

## SHOOTING BLANKS: THE INEFFECTIVENESS OF THE EXECUTIVE BRANCH'S ENTRANCE INTO THE GREAT PATENT TROLL HUNT

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### I. INTRODUCTION

Many regard the American patent system as a great institution that provides incredible value to the United States economy.<sup>1</sup> This notion is not universal, however, and some believe that the patent system does not provide value or should be abolished altogether.<sup>2</sup> Despite those who discount its value, the American patent system has many benefits. Patent-intensive industries provide over 7,000,000 jobs<sup>3</sup> and, along with other intellectual property fields, account for up to 34.8 percent of the country's gross domestic product (GDP).<sup>4</sup> Many patent-intensive industries are made up of large corporations with extensive patent portfolios, which are used to generate profit from licensing fees as well as to protect against infringers.<sup>5</sup> Although the patent system is fundamentally important to many of these large corporations that may have hundreds or thousands of patents issued each year,<sup>6</sup> the patent system can be just as valuable to individual inventors and small

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<sup>1</sup> See Congressman Lamar Smith, *Protecting Americas Ideas*, HOUSE.GOV (Apr. 20, 2007), <http://lamarsmith.house.gov/media-center/columns/protecting-americas-ideas> ("Strengthening intellectual property leads to economic growth, job creation and the type of creativity that has made America the envy of the world."). See also ECON. AND STATISTICS ADMIN. & U. S. PATENT AND TRADEMARK OFFICE, *INTELLECTUAL PROPERTY AND THE U.S. ECONOMY: INDUSTRIES IN FOCUS* (Mar. 2012), available at [http://www.uspto.gov/news/publications/IP\\_Report\\_March\\_2012.pdf](http://www.uspto.gov/news/publications/IP_Report_March_2012.pdf) (explaining the estimated financial impacts of intellectual property on the U.S. economy).

<sup>2</sup> See, e.g., Mark D. Janis, *Patent Abolitionism*, 17 BERKELEY TECH. L.J. 899 (2002).

<sup>3</sup> ECON. AND STATISTICS ADMIN. & U. S. PATENT AND TRADEMARK OFFICE, *supra* note 1.

<sup>4</sup> ECON. AND STATISTICS ADMIN. & U.S. PATENT AND TRADEMARK OFFICE, *supra* note 1 at vii.

<sup>5</sup> See Patrick Thomas & Anthony Breitzman, *Patent Power 2012*, IEEE SPECTRUM (Dec. 3, 2012, 17:11 GMT), available at <http://spectrum.ieee.org/ns/pdfs/2012/PatentScorecard2a.pdf> (depicting the patent power scorecard).

<sup>6</sup> *Id.*

businesses trying to protect the rights associated with their innovation and ingenuity.

For some small businesses and individual inventors, the patent system embodies the “American Dream” because of the way in which it rewards the individual who comes up with an innovative idea and succeeds in reducing it to practice through his or her own intellectual efforts, hard work, and determination.<sup>7</sup> The patent system operates in a quid pro quo nature, granting an inventor the right to exclude “others from making, using, offering for sale, or selling the invention”<sup>8</sup> in exchange for a fully-enabling disclosure of how the invention can be made or used.<sup>9</sup>

Over the course of the last several years, much of the intellectual property community has realized that the patent system is not perfect. Some have suggested that the patent system must evolve in order to keep up with the ever-changing nature of technology and of the global market.<sup>10</sup> There have been several recent attempts to institutionalize this evolution of the patent system. For instance, regulatory aspects of the patent system have been consistently strengthened since 2000, causing the patent system as a whole to move away from several of the traditional principles upon which it has previously relied, and instead, to be subject to stricter governmental controls.<sup>11</sup> Although these controls may intend to create a more efficient environment, they may actually restrict the free market and hinder innovation.<sup>12</sup>

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<sup>7</sup> See Campbell Chiang, *A Putative Inventor's Remedies to Correct Inventorship on A Patent*, 2 DUKE L. & TECH. REV. 20 (2003).

<sup>8</sup> 35 U.S.C. § 154(a)(1) (2006).

<sup>9</sup> See JOHN SCHLICHER, *PATENT LAW: LEGAL AND ECONOMIC PRINCIPLES* § 13:5 (2d ed. 2003) (discussing the quid pro quo nature of the patent system).

<sup>10</sup> See Manny Schecter, *The Emerging Global Market for Intellectual Property*, FORBES (Apr. 18, 2012, 12:47 AM), <http://www.forbes.com/sites/ciocentral/2012/04/18/the-emerging-global-market-for-intellectual-property> (“IP systems must continue to evolve to help foster a robust market.”). See also Colleen V. Chien, *Turn the Tables on Patent Trolls*, FORBES (Aug. 9, 2011, 11:37 PM), <http://www.forbes.com/sites/ciocentral/2011/08/09/turn-the-tables-on-patent-trolls>. (“Of course, from a societal perspective, patent law needs to evolve to meet the changing needs of modern society. That means finding a balance between adequately protecting innovation while reducing the payday for those pursuing litigation over patents held on small advances in complex technologies.”).

<sup>11</sup> See Mark A. Lemley, *The Regulatory Turn in IP*, 36 HARV. J.L. & PUB. POL'Y 109, 110 (2013) (discussing the change of the patent system from an institution guided by common law principles to one guided by regulatory principles).

<sup>12</sup> *Id.*

Of the numerous developing issues within the intellectual property community, one of the more recent and pervasive concerns has been both the impact of, and the question of how to address, the “non-practicing entity” (NPE) and the “patent assertion entity” (PAE) within the context of the overall patent system. Although these groups have been recognized since at least the early 1990s,<sup>13</sup> they have received much greater attention in recent years. The actual terms “non-practicing entity” and “patent assertion entity” are neutral descriptions,<sup>14</sup> but NPEs and PAEs are also commonly referred to by the pejorative term “patent trolls.”<sup>15</sup> Rather than residing in solitude throughout remote mountain communities,<sup>16</sup> these types of trolls often seek refuge under the shelter of a “shell” company and are armed with an arsenal of issued, but non-practiced, patents. Patent trolls—and the closely related group of “patent privateers”<sup>17</sup>—are often criticized for misusing and manipulating the patent system in a way that limits, impedes, and generally hurts both trade and innovation by leveraging patents without advancing science or technology.<sup>18</sup> These criticisms are based on the fact that “patent trolls” often do not produce or sell actual products or inventions and are therefore “non-practicing.” Instead of simply protecting their legal rights, these entities are often viewed as extortionists who choose to assert a patent solely in order to sue others, rather than practicing the invention on the open market.<sup>19</sup>

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<sup>13</sup> See Brenda Sandburg, *Battling the Patent Trolls*, THE RECORDER, July 30, 2001 (discussing how the first known public use of the term “patent troll” was in 1993 by Peter Detkin, former general counsel at Intel, who created the term as a result of being sued for libel after describing a group as “patent extortionists”).

<sup>14</sup> See Brief for Time Warner Inc. et al. as Amici Curiae supporting Petitioners, *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130), 2006 WL 235010, at \*5.

<sup>15</sup> *Lamina Packing Innovations, LLC v. Monsieur Touton Selection, Ltd.*, 12 CIV. 5039 CM, 2013 WL 1421781, at \*1 (S.D.N.Y. Apr. 4, 2013).

<sup>16</sup> The origin of trolls can be traced back to Scandinavian folklore, in which they were depicted as unfriendly, hermit-like, powerful, and dumb beings that often ran into conflict with humans, although they preferred to live an isolationist lifestyle, seeking refuge in mountains and caves.

<sup>17</sup> Many consider “patent Privateers” to be a variant of a typical patent assertion entity. These entities are authorized by a patent owner or are sold patent rights with the intention of attacking another company, usually a competitor of the original patent holder. See Thomas L. Ewing, *Indirect Exploitation of Intellectual Property Rights by Corporations and Investors: IP Privateering & Modern Letters of Marque & Reprisal*, 4 HASTINGS SCI. & TECH. L.J. 1, 5 (2012).

<sup>18</sup> Jeremiah Chan & Matthew Fawcett, *Footsteps of the Patent Troll*, 10 INTELL. PROP. L. BULL. 1, 7 (2005).

<sup>19</sup> See *eBay v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) (stating that some “firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees”).

The matter is complicated, however, by the fact that a patent holder who does not practice his invention is still fully within his rights to file a lawsuit if his patent has been infringed.<sup>20</sup>

Often, the primary goal of NPEs and PAEs is to produce a revenue stream by forcing companies that sell products which may be similar to the claimed invention to surrender licensing fees.<sup>21</sup> With the costs of defending allegations of improper patent use reaching up to \$5 million,<sup>22</sup> most defendants, particularly small and mid-sized businesses or individuals, would rather reach a settlement or licensing agreement than litigate.<sup>23</sup> Many consider this strategy of suing an alleged infringer—particularly a small entity that lacks the financial resources necessary to put on a defense—and forcing it into a settlement agreement to be an abusive practice.<sup>24</sup> Even when a defendant does not quickly seek a settlement, and a patent troll's lawsuit goes to court, the patent troll receives a significant procedural advantage because the United States Code tends to favor the patentee, as demonstrated by the fact that patent holders receive a presumption of validity for their patents—an assumption that the defendant must then refute.<sup>25</sup> This business model results in a flourishing patent troll industry.<sup>26</sup>

Identifying a “patent troll” is not always an easy task since there is no official legal definition for the term, and parties disagree as to the term's true definition.<sup>27</sup> Courts have tried to define the term, and although definitions may vary, many accept that the term “patent troll” usually refers to an entity “who enforces patent rights against accused infringers in an attempt to collect licensing fees, but does not

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<sup>20</sup> See 35 U.S.C. § 271(d) (2006).

<sup>21</sup> See *eBay v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) (stating that some “firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees”).

<sup>22</sup> Jim Kerstetter, *How Much Is That Patent Lawsuit Going to Cost You?*, CNET NEWS (Apr. 5, 2012, 10:00 PM), [http://news.cnet.com/8301-32973\\_3-57409792-296/how-much-is-that-patent-lawsuit-going-to-cost-you/](http://news.cnet.com/8301-32973_3-57409792-296/how-much-is-that-patent-lawsuit-going-to-cost-you/).

<sup>23</sup> *Id.*

<sup>24</sup> See, e.g., John Malcolm & Andrew Kloster, *A Balanced Approach to Patent Reform: Addressing the Patent-Troll Problem Without Stifling Innovation*, THE HERITAGE FOUND. (Jan. 9, 2014), <http://www.heritage.org/research/reports/2014/01/a-balanced-approach-to-patent-reform-addressing-the-patent-troll-problem-without-stifling-innovation> (comparing actions filed by patent trolls to other “nuisance” lawsuits in which the primary goal of initiating litigation is to extract a settlement).

<sup>25</sup> See 35 U.S.C. § 282 (2006).

<sup>26</sup> See Charles E. Schumer, *A Strategy for Combating Patent Trolls*, WALL ST. J. (June 12, 2013, 6:59 PM), <http://online.wsj.com/news/articles/SB10001424127887323844804578531021238656366>.

<sup>27</sup> See Mark A. Lemley, *Missing the Forest for Trolls*, 113 COLUM. L. REV. 2117, 2125 n.41 (2013).

manufacture products or supply services based on the patents in question.”<sup>28</sup> The term has also developed a pejorative connotation through its use within the intellectual property community, although it has sometimes also been adopted—or even embraced—by those whom the term is meant to describe.<sup>29</sup>

The intellectual property community has an ongoing debate as to whether “patent trolls” pose a legitimate threat to the patent system and to the economy.<sup>30</sup> While there are some who believe that patent trolls are nonthreatening or actually benefit the economy,<sup>31</sup> other analysts estimate that patent troll activity may cost the American economy approximately \$29 billion<sup>32</sup>—or, in some other estimates, up to \$80 billion<sup>33</sup>—in lost growth each year. Based on this information and the way in which patent trolls often intend to extract settlements and licensing fees from sometimes innocent parties,<sup>34</sup> this Comment operates under the presumption that patent trolls do pose a legitimate threat to innovation and to the economy, and that their abusive litigation tactics should be eliminated in order to protect and benefit the United States patent system.

Courts have also acknowledged the difficulty involved in defining what exactly makes an entity a “patent troll”—a complex determination that is compounded by the fact that there is significant disagreement as to whether or not patent trolls pose a real problem.<sup>35</sup> Despite this uncertainty, however, some of these same courts have

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<sup>28</sup> *Internet Ad Sys., LLC v. Opodo, Ltd.*, 481 F. Supp. 2d 596, 601 (N.D. Tex. 2007).

<sup>29</sup> See J.P. Mello, Legal Update, *Technology Licensing and Patent Trolls*, 12 B.U.J. Sci. & TECH. L. 388, 388-89 (2006).

<sup>30</sup> Compare *id.* at 388, with James F. McDonough III, Comment, *The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy*, 56 EMORY L.J. 189 (2006) (arguing that patent trolls benefit society by acting as intermediaries in the patent market, resulting in liquidity and increased efficiency in the patent market).

<sup>31</sup> See McDonough III, *supra* note 30, at 338 (arguing that patent trolls benefit society by acting as intermediaries in the patent market, resulting in liquidity and increased efficiency).

<sup>32</sup> James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 CORNELL L. REV. 387 (2014).

<sup>33</sup> Katherine Lugar, *Patent Troll Lawsuits Cost U.S. Economy \$80 Billion Annually*, HOTEL NEWS RES. (Oct. 29, 2013), [www.hotelnewsresource.com/article74655.html](http://www.hotelnewsresource.com/article74655.html).

<sup>34</sup> See Malcolm & Kloster, *supra* note 24.

<sup>35</sup> *Overstock.com, Inc. v. Furnace Brook, LLC*, 420 F. Supp. 2d 1217, 1223 (D. Utah 2005). (“Unlike Congress, this court is not in a position to know how many patent trolls exist and how often they send letters to potential infringers (except those in their own state) in the hope that the letters’ recipients will opt to license their patent instead of paying potentially staggering litigation defense costs . . . . These matters, however, must be left to either Congress to resolve as a matter of statutory change or to the Federal Circuit as a matter of case law change.”).

acknowledged that they are not properly situated to make this determination, and that the matter should be left to Congress, which is better positioned to address issues related to patent trolls and the patent system as a whole.<sup>36</sup> One exception to this statement is the Court of Appeals for the Federal Circuit (CAFC),<sup>37</sup> which has statutory jurisdiction allowing it to hear appeals arising from decisions made by the United States Patent and Trademark Office (USPTO).<sup>38</sup> The CAFC has taken several steps to reduce abusive patent litigation,<sup>39</sup> but it has not offered a complete solution. Despite its authority, the CAFC itself has stated that it must defer to Congress on issues of “judgment in effectuating and maintaining a patent system.”<sup>40</sup> The regulation and policing of patent trolls likely falls within the scope of this statement. The Supreme Court of the United States has also echoed this sentiment.<sup>41</sup> The judiciary’s suggestion to leave the power of policing and governing the patent system to Congress is not novel, however, as the United States Constitution explicitly gives this power to Congress.<sup>42</sup>

Despite Congress’ enumerated power over the patent system<sup>43</sup> and the deference given to Congress by the courts, police action against “patent trolls” now has a new enforcer—the Executive Branch. President Barack Obama entered the great patent troll hunt in July 2013 when the White House issued a press release and fact sheet regarding the Executive Branch’s stance on the “patent troll” problem.<sup>44</sup> In the statement, the White House declared that it believes that patent trolls “don’t actually produce anything themselves,”<sup>45</sup> and that the main strategy employed by patent trolls is “to essentially leverage and hijack somebody else’s idea and see if they can extort some money out of them.”<sup>46</sup> This understanding is consistent with the definitions of patent troll discussed *supra*. In addition to defining

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<sup>36</sup> *Id.*

<sup>37</sup> *Id.*

<sup>38</sup> 28 U.S.C. § 1295(a) (2006).

<sup>39</sup> See, e.g., *Kilopass Tech., Inc. v. Sidense Corp.*, C 10-02066 SI, 2012 WL 1534065, at \*1 (N.D. Cal. May 1, 2012) (holding that a request for fee shifting does not require a “smoking gun,” but instead, requires only a misguided belief based on zealotry).

<sup>40</sup> *Brooks v. Dunlop Mfg. Inc.*, 702 F.3d 624, 632–33 (Fed. Cir. 2012).

<sup>41</sup> See *Eldred v. Ashcroft*, 537 U.S. 186, 204–05 (2003).

<sup>42</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>43</sup> *Id.*

<sup>44</sup> Press Release, The White House, Fact Sheet: White House Task Force on High-Tech Patent Issues (June 4, 2013) available at <http://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues> [hereinafter *White House High-Tech Patent Issue Fact Sheet*].

<sup>45</sup> *Id.* at 2.

<sup>46</sup> *Id.*

patent trolls, the White House also issued a slate of seven legislative suggestions and five executive actions that it believes should be implemented in order to curb the patent troll problem.<sup>47</sup> Although the Executive Branch's understanding of what constitutes a patent troll is consistent with generally accepted definitions, the White House's plan to solve the patent troll problem, as will be discussed *infra*, is not focused on the generally accepted core issue of abusive patent litigation.

Previous debate surrounds the issue of whether the patent system should be dictated by executive action and administrative law principles or, conversely, be subject to judicial review.<sup>48</sup> Although the President is attempting to eliminate patent trolls and has not exceeded his Constitutional powers by merely stating his policy objectives,<sup>49</sup> his entrance into the realm of patent trolls is unlikely to bring about significant change or to benefit the United States patent system. Instead, many of the proposals, particularly those that have yet to be thoroughly considered by Congress, are more likely to hurt the patent system by reducing its efficiency and making it more difficult for small businesses, individual inventors, and other legitimate small entities to seek, obtain, and exercise the rights associated with patent protection. Additionally, many of the suggestions are likely to further compound the pre-existing problems facing the American patent system, such as the incredible application backlog within the USPTO<sup>50</sup>—a problem that has only been exacerbated by sequestration<sup>51</sup>—as well as a record number of patent cases being brought through the courts.<sup>52</sup>

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<sup>47</sup> *Id.*

<sup>48</sup> See generally Orin S. Kerr, *Rethinking Patent Law in the Administrative State*, 42 WM. & MARY L. REV. 127 (2000).

<sup>49</sup> Previous Presidents have made statements regarding patent policy, but only rarely. See, e.g., John F. Kennedy, Presidential Memorandum and Statement on Government Patent Policy, 28 Fed. Reg. 10,943, 10,943-44 (Oct. 10, 1963) (discussing issues related to government acquisition of patent rights for inventions made as a result of a government contract).

<sup>50</sup> As of December 2013, there were 595,361 unexamined patents awaiting examination in the USPTO. The USPTO maintains a dynamic webpage displaying various performance measures for patent examination. See *Data Visualization Center*, USPTO.GOV (last accessed Nov. 6, 2013), available at <http://www.uspto.gov/dashboards/patents/main.dashxml>.

<sup>51</sup> Sequestration refers to the automatic budget cuts made in accordance with the Budget Control Act of 2011, S. 364, 112<sup>th</sup> Cong. (2012). Sequestration forced the patent system to experience a 5% budget reduction. See OFFICE OF MGMT. AND BUDGET, EXEC. OFFICE OF THE PRESIDENT, OMB REPORT TO THE CONGRESS ON THE JOINT COMMITTEE SEQUESTRATION FOR FISCAL YEAR 2013 (Mar. 1, 2013), available at [http://www.whitehouse.gov/sites/default/files/omb/assets/legislative\\_reports/fy13ombjcase\\_sequestrationreport.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy13ombjcase_sequestrationreport.pdf).

<sup>52</sup> See *2013 Patent Litigation Study*, PRICEWATERHOUSE COOPERS LLP 5 (2013),

This Comment argues that the Executive Branch's entrance into the patent troll hunt will be ineffective at stopping patent trolls—perhaps even detrimental to the patent system—because it does not address abusive litigation tactics. Furthermore, regulation of the patent system should be reserved for Congress. Part II of this Comment provides a brief background of recent attempts to limit patent trolls, and discusses the Executive Branch's proposals first offered in July 2013. Part III evaluates the merits of each of the Executive Branch's proposals and the likely impact each will have on both the patent system and the ending of the abusive patent litigation techniques often employed by patent trolls. Part IV of this Comment provides alternative suggestions to help end abusive patent litigation without relying on presidential intervention and suggests that Congress thoroughly consider these options. Part V of this Comment concludes that the Executive Branch's proposals will, at best, provide only a marginal solution to the patent troll problem, and that the patent system will be better served by congressional intervention and consideration of ideas that have yet to be thoroughly explored.

## II. BACKGROUND AND OVERVIEW OF EXECUTIVE ACTIONS AND PROPOSED LEGISLATION

### A. *Previous Attempts to Stop Patent Trolls*

Congress has acknowledged that patent trolls pose a problem to the intellectual property industry and has taken several affirmative steps aimed at curbing the patent troll problem. Congress initially identified patent trolls as problematic and first attempted to stop patent trolls when the House of Representatives proposed the Patent Reform Act (PRA) of 2005.<sup>53</sup> This piece of legislation specifically targeted patent trolls by making it more difficult to obtain injunctive relief in patent litigation matters.<sup>54</sup> Although not implemented in 2005, this concept persevered and was included as part of the unenacted Patent Reform Acts of 2007<sup>55</sup> and 2009,<sup>56</sup> until it eventually appeared as law in the Leahy-Smith America Invents Act<sup>57</sup> (AIA), which

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available at [http://www.pwc.com/en\\_US/us/forensic-services/publications/assets/2013-patent-litigation-study.pdf](http://www.pwc.com/en_US/us/forensic-services/publications/assets/2013-patent-litigation-study.pdf).

<sup>53</sup> H.R. 2798, 109th Cong. (2005).

<sup>54</sup> Chan & Fawcett, *supra* note 18, at 9 (“It appears directed (in part) to tipping the scales against issuing an injunction where the plaintiff is not a competitive entity with a business, as opposed to [a] purely financial, interest in its lawsuit.”).

<sup>55</sup> H.R. 1908, 110th Cong. (2007).

<sup>56</sup> H.R. 1260, 111th Cong. (2009).

<sup>57</sup> H.R. 1249, 112th Cong. (2011) (enacted).



became fully effective on March 16, 2013.<sup>58</sup>

Although the AIA is most commonly noted for forcing the American patent system to transition from a first-to-invent system to a first-inventor-to-file system,<sup>59</sup> the law may have also made it easier for patent trolls to file mass applications, shifting the burden to initiate patent litigation onto legitimate inventive entities.<sup>60</sup> Despite this, many of the provisions of the AIA were subject to criticism, and commentators determined that it effectively limited the rights of small inventors by forcing them to race to the patent office in order to secure patent protection for their inventions.<sup>61</sup> The fact that many large corporations led the way in lobbying for the AIA to become law supports this criticism.<sup>62</sup> These corporations include Fortune 500 names such as Apple, Cisco, Google, HP, Microsoft, and Intel, all of which have impressive patent portfolios.<sup>63</sup>

In order to counteract some of the negative effects caused by stepping away from a first-to-invent system, the AIA also provides smaller inventors with minor relief through the creation of a new “micro-entity” status.<sup>64</sup> By allowing certain individuals who certify their status as a small entity<sup>65</sup> to pay fees that are reduced by as much as 75 percent,<sup>66</sup> Congress reduced the financial burden many small inventors, who traditionally lack a strong financial backing when applying for a patent, faced. Because certification of “micro-entity” status also requires that a patent seeker file only a limited number of patents,<sup>67</sup> Congress also ensured that patent trolls would not be able to easily abuse the benefits of this status by filing a large volume of applications to create a portfolio of non-practiced inventions.

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<sup>58</sup> *Id.*

<sup>59</sup> See 35 U.S.C. § 100(i) (2006).

<sup>60</sup> Paul R. Gupta & Alex Feerst, *The US Patent System After the Leahy-Smith America Invents Act*, EUR. INTEL. PROP. REV. 1, 2012, at 60, 61 (2012).

<sup>61</sup> See, e.g., Jennifer L. Case, *How the America Invents Act Hurts American Inventors and Weakens Incentives to Innovate*, 82 UMKC L. REV. 29 (2013).

<sup>62</sup> See Xuan-Thao Nguyen, *Dynamic Federalism and Patent Law Reform*, 85 IND. L.J. 449, 451 (2010).

<sup>63</sup> Case, *supra* note 61, at 46.

<sup>64</sup> 35 U.S.C. § 123 (2006).

<sup>65</sup> The requirements necessary for an inventive entity to be classified as a small entity permitting the payment of small entity fees are outlined in 37 C.F.R. § 1.27(a) (2013).

<sup>66</sup> Certified small entities are eligible for a fifty percent fee reduction while certified micro entities are eligible for a seventy-five percent fee reduction. 35 U.S.C. § 123 (2012).

<sup>67</sup> *Id.* § 123(a)(2).

*B. Presidential Intervention*

Shortly after the AIA went into full effect on March 16, 2013, the Executive Branch issued a press release describing its plan to solve the patent troll problem through five Executive Actions and seven legislative suggestions.<sup>68</sup> Despite two broad categories of suggestions, there is significant overlap between many of the proposed initiatives. This section briefly explains the Executive Actions and the Executive Branch's proposed legislation—along with each item's intended effect on the patent system—in order to provide the background necessary for meaningful evaluation of how these proposals are likely to affect both patent trolls and innocent bystanders. Further discussion of the impacts of each proposal appears in Part III of this Comment, *infra*.

*1. The President's Executive Actions*

Through its first proposed Executive Action focused on patent trolls, the White House explained how it plans to implement a “Real Party of Interest”<sup>69</sup> requirement for patent applicants and patent holders. This initiative would require patent applicants and owners to regularly update ownership and assignment information when practicing before the USPTO.<sup>70</sup> Under the proposal, this information would be required whenever a new patent application is filed, a patent is issued, a patent is assigned, or a patent maintenance fee is paid.

The Executive Branch's second action is aimed at “tightening functional claiming.”<sup>71</sup> This proposal intends to make it more difficult for an applicant who claims an abstract or overly broad invention to be issued a patent. This provision also gives direction to the USPTO to implement new training that will help patent examiners further scrutinize overly broad claims.<sup>72</sup> This adds to the restrictions imposed by the AIA, which places limitations on certain method claims such as tax strategies.<sup>73</sup>

The third Executive Action hopes to “empower downstream users.”<sup>74</sup> In addition to targeting product makers and sellers, patent trolls sometimes also target the end-users of allegedly infringing

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<sup>68</sup> White House High-Tech Patent Issue Fact Sheet, *supra* note 44.

<sup>69</sup> White House High-Tech Patent Issue Fact Sheet, *supra* note 44.

<sup>70</sup> White House High-Tech Patent Issue Fact Sheet, *supra* note 44.

<sup>71</sup> White House High-Tech Patent Issue Fact Sheet, *supra* note 44.

<sup>72</sup> White House High-Tech Patent Issue Fact Sheet, *supra* note 44.

<sup>73</sup> See H.R. 1249, 112<sup>th</sup> Cong. § 14 (2011); see also Nichelle Closson, Comment, *Tax Strategy Patents after the American Invents Act: The Need for Judicial Action*, 38 IOWA J. CORP. L. 159 (2012).

<sup>74</sup> White House High-Tech Patent Issue Fact Sheet, *supra* note 44.

inventions. For example, some trolls have chosen to target businesses that use common technologies such as point-of-sale software<sup>75</sup> and free public Wi-Fi.<sup>76</sup> Another patent troll has even claimed that any person or business who sends JPEG images via email has infringed one of his patents.<sup>77</sup> In many of these cases, patent trolls usually target small mom-and-pop retailers, hotels, or coffee shops that are unlikely to be fully aware of their legal rights.<sup>78</sup> This Executive Action aims to stymie these infringement claims by providing educational materials to the public, which explain the basic steps someone should take when an infringement action is brought against him.

The White House's fourth Executive Action aimed at stopping patent trolls is to "expand dedicated outreach and study."<sup>79</sup> This scholarly provision intends to encourage intellectual growth within the patent system. Specifically, it aims to foster ongoing correspondence and roundtable discussions among the American patent system's stakeholders, including federal agencies involved in the enforcement of patent rights such as the USPTO, the Department of Justice, and the Federal Trade Commission (FTC). The White House intends to implement this Executive Action by hosting "six months of high-profile events across the country to develop new ideas and consensus around updates to patent policies and laws."<sup>80</sup> Furthermore, the White House stated its goal to expand the USPTO's Edison Scholars Program by engaging more academic experts to conduct research and share data that may have an impact on issues related to abusive litigation.<sup>81</sup> Unfortunately, as will be discussed in greater detail below, these educational efforts will likely fall short of actually addressing the problems that stem from patent trolls' abusive litigation tactics.

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<sup>75</sup> *White House High-Tech Patent Issue Fact Sheet*, *supra* note 44.

<sup>76</sup> Mike Masnick, *Patent Troll Says Anyone Using WiFi Infringes; Won't Sue Individuals 'At This Stage'*, TECHDIRT.COM (Oct. 3, 2011, 11:28 AM), <http://www.techdirt.com/blog/wireless/articles/20111001/00365416161/patent-troll-says-anyone-using-wifi-infringes-wont-sue-individuals-this-stage.shtml>.

<sup>77</sup> Laura Sydell, *Taking the Battle against Patent Trolls to the Public*, NAT'L PUB. RADIO (Aug. 30, 2013, 5:21 PM), <http://www.npr.org/blogs/alltechconsidered/2013/08/30/217272814/taking-the-battle-against-patent-trolls-to-the-public/>.

<sup>78</sup> See Gregory Thomas, *Innovatio's Infringement Suit Rampage Expands to Corporate Hotels*, THE PATENT EXAM'R (Sept. 30, 2011), <http://www.patentexaminer.org/2011/09/innovatios-infringement-suit-rampage-expands-to-corporate-hotels/>.

<sup>79</sup> *White House High-Tech Patent Issue Fact Sheet*, *supra* note 44.

<sup>80</sup> *White House High-Tech Patent Issue Fact Sheet*, *supra* note 44.

<sup>81</sup> *White House High-Tech Patent Issue Fact Sheet*, *supra* note 44.

The fifth and final Executive Action proposed by the Executive Branch is to strengthen the enforcement process of exclusion orders.<sup>82</sup> This action takes aim at international patent infringers. Currently, when the International Trade Commission (ITC) determines that an imported or exported product is infringing another party's patent, it consults with United States Customs and Border Protection—an agency within the United States Department of Homeland Security—to enforce an exclusion order.<sup>83</sup> Sometimes, however, only a minor product change can be sufficient to allow an infringer to escape the scope of the exclusion order, thus bypassing it completely.<sup>84</sup> This provision states that the United States Intellectual Property Officer will investigate enforcement activities and work with the ITC on finding improvements that will help make the process more efficient, effective, and transparent.<sup>85</sup>

## 2. The President's Legislative Proposals

In addition to the aforementioned Executive Actions, President Obama also suggested seven pieces of legislation. Many of these legislative proposals mirror the implementations specified in the Executive Actions, and therefore, do not operate independently. For instance, both the Executive Actions and legislative proposals contain provisions pertaining to the “real party of interest,” thereby protecting end-users and empowering the ITC. Despite this, there are several legislative proposals that are not encompassed in the Executive Actions.

The first proposed legislative action is related to the first Executive Action, in that it is focused on providing transparency by creating a “real party of interest” standard within the patent system.<sup>86</sup> Although this proposal may seem novel, it has already been discussed in Congress and proposed in legislation such as the End Anonymous Patents (EAP) Act.<sup>87</sup> The EAP Act requires the real party of interest be identified at the time a new patent is issued, at the time maintenance fees are paid, and within ninety days of any action in which the

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<sup>82</sup> *White House High-Tech Patent Issue Fact Sheet*, *supra* note 44.

<sup>83</sup> See *About the United States International Trade Commission*, U.S. INT'L TRADE COMM'N, [http://www.usitc.gov/press\\_room/about\\_usitc.htm](http://www.usitc.gov/press_room/about_usitc.htm) (last visited Nov. 1, 2014).

<sup>84</sup> See Timothy Q. Li, Essay, *Exclusion Is Not Automatic: Improving the Enforcement of ITC Exclusion Orders Through Notice, a Test for Close Cases, and Civil Penalties*, 81 GEO. WASH. L. REV. 1755 (2013).

<sup>85</sup> *White House High-Tech Patent Issue Fact Sheet*, *supra* note 44.

<sup>86</sup> *White House High-Tech Patent Issue Fact Sheet*, *supra* note 44.

<sup>87</sup> H.R. 2024, 113<sup>th</sup> Cong. (2013).

ownership interest in a patent or a patent application is sold, granted, or conveyed.<sup>88</sup>

Next, the White House stated that it would like to give courts more discretion when determining whether a prevailing party in a patent case is entitled to fees.<sup>89</sup> This would require modifying 35 U.S.C. § 285, which covers sanctions in patent lawsuits. The Executive Branch suggests adopting a standard similar to that which currently applies to copyright infringement cases, where the courts have discretion to “allow the recovery of full costs by or against any party other than the United States.”<sup>90</sup> Similar to the standard used for copyright infringement<sup>91</sup>, this modification would allow for the recovery of reasonable attorney’s fees.

The President’s third legislative suggestion is to expand the USPTO’s transitional program.<sup>92</sup> This would permit a wider range of challengers to petition for review of issued patents before the Patent Trial and Appeals Board (PTAB).<sup>93</sup> The goal of this suggestion is to make it easier for third-parties to challenge the validity of computer-enabled and software patents.<sup>94</sup> The idea is that patent trolls who seek overly broad business method and computer-based patents would be targeted, their claims would be declared invalid, and they would then be unable to exploit their patents against third-parties. Therefore, rather than targeting abusive litigation, this proposal aims to make it more difficult to obtain a patent in the first place and expands the scope of challenges currently facing the PTAB.<sup>95</sup>

The fourth legislative proposal is markedly similar to the third Executive Action in that it also intends to help protect end-users of products.<sup>96</sup> This proposal aims to provide protection to end-users who purchase and use a product for its intended purpose. The proposal also suggests staying judicial proceedings against end users when a vendor, retailer, or manufacturer is also being sued under the same allegations of infringement.<sup>97</sup> Therefore, while this proposal intends to protect end-users from frivolous infringement actions, it truly just

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<sup>88</sup> *Id.*

<sup>89</sup> *White House High-Tech Patent Issue Fact Sheet, supra note 44.*

<sup>90</sup> 17 U.S.C. § 505 (2012).

<sup>91</sup> *Id.*

<sup>92</sup> *White House High-Tech Patent Issue Fact Sheet, supra note 44.*

<sup>93</sup> *White House High-Tech Patent Issue Fact Sheet, supra note 44.*

<sup>94</sup> *White House High-Tech Patent Issue Fact Sheet, supra note 44.*

<sup>95</sup> Similarly to the USPTO, the PTAB is currently experiencing a severe backlog of *ex parte* appeals. See *Data Visualization Center, supra note 50.*

<sup>96</sup> *White House High-Tech Patent Issue Fact Sheet, supra note 44.*

<sup>97</sup> *White House High-Tech Patent Issue Fact Sheet, supra note 44.*

changes the party that is likely to be sued by a patent troll. Admittedly, this may protect innocent victims who cannot afford to put on their own defenses, but it does not stop patent trolls from initiating abusive litigation, although it may make them less confident in their litigation tactics.

The Executive Branch's fifth legislative suggestion is to change the ITC standard for obtaining an injunction.<sup>98</sup> Since the ITC is a federal agency and not a court, it does not always follow the rules set forth by the Supreme Court and is not bound by Supreme Court decisions or precedent.<sup>99</sup> Despite this, aggrieved parties can file an appeal from an ITC decision in federal court.<sup>100</sup> This creates an incredible strategic advantage for a patent troll who can simultaneously pursue an alleged infringer in both the court system and the ITC by claiming that it has become the victim of an "unfair trade practice."<sup>101</sup> Additionally, the Executive Branch suggests that the four-factor test used in *eBay v. MercExchange*<sup>102</sup> be adopted by the ITC to require a plaintiff to show that he has been irreparably harmed, that remedies available at law are inadequate to compensate him for the alleged injury, that a remedy of equity is permissible, and that the public interest would not be disserved by the issuance of a permanent injunction.<sup>103</sup>

A sixth legislative recommendation has the goal of stopping abusive lawsuits by requiring that demand letters be more transparent.<sup>104</sup> In order to implement this process, the legislative recommendation suggests incentivizing the public filing of demand letters in such a way that they are easily accessible and easily searchable to the public. This proposal is closely related to the "real party of interest" recommendations found in the Executive Branch's first Executive Action and first legislative proposal, and intends to enable the public to become more aware of the names of businesses and persons who file large volumes of infringement actions.

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<sup>98</sup> *White House High-Tech Patent Issue Fact Sheet*, *supra* note 44.

<sup>99</sup> *See, e.g.*, 2 Admin. L. & Prac. § 5:67 (Charles H. Koch, Jr., 3d ed. 2010).

<sup>100</sup> *See* 19 U.S.C. § 1337(c) (2012).

<sup>101</sup> *See* Colleen V. Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 WM. & MARY L. REV. 63 (2008) (discussing how patent trolls often make use of the court system and the ITC simultaneously in order to bring an infringement action).

<sup>102</sup> 547 U.S. 388 (2006).

<sup>103</sup> *Id.*

<sup>104</sup> *White House High-Tech Patent Issue Fact Sheet*, *supra* note 44.

The final legislative proposal seeks to grant the ITC more flexibility in hiring Administrative Law Judges.<sup>105</sup> This proposal is likely being used to encourage the ITC to hire additional judges so that it can meet the demands of the increased case load it has experienced in recent years.<sup>106</sup> As will be discussed *infra*, however, this proposal is largely unrelated to the patent troll problem, despite its possible benefits.

### III. ANALYSIS OF THE EFFECTS OF THE EXECUTIVE ACTIONS AND PROPOSED LEGISLATION

As discussed above, Congress has typically been left with the task of creating laws related to the patent system because this power is specifically provided for in the United States Constitution.<sup>107</sup> This is one reason why it is particularly interesting that the White House has decided to enter and police the patent realm. Not only is it rare for the President to explicitly direct the policies and rules surrounding patent law,<sup>108</sup> but it may also be a cause for concern as the Executive Branch may not have the proper knowledge or experience to bring about effective changes within the intellectual property system. Although the President's suggestions try to cover many different aspects of the patent system, they lack a clear and defined focus.<sup>109</sup> Additionally, the Executive Branch's lack of expertise causes it to fail to adequately address the most critical way in which patent trolls exploit the patent system: abusive patent litigation. Furthermore, in acknowledging the severity of the patent troll problem, the President himself has called on Congress—the appropriate body to address such an issue—to take the steps necessary to put a stop to abusive patent litigation.<sup>110</sup>

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<sup>105</sup> *White House High-Tech Patent Issue Fact Sheet*, *supra* note 44.

<sup>106</sup> From FY 2000 to FY 2011 the ITC's Section 337 caseload for investigations into allegations of unfair practices in import trade had increased by over 530 percent. *See Conversations with the Honorable Dick Thornburgh, Deanna Tanner Okun, Paul Roeder*, WASHINGTON LEGAL FOUNDATION (Spring 2013), available at <http://www.justice.gov/atr/public/workshops/pae/comments/paew-0041b.pdf>.

<sup>107</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>108</sup> *See, e.g., Kennedy*, *supra* note 49.

<sup>109</sup> In the seven legislative recommendations and five Executive Actions, many different areas of the patent system are discussed, including ITC involvement, the basis on which patents should be granted, the identification of patent holders during the course of litigation, and the provision of education and protections to the public. None of these directly addresses limiting the number of abusive lawsuits filed or how to make it more difficult for a party to initiate an abusive patent infringement action. *See White House High-Tech Patent Issue Fact Sheet*, *supra* note 44.

<sup>110</sup> Barack Obama, President of the United States of America, State of the Union Address (Jan. 28, 2014) ("And let's pass a patent reform bill that allows our businesses

As discussed *supra*, abusive patent litigation has significant implications for the United States economy,<sup>111</sup> and it is unlikely that the patent troll problem will fix itself in the near future. More likely, the problem will continue to expand until abusive litigation is effectively ended by new legislation. Patent trolls are estimated to have accounted for approximately sixty-two percent of patent litigation as of 2012.<sup>112</sup> This constitutes approximately 2,900 lawsuits per year<sup>113</sup> and represents a significant increase over estimates from prior years.<sup>114</sup> Furthermore, patent trolls often try to name multiple defendants in order to maximize their probability of recovery in lawsuits via settlements, licensing agreements or, more rarely, verdicts and judgments.<sup>115</sup> These numbers emphasize the importance of ending abusive litigation practices, a sentiment echoed by former CAFC Chief Judge, Randall R. Rader.<sup>116</sup>

In addition, many of the Executive Branch's suggestions have already been addressed by Congress through proposed legislation. Once a piece of legislation is presented to Congress, it is usually recommended to a committee that has specialized expertise in evaluating whether the proposal will be effective and can be implemented in a manner such that its negative consequences are minimized. This technique, rather than presidential intervention, is much more likely to be effective in eliminating abusive patent litigation and will be discussed more thoroughly in Part IV, *infra*.

#### A. *Proposals Affecting Patentee Identification*

Many of the White House's proposals are focused on greater transparency and more effective identification of patent holders. The "real party of interest" requirements embodied in the first Executive Action and first legislative proposal, along with the encouragement of demand letter transparency in accordance with legislative recommendation six, are primarily focused on preventing a patent troll from hiding within a "shell" entity.

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to stay focused on innovation, not costly, needless litigation.").

<sup>111</sup> See Bessen & Meurer, *supra* note 32.

<sup>112</sup> See Colleen V. Chien, *Patent Trolls by the Numbers*, SANTA CLARA LAW DIGITAL COMMONS (Mar. 3, 2013), available at <http://digitalcommons.law.scu.edu/facpubs/609/>.

<sup>113</sup> *Id.*

<sup>114</sup> *Id.*

<sup>115</sup> *Id.*

<sup>116</sup> See, e.g., Randall R. Rader, *Make Patent Trolls Pay in Court*, N.Y. TIMES (June 4, 2013), <http://www.nytimes.com/2013/06/05/opinion/make-patent-trolls-pay-in-court.html>.



Analysts throughout the intellectual property community anticipate that these provisions will only have a “de minimis impact,” in part because “patent trolls don’t profit from anonymity.”<sup>117</sup> Effective patent trolls view their activity as a business model, not as a game of secrecy. Although it is true that patent trolls often do try to hide their identities through the use of “shell” companies in an attempt to avoid counterclaims,<sup>118</sup> trolls are not concerned with whether third parties know who they are, so long as they are still turning a profit.<sup>119</sup> This is illustrated by the fact that although some of the most tenacious patent troll entities—such as Intellectual Ventures, which is known to have over 1,200 shell companies with a worldwide patent portfolio containing approximately 60,000 patents<sup>120</sup>—have received massive amounts of negative publicity, they continue to play the patent troll game of trying to obtain licensing fees through abusive litigation based on illegitimate claims of patent infringement.

In addition to inadequately combating patent trolls, there is also the possibility that these provisions will have a negative impact on small inventive entities. For instance, the “real party of interest” provisions may enable large companies to find smaller parties who hold the legal rights to various inventions but wish to remain secret. Larger corporations may attempt to use identifying information to their advantage by overpowering smaller companies with threats of costly litigation or the use of corporate espionage.<sup>121</sup> Alternatively, larger companies may intentionally infringe against a smaller entity that they know does not have adequate resources to protect its own patent rights. If a large company is infringing a small inventor’s invention, that inventor may not have the financial capability to bring an infringement action, or he may simply choose not to bring an action because he is certain that he will not be able to win against a larger company full of lawyers and financial resources.

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<sup>117</sup> Hsieh, Sylvia, *Will Obama’s Proposals Rein in Patent Trolls?*, THE DAILY RECORD NEWSWIRE (June 12, 2013), available at <http://www.legalnews.com/detroit/1377007/> (quoting Anthony Biller).

<sup>118</sup> Daniel J. McFeely, Comment, *An Argument for Restricting the Patent Rights to Those Who Misuse the U.S. Patent System to Earn Money Through Litigation*, 40 ARIZ. ST. L.J. 289, 294 (2008).

<sup>119</sup> *Id.*

<sup>120</sup> Tom Ewing & Robin Feldman, *The Giants Among Us*, 2012 STAN. TECH. L. REV. 1, 24 (2012).

<sup>121</sup> Corporate espionage refers to uncovering a competitor’s trade secrets, business methods, intellectual property, or other secret information by dishonest means. See 18 U.S.C. § 1831 (2012).

Although larger companies may use the “real party of interest” requirement to their advantage, they are not entirely immune to the possible negative effects of this provision. By being forced to disclose the “real party of interest,” companies may be required to provide information that exposes their otherwise confidential, commercial business strategies, such as the specific corporate structure used to manage their intellectual property. Therefore, the ability of larger corporations to implement effective intellectual property management techniques may become limited.<sup>122</sup> These limitations may hurt these companies’ economic growth and add additional management burdens.

As a whole, “real party of interest” requirements do not effectively combat the patent troll problem. Of course, these requirements allow a defendant facing patent-infringement charges to have more clarity in identifying the party who has sued him, but this does not stop an abusive infringement lawsuit from being filed in the first place. Without doing anything to effectively reduce the number of lawsuits patent trolls file, the patent troll problem cannot be adequately addressed simply through greater transparency and “real party of interest” requirements.

#### *B. Educational Efforts and End User Protections*

A second broad category of the White House’s proposals to stop patent trolls is aimed at education. In many instances, the goal of education is to protect end-users from abusive litigation. While educating the public is a noble cause based primarily on good intentions, it is hard to see how these proposals will be able to effectively stop patent trolls from initiating abusive litigation.

The public is not completely unaware of the problems associated with patent trolls. Patent trolls and their abusive litigation tactics are often publicized in the media, thus creating public awareness.<sup>123</sup> Of course, it is impossible to document or publicize every instance of

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<sup>122</sup> For an overview of emerging intellectual property management techniques, see William W. Fisher III & Felix Oberholzer-Gee, *Strategic Management of Intellectual Property – An Integrated Approach*, CAL. MGMT. REV. (SPECIAL ISSUE) (Feb. 17, 2013), available at <http://www.law.harvard.edu/faculty/faculty-workshops/fisher.faculty.workshop.summer-2013.pdf>.

<sup>123</sup> Simply searching for “patent trolls” on an Internet news search engine yields a significant number of results related to patent trolls, and a significant number of the results have negative connotations associated with them. See, e.g., Edward J. Black, *Senate Needs to Stop Patent Trolls*, HUFFINGTON POST (Feb. 3, 2014, 3:04 PM), [http://www.huffingtonpost.com/edward-j-black/senate-needs-to-stop-patenttrolls\\_b\\_4696466.html](http://www.huffingtonpost.com/edward-j-black/senate-needs-to-stop-patenttrolls_b_4696466.html).

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abusive litigation brought forth by a patent troll, but the general public has been put on notice about the tactics and effects of patent trolls. Furthermore, designation as a “patent troll” comes with a largely pejorative meaning.<sup>124</sup> Even someone who is unfamiliar with the commonly used definitions of patent troll would at least be able to ascertain the negative connotation associated with the word “troll.”

Within the intellectual property community, patent trolls receive even more scrutiny than they do in society at large. Law review articles discussing patent trolls have been published since the term first came into use. Patent-focused websites and blogs, such as Patently-O, have thousands of users<sup>125</sup> that actively discuss issues facing the patent system, including trolls. Many of these users are patent examiners, registered patent agents, or licensed patent attorneys—all of whom are active stakeholders in the intellectual property community. In many of these conversations, strategies to end abusive litigation are discussed, and patent trolls are further vilified for their abuse of the patent system.

Even if education provides the general public with the knowledge necessary to evade a patent troll, this effort will only go so far. Shortly after implementation, the general public may have a slightly increased understanding of how the patent system works and the threats that patent trolls pose. This understanding, however, does nothing to impede the efforts of patent trolls. Patent trolls will still be able to file lawsuits in the same manner and volume that they do today, and the only benefit to an unsuspecting defendant is that he now knows the definition of a patent troll. Furthermore, many patent trolls are very profitable and can easily spend money on expensive legal counsel or other expenditures to keep their business going, even if more knowledgeable defendants become less willing to quickly back down or settle.<sup>126</sup> Because of this, any educational efforts in place would require continuous updating in order to be relevant and effective.

Educational efforts alone will not be able to end the abusive patent litigation used by patent trolls, given that patent trolls are already an identified problem. Because of this, it is unlikely that these efforts will have a significant impact, if any, on the abusive tactics commonly employed by patent trolls in the near future. Despite these inadequacies, improving education about the patent system and the dangers of patent trolls may be a worthwhile expenditure if properly

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<sup>124</sup> Sandberg, *supra* note 13.

<sup>125</sup> Patently-O advertises that it has over 19,000 daily subscribers. See PATENTLY-O, <http://www.patentlyo.com> (last visited Nov. 6, 2013).

<sup>126</sup> See Schumer, *supra* note 26.

implemented. Rather than combating the patent troll problem, constant updating of educational materials related to the patent system based on the input of various stakeholders could potentially provide a greater understanding of the American patent system as a whole and encourage further innovation.

*C. Tightened Functional Claiming*

The President's suggestion to tighten functional claiming builds upon the AIA's efforts to prevent overly broad patents from being issued in the first place. Although the patent system's integrity relies on the fact that only deserving inventions should receive patent protection, current provisions already address this concern by requiring that a patent be novel, useful, and non-obvious.<sup>127</sup> As discussed *infra*, while it may be true that not all patents are truly useful inventions in the eyes of many, the Executive Branch's suggestion to tighten functional claiming is unlikely to stop patent trolls and may pose a significant risk to small inventors seeking patent protection.

Many patent trolls do not even create their own inventions. Instead, they acquire the rights to a patent on the open market.<sup>128</sup> Consequently, making it more difficult for certain types of inventions to receive patent protection is unlikely to limit the effectiveness of patent trolls because trolls will continue to purchase the rights to already issued patents. By purchasing existing patents, larger patent trolls do not have to spend significant amounts of money or assume any of the risks associated with obtaining patent protection. Therefore, if this provision were to have any impact on patent trolls, it would be only on those holding a small number of self-made inventions. Although these smaller entities may sometimes be patent trolls according to common definitions, they are not at the root of the patent troll problem.

Moreover, stricter limitations on functional claiming will complicate the process by which an inventor gets a patent. This provision would increase scrutiny from the USPTO and require the inventor to take extra steps in preparing his application if he hopes to have a patent issued. For instance, inventors and patent applicants would likely be required to establish detailed glossaries explicitly defining even common terms, thus placing an additional burden on both patent applicants and patent prosecutors. Furthermore—and

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<sup>127</sup> See 35 U.S.C. §§ 101–03 (2012).

<sup>128</sup> See, e.g., Daniel J. McFeely, Note, *An Argument for Restricting the Patent Rights to Those Who Misuse the U.S. Patent System to Earn Money Through Litigation*, 40 ARIZ. ST. L.J. 289, 294 (2008).

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perhaps even more detrimental to the core tenants of the American patent system—under this proposal an unsophisticated individual inventor who has filed his own patent application may have his invention denied not because he has failed to meet the criteria for patentability, but rather, because he has used overly broad language. These procedural complications affect not only inventors and patent prosecutors, but they will also compound the USPTO's current backlog and staffing shortages.<sup>129</sup>

Overall, despite their intentions, proposals aimed at tightening functional claiming will not effectively help cure the patent troll problem. Furthermore, the potential negative consequences of these proposals are serious and may actually lead to both new and increased problems and complications within the patent system.

#### *D. ITC Reform*

A number of the President's suggestions—legislative proposals five and seven as well as the fifth Executive Action—focus on taking steps to reform the way in which the ITC handles patent matters. Although these proposals contain elements that may benefit the patent system, they do not adequately address issues related to patent trolls' abusive litigation strategies. For instance, while granting the ITC more flexibility in its hiring processes may help the organization better manage its caseload,<sup>130</sup> this does not directly affect patent trolls. Instead, this would likely help address issues of international infringement, as the ITC would be able to reach quicker resolutions and operate more efficiently. Despite this, hiring flexibility still does not address patent trolls.

The only ITC provision that may help curb patent trolls and abusive litigation is the suggestion that the ITC adopt the four-part test set forth in *eBay, Inc. v. MercExchange*<sup>131</sup> prior to the court's granting an injunction. Even with this provision, however, the overall effects of the efforts aimed at reforming the ITC would be marginal, although, once again, the ITC would be able to operate more efficiently and expedite the way in which it handles issues related to unfair trade practices. Unfortunately, this does not directly address the issues associated with patent trolls. Luckily, however, despite the shortcomings and negative consequences of several of the Executive's other proposals, the measures involving changes to the ITC do not have significant negative

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<sup>129</sup> *Data Visualization Center, supra* note 50.

<sup>130</sup> *Conversations, supra* note 105.

<sup>131</sup> 547 U.S. 388 (2006).

impacts on small inventors or the overall patent system as a whole, and would likely produce several benefits.

#### IV. PROPOSED ALTERNATIVES

The Executive Branch's proposals include several good ideas, but will be largely ineffective at actually stopping patent trolls and their abusive litigation strategies. Although the President has a cabinet in place that can advise him about the needs of various government agencies and entities, the ability of this cabinet to effectively assess and manage these needs pales in comparison to Congress'. With over forty<sup>132</sup> Congressional committees subdivided to create over one hundred<sup>133</sup> congressional subcommittees,<sup>134</sup> Congress has the unique ability to hold hearings in which it can obtain input from various stakeholders, thus enabling its members to make informed decisions regarding proposed changes, and providing lawmakers with access to a wide variety of differing points of view. This oversight allows not only for broad reform, but also for the ability to choose individual elements of patent reform in a piecemeal manner, which is likely a better approach to effectively evolving and moderating the patent system.<sup>135</sup> Furthermore, as discussed *supra*, the United States Constitution explicitly grants Congress power over the patent and copyright systems,<sup>136</sup> and the other branches of the federal government should not usurp this power.

Despite the Executive Branch's well-intentioned efforts to put an end to patent trolls, there are other alternatives available, which have the following advantages: small inventors are not put at a disproportionate disadvantage; significant burdens are not placed on the USPTO; and abusive litigation practices are more effectively deterred. This section will discuss (1) Congress' legislative efforts to stop patent trolls, (2) proposals aimed at reducing the burden that smaller inventive entities face, (3) alternative policing methods to catch patent trolls, and (4) the techniques available to legitimate

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<sup>132</sup> As of December 2013, the United States House of Representatives had twenty-one committees, and the United States Senate had twenty-one committees. For a full list of current Congressional committees, see <https://www.congress.gov/committees>.

<sup>133</sup> The United States House of Representatives has ninety-five subcommittees. The United States Senate has sixty-eight subcommittees. *Id.*

<sup>134</sup> Congressional subcommittees consider the details and specifics of a matter and then report back to the full committee with their results. See 5 U.S.C. app. § 5 (2013).

<sup>135</sup> See Christopher Norton, *Retired Fed. Circ. Chief Urges Piecemeal Patent Reform*, LAW360 (Jan. 12, 2011, 5:18PM), <http://www.law360.com/ip/articles/219706/retired-fed-circ-chief-urges-piecemeal-patent-reform>.

<sup>136</sup> U.S. CONST. art. I, § 8, cl. 8.

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patent holders that wish to bring a valid infringement action to distinguish themselves from patent trolls.

A. *Legislative Efforts*

The most traditional way in which Congress can attempt to modify patent law and the patent system is through legislation. At any given time, there may be thousands of bills present before Congress.<sup>137</sup> Each is presented, evaluated by a committee or subcommittee, and ultimately either approved or discarded due to votes in each house of Congress.<sup>138</sup> Then, the law is either enacted by the President's signature or vetoed.<sup>139</sup> As will be discussed *infra*, Congress' attempts to stop patent trolls have focused primarily on issues related to abusive patent litigation. Conversely, as argued in this Comment, the Executive's focus does not sufficiently address abusive patent litigation, and instead, focuses on alternative methods that are unlikely to harm patent trolls.

1. Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013

Perhaps the most effective method to stop patent trolls and the abusive litigation they often unjustly initiate involves the incorporation of several provisions contained in the "Saving High-Tech Innovators from Egregious Legal Disputes (SHIELD) Act of 2013,"<sup>140</sup> which originally appeared before Congress in 2012. Following its introduction, the SHIELD Act was amended to be more inclusive of non-software and non-computer-related patents and was reintroduced in 2013.<sup>141</sup> The SHIELD Act was referred to the Subcommittee on Courts, Intellectual Property, and the Internet in April of 2013, but a vote on the bill has yet to take place.<sup>142</sup>

The SHIELD Act is narrowly focused on ending abusive patent litigation. The Act includes a provision that requires a party bringing a patent infringement or patent invalidation lawsuit to post a bond, the

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<sup>137</sup> As of November 4, 2013, there are 5,969 bills currently before Congress. To track the status of bills and resolutions, see *Bills and Resolutions*, GOVTRACK.US, <http://www.govtrack.us/congress/bills> (last accessed Nov. 6, 2013).

<sup>138</sup> See *The Legislative Process: How a Bill Becomes a Law and Legislative Terms*, NAT'L MENTORING P'SHIP (Sept. 2010), [http://www.mentoring.org/downloads/mentoring\\_1278.pdf](http://www.mentoring.org/downloads/mentoring_1278.pdf).

<sup>139</sup> *Id.*

<sup>140</sup> H.R. 6245, 112th Cong. (2012).

<sup>141</sup> H.R. 845, 113th Cong. (2013).

<sup>142</sup> H.R. 845 Actions, 113th Cong. (2013), *available at* <http://beta.congress.gov/bill/113th/house-bill/845/actions>

amount of which is determined by the court, to cover the costs of the litigation.<sup>143</sup> The bond requirement would likely reduce the overall number of infringement actions as parties would likely be hesitant to file an infringement lawsuit unless they were certain that they would be successful. Although this provision may appear to create a burden on small inventors wishing to exercise their rights in an infringement suit, there are several exceptions to the bond requirement, easing the burden on certain inventive entities.

Original inventors,<sup>144</sup> original assignees,<sup>145</sup> patentees who can provide documentation that they have taken significant steps or made a significant investment in using the patent,<sup>146</sup> universities,<sup>147</sup> and other recognized technology transfer organizations<sup>148</sup> are all exempt from the bond requirement. Additionally, even in instances where a plaintiff fails to meet one of these criteria, the court has discretion to determine whether a bond should still be assessed.<sup>149</sup> This allows a court to evaluate whether a party has a legitimate claim or is actually a patent troll who is bringing a frivolous or abusive lawsuit prior to initiating a bond requirement. The Executive Branch's suggestions do not contain, and do not communicate a need for, the judicial discretion necessary to ensure fairness in patent litigation.

Overall, the proposed implementation of the SHIELD Act presents a unique balance that is likely to reduce the number of frivolous patent infringement and patent invalidation lawsuits, while simultaneously preserving the rights of small inventors and non-profit innovators. By reducing the number of lawsuits, a bond provision such as that contained in the SHIELD Act could effectively reduce the patent troll problem and decrease caseload burdens before the PTAB and other courts. The general public would no longer be as severely threatened by patent trolls, and small inventors would not have their rights restricted or dissolved. In conjunction with other possible solutions, a bond requirement could become the beginning of the end of the patent troll problem.

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<sup>143</sup> H.R. 845(b), 113th Cong. (2013).

<sup>144</sup> H.R. 845(d)(1), 113th Cong. (2013).

<sup>145</sup> *Id.*

<sup>146</sup> H.R. 845(d)(2), 113th Cong. (2013).

<sup>147</sup> H.R. 845(d)(3)(A), 113th Cong. (2013).

<sup>148</sup> H.R. 845(d)(3)(B), 113th Cong. (2013).

<sup>149</sup> H.R. 845(b), 113th Cong. (2013).



## 2. Patent Abuse Reduction Act

A second piece of proposed legislation that is currently before Congress and is also aimed at reducing abusive patent litigation is the “Patent Abuse Reduction (PAR) Act of 2013,”<sup>150</sup> which was presented in May of 2013<sup>151</sup> and referred to the Committee on the Judiciary.<sup>152</sup> The PAR Act introduces advanced pleading requirements, sets forth procedures for joinder of parties, places restrictions on the discovery process, defines relevant evidence, and allows courts to award the prevailing party reasonable costs and expenses, including attorney’s fees, in certain situations.<sup>153</sup> Similar to the SHIELD Act, the PAR Act includes a bond provision, but this is limited to requiring a party to post bond only to cover the anticipated costs of discovery when that party requests discovery outside the scope of the PAR Act.<sup>154</sup>

Like the SHIELD Act, the bond provision could deter abusive litigants. Unfortunately, the PAR Act’s use of a bond requirement is not as elegant as the SHIELD Act’s because it does not provide the same balance used to protect the rights of small and individual inventors. The PAR Act demonstrates that although there are some general concepts—such as bond provisions—that seem to help address the patent troll problem, the specifics surrounding their implementation are crucial, as a one-size-fits-all approach would likely have a disproportionately negative impact on some parties. Therefore, legislators should focus on passing a bond provision similar to that of the SHIELD Act, which provides relief for small inventive entities.

## 3. Patent Litigation and Innovation Act

The Patent Litigation and Innovation (PLI) Act of 2013<sup>155</sup> is yet another piece of legislation currently before Congress with the goal of stopping patent trolls from engaging in abusive litigation. The PLI Act sets forth new standards in pleadings, requiring a plaintiff in a patent infringement case to fully identify the claims allegedly infringed, to specify clear instances of infringement, and to disclose the “real party of interest.” Although the PLI Act’s “real party of interest” may seem similar to that proposed by the Executive Branch, it is markedly

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<sup>150</sup> S. 1013, 113<sup>th</sup> Cong. (2013).

<sup>151</sup> 159 CONG. REC. 3763–65 (daily ed. May 22, 2013) (statement of Sen. Cornyn).

<sup>152</sup> For congressional actions taken on S. 1013, 113th Cong. (2013), see *S.103 – Patent Abuse Reduction Act of 2013*, CONGRESS.GOV, <http://beta.congress.gov/bill/113th/senate-bill/1013/titles> (last accessed Dec. 4, 2013).

<sup>153</sup> S. 1013, 113th Cong. (2013).

<sup>154</sup> S. 1013 § 4(b)(3)(B)(ii)(II), 113th Cong. (2013).

<sup>155</sup> H.R. 2639, 113th Cong. (2013).

different in that, rather than requiring identification of the “real party of interest” whenever the patent is discussed before the USPTO, it requires disclosure only at the commencement of an infringement action.

This nuance mitigates many of the negative consequences of the President’s “real party of interest” requirement discussed *supra*, while still maintaining the overall goal of preventing patent trolls from hiding behind a “shell” during the course of patent litigation. Furthermore, while the PLI Act would make the requirements for pleadings in a patent infringement case more rigid, they are not complex or difficult to decipher. This is an important distinction because strict, yet simple, pleading requirements do not place a significant burden on a party attempting to bring a legitimate patent infringement action.

The PLI Act also takes steps to simplify the discovery process by limiting discovery material to core documents, such as identifying information and documentation specific to the operation of the alleged infringing invention.<sup>156</sup> If enacted, the PLI Act would also limit discovery until claim construction<sup>157</sup> has been completed by the court during the course of a *Markman*<sup>158</sup> hearing.<sup>159</sup> Currently, patent trolls sometimes abuse the discovery process by requesting millions of documents<sup>160</sup> in an attempt to pressure the opposing party into settling the lawsuit.<sup>161</sup> The imposition of discovery limitations as proposed by the PLI Act would effectively disarm patent trolls of one of their most effective weapons, and therefore, reduce their overall success rates.

#### 4. Other Legislative Proposals

In addition to the aforementioned bills currently before Congress, there are several other pieces of proposed legislation that encompass similar ideas aimed at combating patent trolls. These bills include the Patent Innovation Protection Act,<sup>162</sup> the Stopping

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<sup>156</sup> *Id.*

<sup>157</sup> “Claim construction” refers to “the interpretation and construction of patent claims, which define the scope of the patentee’s rights under the patent,” which is a process carried out by the court. *See Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 970–71 (Fed. Cir. 1995).

<sup>158</sup> *Id.*

<sup>159</sup> H.R. 2639, 113th Cong. (2013).

<sup>160</sup> *Abusive Patent Litigation: The Impact on American Innovation and Jobs, And Potential Solutions: Hearing Before the Subcomm. on Courts, Intellectual Property and the Internet*, 113<sup>th</sup> Cong. 45 (2013) (statement of John Boswell, Senior Vice President and General Counsel of SAS Inst., Inc.).

<sup>161</sup> *Id.*

<sup>162</sup> H.R. 3349, 113<sup>th</sup> Cong. (2013). The Innovation Protection Act aims to give the

Offensive Use of Patents (STOP) Act,<sup>163</sup> and the Innovation Act.<sup>164</sup> Although many of these acts include ideas that the Executive Branch suggested, they also serve as evidence that Congress can effectively develop legislation that will help put an end to abusive patent litigation without the help of Presidential intervention.

Recently, several state legislatures have begun considering or enacting bills that take affirmative steps to combat patent trolls at a more local level.<sup>165</sup> The success of these laws is still undetermined, however, and only in May of 2013 did a state law first prosecute an abusive patent troll.<sup>166</sup> Furthermore, some commentators raise concerns that state-based patent regulation may be preempted by federal patent law.<sup>167</sup> Pending the success of these state-based patent troll laws, other states may also continue implementing similar pieces of legislation.

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USPTO more flexibility in its budget by creating a separate fund structure. The Act allows the Director of the USPTO to use funds received from fees without the same limitations as funds received from taxpayers.

<sup>163</sup> H.R. 2766, 113<sup>th</sup> Cong. (2013). The Stopping Offensive Use of Patents Act aims to make improvements to the transitional program for covered business method patents.

<sup>164</sup> H.R. 3309, 113<sup>th</sup> Cong. (2013). The Innovation Act aims to heighten pleading requirements in patent infringement cases, educate small businesses on how to protect themselves from abusive patent litigation, and place limitations on discovery.

<sup>165</sup> Vermont was the first state to pass a law targeting patent trolls and abusive patent litigation. The bill, which is known as the Bad Faith Assertions of Patent Infringement Act aims to end frivolous patent infringement lawsuits while not interfering with federal patent law and legitimate patent infringement actions. See VT. STAT. ANN. tit. 9, §§ 4195–4199 (LEXIS through 2013 adjourned session). Nebraska Attorney General Jon Bruning has “declared war” on patent trolls and has given public support to the Nebraska Patent Abuse Prevention Act, which is currently being considered in the Nebraska legislature. See Timothy B. Lee, *Nebraska’s Attorney General has Declared War on Patent Trolls*, WASH. POST (Sept. 12, 2013, 8:50 AM), <http://www.washingtonpost.com/blogs/the-switch/wp/2013/09/12/nebraskas-attorney-general-has-declared-war-on-patent-trolls/>. See also Leg. of Neb., 103rd Leg., 2nd Sess., REQ 03798 (NE. 2013). Maine has also considered a bill similar to Vermont’s Bad Faith Assertions of Patent Infringement Act to target patent trolls and end abusive patent litigation. See Mal Leary, *Maine Lawmakers Consider Limiting Patent Trolls*, THE MAINE PUB. BROAD. NETWORK (Jan. 2, 2014), <http://www.mpbn.net/home/tabid/36/ctl/ViewItem/mid/5347/ItemId/31557/Default.aspx>.

<sup>166</sup> Complaint, Vermont v. MPHJ Tech. Inv., LLC, No. 282-5-13Wncu (Super. Ct. Vt. 2013), available at <http://www.atg.state.vt.us/assets/files/Vermont%20v%20MPHJ%20Technologies%20Complaint.pdf>.

<sup>167</sup> See Thomas Carey, *Patent Trolls in the Crosshairs: Vermont’s Aggressive Stance and the Emerging Federal Response*, LEXISNEXIS (Aug. 1, 2013, 4:10 PM), <http://www.lexisnexis.com/legalnewsroom/intellectual-property/b/patent-law-blog/archive/2013/08/01/patent-trolls-in-the-crosshairs-vermont-39-s-aggressive-stance-and-the-emerging-federal-response.aspx> (discussing whether the Vermont law is “stillborn” because of federal preemption).

The number of proposed bills addressing patent trolls demonstrates Congress' interest in combating abusive patent litigation. Novel techniques such as state-based legislation further show the impact of the patent troll problem as well as highlight the creativity that lawmakers have used in order to develop more effective ways of addressing the patent troll issue. As time goes on and more legislators develop an increased appreciation of the patent troll problem, they are likely to write even more bills, perhaps with even more creative strategies aimed at reducing abusive patent litigation.

*B. USPTO Review of Infringement Claims*

Another way in which abusive patent litigation can be stopped is through more careful monitoring of patent infringement lawsuits by the USPTO. Senator Charles Schumer and former Senator Jon Kyl believe that requiring the USPTO to evaluate and certify patent infringement claims prior to the commencement of a lawsuit will effectively reduce abusive patent litigation.<sup>168</sup> Reflecting this theory, Senator Schumer has proposed a bill known as the Patent Quality Improvement Act of 2013.<sup>169</sup> Since this approach focuses on the litigious aspects of the patent system, but also requires USPTO action, it can be considered a "hybrid approach" to solving the patent troll problem. Because of this distinction, this Comment considers it separately from other legislative actions discussed above.

In addition to cutting down on frivolous patent infringement lawsuits, Senator Schumer's bill would also give examiners at the USPTO an opportunity to take a second look at an issued patent when a lawsuit is initiated to determine whether the patent is truly valid.<sup>170</sup> A second review may reveal details overlooked during the first review, and these details may effectively invalidate a patent, thereby preventing unnecessary patent litigation. Furthermore, this strategy does not create an additional bar to obtaining a patent; therefore, it still rewards small, inventive entities for actual ingenuity and technological contributions.

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<sup>168</sup> See Ingrid Lunden, *Senator Charles Schumer Targets Patent Trolls, Wants USPTO to Review Infringement Suits Before They Head to Court*, TECH CRUNCH (May 1, 2013), <http://www.techcrunch.com/2013/05/01/senator-charles-schumer-plans-bill-for-uspto-to-review-patent-troll-suits-before-they-head-to-court/>.

<sup>169</sup> S. 866, 113th Cong. (2013).

<sup>170</sup> *Id.*

Thus far, Senator Schumer's bill has received positive feedback from patent industry analysts.<sup>171</sup> Some view this approach to be a similar, but better, alternative to fee shifting, because fee shifting may scare parties into settling lawsuits rather than entertaining the idea of engaging in an expensive legal battle.<sup>172</sup> With this proposed strategy, however, an innocent defendant in an abusive litigation proceeding would not be forced to settle right away because the lawsuit may be deemed invalid at the onset of litigation. Therefore, this approach would be more effective in actually preventing abusive litigation and frivolous lawsuits because it would make it impossible for a suit to commence without the USPTO's stamp of approval.

There are several possible downsides to this proposal, however. First, by requiring USPTO involvement, the organization is further burdened<sup>173</sup> because it must train staff on the mechanics of this approval process—a process which may also be subject to a large volume of requests. Furthermore, by requiring USPTO approval, smaller inventive entities may experience increased difficulty when trying to assert their patent rights via an infringement lawsuit. In order to account for this possible consequence, this bill should make use of the fee structure and “micro-entity” status put in place by the AIA.<sup>174</sup> This structure would prevent small patent holders from incurring additional financial burdens when filing an infringement claim.

If properly implemented,<sup>175</sup> taking into account the circumstances surrounding not only large corporations with expansive patent portfolios, but also the individual and other small inventors, this proposal would likely reduce the thousands<sup>176</sup> of lawsuits brought by patent trolls each year. There are risks, however, associated with this bill, and like all legislation, it should be carefully considered prior to congressional approval.

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<sup>171</sup> See, e.g., Joe Mullin, *Finally, a Bill to End Patent Trolling*, ARS TECHNICA (Oct. 23, 2013, 5:34 PM), <http://www.arstechnica.com/tech-policy/2013/10/its-finally-here-a-bill-to-end-patent-trolling/>.

<sup>172</sup> S. 866, 113th Cong. (2013).

<sup>173</sup> See Thomas & Breitzman, *supra* note 5.

<sup>174</sup> 35 U.S.C. § 123 (2012).

<sup>175</sup> Some analysts suggest that combining this act with the SHIELD Act would cut down on the most egregious patent troll lawsuits. See, e.g., Mike Masnick, *Chuck Schumer to Introduce Patent Reform Bill to Make it Cheaper to Fight Back Against Patent Trolls*, TECH DIRT (May 1, 2013, 7:52 AM), <http://www.techdirt.com/blog/innovation/articles/20130430/22152622896/chuck-schumer-to-introduce-patent-reform-bill-to-make-it-cheaper-to-fight-back-against-trolls.shtml/>.

<sup>176</sup> See Chien, *supra* note 111.

*C. “Vigilante” Patent Justice*

Another interesting technique to reduce abusive litigation that simultaneously stops infringers and gives patent trolls a warning allows patentees—particularly large corporations with expansive patent portfolios—to self-police against infringers. Rather than suing a patent infringer and commencing a lengthy and expensive litigation process, a company can take steps to stop the infringer without pursuing legal action. For instance, Apple recently made use of a “buy-back” program to repurchase infringing products from customers who have already purchased the items.<sup>177</sup> Apple’s program focuses on recovering counterfeit power adapters for the iPhone, iPad, and iPod. Apple claims that these counterfeit products may pose legitimate safety concerns—a claim supported by allegations that a Chinese flight attendant was fatally electrocuted by a counterfeit device.<sup>178</sup> In exchange for the infringing product, the company chooses to give the consumer either the real product or a credit which could be used towards the purchase of the real product.

Although the idea of companies pursuing “vigilante justice” in order to maintain their patent rights may be unsettling to some, this type of strategy has three key benefits. First, it helps remove “knock-off” products from the market which, in some industries, may raise significant safety concerns. Second, programs such as these can provide a company with a significant public relations boost.<sup>179</sup> Finally, this strategy provides a non-litigious option to companies who wish to fight back against infringers but wish to differentiate themselves from the patent trolls who are known for often utilizing abusive litigation techniques. By pursuing a non-litigious remedy, large companies with legitimate infringement claims avoid burdening the courts. Additionally, these types of programs do nothing to harm the intellectual property rights of legitimate small inventors, but they do send a significant message to unlawful infringers that their

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<sup>177</sup> Apple has been accepting returns of USB adapters produced by third parties since August 16, 2013. In exchange for a counterfeit or third party adapter, Apple allows a user to purchase an Apple USB power adapter at a reduced price. To access further information regarding the details of Apple’s program, see *USB Power Adapter Takeback Program*, APPLE, <http://www.apple.com/support/usbadapter-takeback/> (last visited Nov. 4, 2013).

<sup>178</sup> See Paul Mozur, *Apple Investigates China iPhone Death Allegations*, THE WALL ST. J. (July 15, 2013, 5:59 PM), <http://blogs.wsj.com/chinarealtime/2013/07/15/apple-investigates-china-iphone-death-allegations/>.

<sup>179</sup> See Adam Pasick, *Apple’s iPhone Charger Take-back Program is Genius PR—and it May Even Boost the Bottom Line*, QUARTZ (Aug. 7, 2013), <http://qz.com/112722/apples-iphone-charger-take-back-program-is-genius-pr-and-it-may-even-boost-the-bottom-line/>.

infringement will not be tolerated.

*D. Working Requirements and Compulsory Licenses*

All of the proposals discussed *supra* do not provide an immediate or complete solution to the problems surrounding patent trolls. Individually, they may improve the patent system by restructuring several small areas, but the patent system's current organization still allows for patent trolls to operate. This problem may be more efficiently alleviated, however, through the institution of a working requirement and compulsory license system that guarantees continued protection only to patentees who actually use or produce products or services covered by their patents. Under a working requirement, Congress could mandate that a compulsory license be granted to anyone who wishes to use a patent that is not currently practiced, used, or produced by the patent's inventor or assignee. Thus, those who wish to use a patented technology not currently practiced by its inventor would have the right to do so while the patent holder receives financial compensation for the use of his invention.

The idea of a working requirement is not new or novel. Many countries outside the United States already use working requirements and compulsory licenses within their local patent systems.<sup>180</sup> In fact, working requirements are included in the Patent Cooperation Treaty<sup>181</sup> (PCT), an international agreement to which the United States is a party. Specifically, the PCT mandates that no compulsory license be denied to anyone wishing to use a patent that has not been used or produced by the patentee within the past four years or within four years of its filing date.<sup>182</sup> Any compulsory license granted under this provision is non-exclusive and non-transferrable, unless the transfer occurs as part of the sale of an entire business enterprise.<sup>183</sup> The idea of a working requirement is not universally accepted, however, as other pieces of international legislation, such as the Agreement on Trade Related Aspects of Intellectual Property Rights<sup>184</sup> (TRIPs Agreement), provide that working requirements should not be instituted except in

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<sup>180</sup> See *Compulsory License Provisions across Europe*, ASS'N OF PATENT LAW FIRMS, [http://www.avidity-ip.com/assets/pdf/pageview\\_20070802161505.pdf](http://www.avidity-ip.com/assets/pdf/pageview_20070802161505.pdf) (last visited Apr. 25, 2014).

<sup>181</sup> Patent Cooperation Treaty art. 5, June 19, 1970, 28 U.S.T. 7645, 1160 U.N.T.S. 231 (reprinted in 9 I.L.M. 978 (1970)).

<sup>182</sup> *Id.*

<sup>183</sup> *Id.*

<sup>184</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, 1869 U.N.T.S. 299, 33 I.L.M. 1197.

exceptional circumstances.<sup>185</sup> Despite this provision of the TRIPs Agreement, however, many European countries continue to make use of working requirements and compulsory licenses.

Currently, the only embodiment of a working requirement within the American patent system is the maintenance fee that a patentee must pay to the USPTO every five years.<sup>186</sup> If the fee is not paid, the patent will lapse, and protection will be lost.<sup>187</sup> The purpose of the maintenance fee is to encourage a patent holder to make economical use of his patent. By eliminating the maintenance fee and simultaneously instituting a working requirement via a compulsory license system, patent holders would still be encouraged to practice their patents, and the patent trolls who do not actually make or use patented technologies would be stripped of much of their power. Instead of being able to threaten alleged infringers with costly lawsuits, patent trolls would now be forced to comply with the terms of a compulsory license agreement. Furthermore, this provision would not increase the difficulty of obtaining a patent or make a patent worthless if it is not practiced; non-practicing patentees would still be compensated through a set fee schedule for compulsory licenses.

A compulsory license system may actually benefit many small entities and individual inventors as well. Currently, if a small inventor's patent is being infringed, he may be hesitant or unable to bring a lawsuit against the infringer because of the associated costs. Under a compulsory license system, however, a patentee would no longer have to file a lawsuit in order to receive compensation for the use of his or her invention, but instead, could likely exercise his rights through an administrative action. This aspect could be implemented in a fashion similar to the European model of compulsory licenses, whereby third-parties simply apply to their national patent authority to obtain a license.<sup>188</sup> Furthermore, the reduction in the number of patent infringement lawsuits brought on behalf of both patent trolls and more legitimate entities would help alleviate the stress currently facing the court system and increase overall judicial efficiency.

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<sup>185</sup> Michael LaFlame, Jr., *The European Patent System: An Overview and Critique*, 32 HOUS. J. INT'L L. 605, 610 (2010).

<sup>186</sup> See 37 C.F.R. § 1.27(a) (2013).

<sup>187</sup> *Id.*

<sup>188</sup> Andrew C. Mace, *TRIPs, eBay, and Denials of Injunctive Relief: Is Article 31 Compliance Everything?*, 10 COLUM. SCI. & TECH. L. REV. 232, 247 (2009).



Although it is likely that patent trolls would be negatively affected by the institution of a working requirement and compulsory license system, other legitimate entities may also oppose the implementation of the associated stipulations. For example, many colleges, universities, and other research institutions often develop new patentable technologies but do not utilize the inventions themselves. Instead, they license their patents and use the proceeds to continue other educational and research efforts. When their patents are infringed, however, these institutions often file lawsuits that are very similar in nature to those brought by patent trolls, and because of this, some colleges and universities have even argued against patent reform aimed at patent trolls, claiming that research institutions could suffer negative consequences as well.<sup>189</sup> These organizations are not patent trolls, however. Instead, they often serve as leaders in new technology development, and it is important that their activities are not discouraged or constructively stopped by the implementation of a working requirement.<sup>190</sup> Therefore, if a working requirement were to be added to the United States patent system, lawmakers should consider including an exemption for these organizations similar to the exemptions provided in the several other pieces of pending legislation discussed *supra*.

Despite its potential effectiveness, a working requirement is not something that Congress has thoroughly explored. Due to the benefits discussed *supra*, however, the development of a working requirement and compulsory license system is an idea that warrants significant consideration. Unlike many of the President's currently proposed actions and some of Congress' pending legislation, a working requirement targets the heart of the patent troll problem. Instead of attacking ancillary aspects of how patent trolls abuse the patent system, working requirements eliminate significant amounts of abusive patent litigation brought by non-practicing patentees and patent trolls. Therefore, Congress—not the Executive Branch—should take the time and effort to explore the benefits, and possible consequences, of implementing a working requirement and compulsory license schema

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<sup>189</sup> Timothy B. Lee, *Patent Trolls Have a Surprising Ally: Universities*, WASH. POST (Nov. 30, 2013, 11:05 AM), <http://www.washingtonpost.com/blogs/the-switch/wp/2013/11/30/patent-trolls-have-a-surprising-ally-universities/>.

<sup>190</sup> The USPTO reports that academic institutions account for approximately 4.3 percent of issued patents, and this number has risen consistently from when it was 0.2 percent in 1985. See UNITED STATES PATENT & TRADEMARK OFFICE, U.S. COLLEGES AND UNIVERSITIES—UTILITY PATENT GRANTS, CALENDAR YEARS 1969-2012, *available at* [http://www.uspto.gov/web/offices/ac/ido/oeip/taf/univ/univ\\_toc.htm](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/univ/univ_toc.htm) (last updated Mar. 26, 2014).

within the United States patent system.

*E. Other Alternative Methods*

There are myriad other ways in which the patent system could be modified to deal with the patent troll problem. Several other suggestions from within the intellectual property community include encouraging lawyers to develop expertise in patent defense strategies,<sup>191</sup> encouraging patent defense attorneys to operate on a contingent fee basis,<sup>192</sup> joining defendants in order to team up against patent trolls,<sup>193</sup> and encouraging victims of abusive patent litigation to fight, rather than settle, to reduce the overall success rate of patent trolls.<sup>194</sup>

Others suggest fixing the patent system by making it more difficult to obtain a patent by placing restrictions on how continuation applications are filed.<sup>195</sup> Unfortunately, plans such as these do not take into account the current number of valid patents or the devious nature of patent trolls. Additionally, as discussed *supra*, placing further obstacles in the way of obtaining patent protection may have numerous negative consequences, such as denying patent protection to legitimate inventions.

Almost all possible patent troll elimination strategies have various pros and cons that should be carefully evaluated prior to implementation. And, as discussed *supra*, the Executive Branch should not mandate this implementation. Instead, attempts to reduce the negative impact of patent trolls should come from the body properly situated to make changes to the patent system: Congress.

## V. CONCLUSION

Patent trolls pose a significant threat to the integrity and efficiency of both the patent and court systems. They bring frivolous lawsuits, not because they care about their inventions, but because they want to make money. They undermine parties who are faced with legitimate patent infringement issues. They create unnecessary

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<sup>191</sup> See Chien, *supra* note 10.

<sup>192</sup> See Chien, *supra* note 10.

<sup>193</sup> See Chien, *supra* note 10.

<sup>194</sup> Pascal-Emmanuel Gobry, *How to Get Rid of Patent Trolls for Good*, BUS. INSIDER (Aug. 17, 2011 3:16 AM), <http://www.businessinsider.com/how-to-get-rid-of-patent-trolls-for-good-2011-8/>.

<sup>195</sup> See James Bessen, *The Power of No*, SLATE (Dec. 4, 2013, 9:45 AM), [http://www.slate.com/articles/technology/future\\_tense/2013/12/the\\_simple\\_fix\\_that\\_could\\_heal\\_the\\_patent\\_system.single.html](http://www.slate.com/articles/technology/future_tense/2013/12/the_simple_fix_that_could_heal_the_patent_system.single.html).

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burdens for courts tasked with hearing patent infringement cases. They also threaten an American economy that has a significant stake in patent-intensive industries and intellectual property in general.<sup>196</sup> These problems cannot go unaddressed.

Despite the problems that patent trolls introduce, and the good intentions that the White House displayed by entering into the hunt for patent trolls, the Executive is not the appropriate branch of the federal government to address these issues. Patent trolls and the myriad of potential problems they cause should be assessed and dealt with by Congress, which not only has explicitly enumerated jurisdiction over patent-related issues,<sup>197</sup> but also is in a better position to regulate and continually modernize the American patent system.

The patent system, as with all legal entities, must continue to evolve in order to address the challenges of a constantly changing economy and society.<sup>198</sup> This evolutionary process should request and respect the input of all stakeholders, including Congress, the USPTO, patent agents, patent attorneys, patent examiners, and inventors—large and small, public and private. These stakeholders also have a duty to seriously consider how the effects of the patent system's evolution will impact those who routinely use and rely on the system, in addition to its impact on the American economy and the American inventor's way of life.

For now, it is unlikely that the patent troll problem will be stopped by a wizard's magical spell or a witch's special potion. Instead, the patent troll problem will need to be continually addressed by a much less supernatural body: Congress. Although there are many possible strategies available that could be used in the war on patent trolls, Congress has not yet taken the time to consider them all. As time goes on, however, the same creativity that inspires inventors to develop new and exciting technologies may also be the "magical" inspiration used by lawmakers to come up with new ways of effectively managing the United States patent system and defeating the most notorious patent trolls.

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<sup>196</sup> ECONOMICS AND STATISTICS ADMINISTRATION & UNITED STATES PATENT AND TRADEMARK OFFICE, INTELLECTUAL PROPERTY AND THE U.S. ECONOMY: INDUSTRIES IN FOCUS 39-53 (2012), *available at* [http://www.uspto.gov/news/publications/IP\\_Report\\_March\\_2012.pdf](http://www.uspto.gov/news/publications/IP_Report_March_2012.pdf) (explaining the estimated financial impacts of intellectual property on the US economy).

<sup>197</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>198</sup> *See* Chien, *supra* note 10.