in federal court, that by signing or filing a pleading, an attorney “certifies” that the paper (1) “is not being presented for any improper purpose, such as to harass, cause unnecessary delay, or needlessly increase the cost of litigation ... [and] (3) the factual contentions [such as infringement] have evidentiary support ...” (Emphasis added). Again, this is an uncertain remedy because proof of improper purpose or lack of support will require the litigation expense to reach some of the merits, although possibly less than a full trial or summary judgment. The Federal Circuit recently has put teeth into this remedy by reversing and remanding a district court’s denial of Rule 11 and

sanctions and attorney fees and costs under § 285.³⁶ But still, defendant had to complete discovery and a full claim construction hearing. All this was done even though the patent claim required a printer in the device, and one defendant's accused product had no printer at all. The concurring opinion would have ruled the case exceptional and remanded only to determine the amount of fees and costs.

Creating a Litmus Test to Identify Patent Trolling

When an NPE engages in patent troll conduct, it should be properly so labeled and dealt with specially. Based on the above, the following are suggested indicia that should be assessed early on by the district court to determine if it should treat the case as a patent troll action, requiring special procedures to disrupt the economic extortion business model. These indicia should include some or all of the following:

1. Plaintiff is an NPE that acquired the patent for inventions made by others, not the result of plaintiff's own research and development;³⁷
2. Plaintiff is suing on old or weak patents never previously sued on by the inventor or a prior owner;³⁸
3. Plaintiff is making a broad based business of issuing large numbers of demand letters or filing multiple, nearly identical patent infringement lawsuits;³⁹
4. Plaintiff's demands or suits have been made routinely (but not solely) on smaller defendants, or those downstream of the provider or manufacturer of the accused device;
5. Plaintiff made minimal or no prefiling investigation as to infringement by that defendant;
6. Plaintiff is an NPE and issues extensive discovery demands; and
7. Plaintiff is an NPE and demands or accepts minimal fees under license schedules or settlements that are a small fraction of the likely litigation expenses;⁴⁰

An additional "bonus" indicator is when the threatened patent(s) have been found not infringed (or invalid) in a case that reached the merits but plaintiff continues demands or suits against others or on a multiplicity of "child" patents.

Conversely, a prior final judgment of "not invalid" should be considered as countervailing, non-troll

indicia, but judged on a continuum. This should range from a non-appealed jury verdict that the patent was not invalid, which should be given less weight for the patent owner, to a finding of validity by a trial judge and/or jury verdict, which was affirmed on appeal by the Federal Circuit. In all such cases where the patent owner had prior success on the merits, due regard should be taken also for the extent of the defense actually mounted.

As in most factor-based analyses, no one factor is necessarily determinative. In cases where a larger number of these factors are found, the moniker "patent troll" is apt and reflects conduct that is abusive and needs a judicial remedy at an early stage. A recommendation for that remedy appears below.

Immediate Remedies as a Means to Control the Patent Trolls

More vigorous enforcement of the existing fee shifting rules would be useful but as noted above, a solution is needed to weed out the abusive cases earlier in the litigation process to avoid imposing the expense the patent troll relies on for settlement. Most of the above contemplated procedures also will not help the small, downstream user, or even the larger defendant given the Hobson's choice, when sued on day one and asked for a comparatively modest "blackmail" settlement on day two. The concept of determining if the patent is being asserted far beyond the value of its contribution to the art is on target, but a means is needed to shorten the time and dollars to do so. It needs to be available in all district courts, not just those adopting the patent pilot programs in a few districts with specially trained or qualified judges.⁴¹

A number of the witnesses at the Subcommittee suggested waiting to see how the AIA and other changes will affect patent troll litigation. But if the increase in filings in 2012 of 62 percent of new cases by patent trolls is accurate, waiting is not a viable option. As one Subcommittee member observed, when you see someone drowning, you need to jump in. If recent Congressional budget negotiations and "shut down" are any indication, expecting quick legislative action in this area is not likely before we are down the road in 2014 looking at patent troll filings higher than 62 percent.

The Federal Circuit is our patent appeals court, created to provide the expertise to address patent litigation problems with uniformity on a nationwide basis. Patent trolls are a nationwide problem. Therefore, the Federal Circuit is also in a unique position to act on this problem. Moreover, unlike the Congress, the Federal Court is deciding cases and issuing opinions every week. When the Circuit needed to address the inequitable conduct

(IEQ) “plague,” an *en banc* opinion in *Therasense*⁴² solved that “long felt need.” Patent trolling appears to have reached the same epidemic proportions. Of course the appeals court will need an appropriate case in which to set out guidelines, as was done for IEQ in *Therasense*, but the opportunity is likely to present much sooner than the Congress can act.

It is here suggested that any case in which the plaintiff is an NPE and also exhibits many of the *indicia* outlined above (and as confirmed in *Eon-Net*), should be considered presumptively suspect of patent troll abuse. In those cases, the district courts should be guided to conduct early and focused merits review of the “actual value of the invention in relation to the art,” and immediate limitations on the scope of discovery or a stay, to control the expense. This procedure could include an early Rule 11 motion and/or an early requirement for additional Rule 26(a)(1) initial disclosures by plaintiff of (1) prior licensing demands, settlements, and lawsuits by the same plaintiff and their outcome (which may be under a Protective Order for confidentiality) and (2) a claim chart to demonstrate the alleged infringement of the accused device based on plaintiff’s “diligent” pre-filing investigation. Such cases also may be appropriate for bifurcation for an early claim construction to achieve resolution of the *Markman* issues that may result in summary judgment of noninfringement. Cases brought by plaintiffs not exhibiting the above listed abusive patent litigation features can proceed without such special procedural hurdles. In this way, the problem is addressed immediately and consistently in and by the district court, where the expense is incurred or controlled.

Notes

1. See, e.g., this link with video of the President from the White House: <http://www.patentprogress.org/2013/02/14/obama-acknowledges-patent-troll-problem-w-transcript/>.
2. Available at http://judiciary.house.gov/hearings/113th/hear_03142013_2.html.
3. The WH Paper is available at http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf.
4. See <http://thehill.com/blogs/hillicon-valley/technology/306891-ftcs-ramirez-calls-for-comprehensive-study-of-patent-trolls>.
5. See Bessen and Meurer, “The Direct Costs from NPE Disputes,” Boston Univ. School of Law, *Law and Economics Research Paper No. 12-34*, June 28, 2012.
6. The letter urged expansion of the “Covered Business Method” provisions of the America Invents Act (AIA § 18) which promotes stays of litigation, pending PTO post-grant review of patent validity for “financial services” business method patents (AIA § 18(d)), deemed by the legislative history to be more questionable patents. See full text of the letter at <http://www.scribd.com/doc/157106550/Patent-troll-letter>.
7. The PRI program is found at <http://www.npr.org/blogs/alltechconsidered/2013/08/30/217272814/taking-the-battle-against-patent-trolls-to-the-public>.
8. The GAO Report is found at <http://www.gao.gov/assets/660/657103.pdf>.
9. *Id.* at 21.
10. *Id.* at 45.
11. WH Paper at p. 5, citing data reported by Assistant Professor Colleen V. Chien in *Patent Assertion Entities*, Santa Clara Univ., Dec. 10, 2012. In the period 2006–2010, filed cases remained approximately steady in the range of 2400–2500, and NPE filings averaged in the 19 percent to 29 percent range. In 2011 the number shot up to 3400, caused by NPE filings accounting for 45 percent. In 2012, the total filings jumped to over 4600, caused again by new NPE filings accounting for 61 percent of filed cases. Chien Article, at p.23.
12. US Constitution, Art. I, Sec. 8, cl. 8.
13. The term “Rambo litigator” was derived as a metaphor from the movie character “John Rambo” in the movie “First Blood” (1982) known for his “shoot ’em up” approach. The term was applied to litigators who engaged in “all manners of adversarial excess, including personal attacks on other lawyers” and “obstructionist conduct.” See comments at www.insidecounsel.com searching for “Rambo” and see Judge Nies’ 1993 panel video at <http://www.c-spanvideo.org/program/54599-1>. Patent trolls rely on the inherent cost of litigation as their cudgel, not necessarily “Rambo” tactics.
14. Chandler Submission, at 5.
15. Dhillon Submission at 3–4.
16. Rao Submission at 7–8.
17. See, e.g., Hjelle, “Identifying Indicia Of Extortion in Patent Troll Cases,” 3 *Cybaris Intellectual Property Law Review* 133, 136 (2012), citing Lerer, “Meet the Original Patent Troll,” *Law.Com* (July 20, 2006). Many other articles likewise credit the term to Mr. Detkin.
18. Hjelle, *supra* n.17 at 136. The actual Norwegian tale does not involve a troll demanding a toll, but tells the story of three goats of increasing size, trying to cross bridge, guarded underneath by a troll who threatened to eat them if they crossed the bridge over a stream, which the troll guarded. See <http://www.pitt.edu/~dash/type0122e.html>. In the end, the troll attacks the largest goat, which kills the troll in self-defense.
19. See <http://www.youtube.com/watch?v=LOGoZFzHkhs> (“Troll” at 0:45).
20. Rader, J., “The State of Patent Litigation,” E.D. Texas, Judicial Conf. (2011) at 17, and report of meeting at the Association of University Technology Managers, Feb. 27, 2013.
21. Gerst Submission at pp. 3–4.
22. *Highmark, Inc. v. Allcare Health Mgmt Sys., Inc.*, 706 F. Supp. 2d 713 at n. 5 (N. D. Tex. 2010).

23. See 687 F.3d 1300 (Fed. Cir. 2012), *petition for rehearing en banc denied with concurrences and dissents*, 701 F.3d 1351 (Fed. Cir. 2012); *petition for cert. granted*, Docket No. 12-1163 ___ U.S. ___ (Oct. 1, 2013).
24. *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1326 (Fed. Cir. 2011).
25. There are some “practicing entities” who persist in infringement suits with “weak” patents or claims that are clearly not infringed. This, too, is a variant of abusive litigation but is not addressed here as a “patent troll” case.
26. Remarks of Chief Judge Rader at the February 27, 2013 Association of University Technology Managers, San Antonio, Texas, *supra*.
27. 35 U.S.C. § 282(a).
28. Historically, patent litigation abuse has occurred before, in the mid to late 19th century in the railroad industry (and later in agriculture), when “fast-moving, complex technical change, ma[de] it difficult to determine whether claims were novel and non-obvious.” Such litigation abuse was referred to as “patent sharks.” WH Paper at 13.
29. See *Eon-Net*, 653 F.3d 1314.
30. Litigation expenses can become a tool of litigation blackmail in part because of our American Rule that absent a contract, statute, or court rule, the losing litigant is not liable to reimburse the winner for the winner’s expenses. The American Rule is well founded on our policy to keep the courts open even to losing claims, if not objectively baseless and not brought in bad faith. Fed. R. Civ. Proc. Rule 11 and § 285 are exceptions to the American Rule. Therefore, proving a case to be “exceptional” for a § 285 award is far from a solution. Although *Eon-Net* stands out with a fee award for a successful defendant, a patent case statistical survey finds that in all of 2012, out of 2926 cases reviewed (including appeals on the same case), infringers obtained a § 285 award in only 11 cases and were denied in 14 cases. University of Houston Patstats, found at www.patstats.org. The NY Times Op-Ed article (6/14/13) similarly reported for the prior year 2011, that “fees were shifted under Section 285 in only 30 out of nearly 3000 patent cases filed in 2011.”
31. Submission of Johnson, on behalf of the Coalition for the 21st Century Patent Reform, at 6.
32. Submission of Johnson at 6.
33. Saving High Tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong., 1st Sess. (introduced Feb. 27, 2013), cited at Submission of Johnson at 16.
34. *Eon-Net* at 1328.
35. Boswell testimony, Subcommittee Web cast, commencing at 2:07:20.
36. *Raylon, LLC v. Camplus Data Innovations, Inc.*, 700 F.3d 1361 (Fed. Cir. 2012).
37. *E.g.*, WH Paper p.4 ¶1.
38. *E.g.*, WH Paper p.4 ¶4.
39. *E.g.*, WH Paper p.4 ¶¶ 4, 6 and p. 6.
40. *E.g.*, WH Paper p.4 ¶6.
41. Some other procedures in place or being contemplated are the Federal Circuit’s model order for E-discovery (available now), a proposed model order to particularize issues within a few months after filing, earlier valuation of lawsuits, and more vigorous application of fees shifting, preferably by getting resolutions at an earlier stage.
42. *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011).