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TROLL CONTROL: Why States Are Preempted From Legislating Against Patent Trolls  
Joshua Berk\*

**Introduction**

Patent trolls have created a destructive arms race in the United States.<sup>1</sup> Owning a patent used to represent genius, innovation, and the discovery of novel ideas. Now, owning a patent only bolsters the owner's war chest. Rather than use purchased patents to develop new technology, companies now hoard and use patents as an offensive weapon or a defensive tactic.<sup>2</sup>

Patent trolls, generally non-practicing patent holders that assert infringement claims on others, have been accused of interfering with the "American dream," and creating a barrier to entrepreneurship.<sup>3</sup> Former Chief Judge Randall R. Rader of the Court of Appeals for the Federal Circuit, along with professors Colleen Chien and David Hricik, believes that "the onslaught of litigation brought by 'patent trolls' [has] clogged our judicial system."<sup>4</sup> In early 2013, President Obama stated that these entities "don't actually produce anything themselves . . . [but rather] hijack somebody else's idea . . . [to] extort some money out of them."<sup>5</sup> Patent trolls that employ

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<sup>1</sup> See Charles Duhigg & Steve Lohr, *The Patent, Used as a Sword*, N.Y. TIMES (Oct. 7, 2012), [http://www.nytimes.com/2012/10/08/technology/patent-wars-among-tech-giants-can-stifle-competition.html?pagewanted=all&\\_r=2&](http://www.nytimes.com/2012/10/08/technology/patent-wars-among-tech-giants-can-stifle-competition.html?pagewanted=all&_r=2&); see also Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495, 1504 (2001) (discussing a "patents arms race," where large companies focus on owning a high volume of patents, rather than high quality ones).

<sup>2</sup> See Haydn Shaughnessy, *Patent Trolls Are Now Crushing Parts of the Developer Economy*, FORBES (July 4, 2013, 8:02 AM), <http://www.forbes.com/sites/haydnshaughnessy/2013/07/04/patent-trolls-are-now-crushing-parts-of-the-developer-economy/> ("Start-up lawyers are now telling start-ups to patent to avoid litigation . . . [creating] an arms race where small companies are applying for patents on things that might be patentable as a way of creating a defense.").

<sup>3</sup> *Taking the Battle Against Patent Trolls to the Public*, NATIONAL PUBLIC RADIO (Aug. 30, 2013), <http://www.npr.org/templates/transcript/transcript.php?storyId=217272814>.

<sup>4</sup> Randall R. Rader, Colleen V. Chien & David Hricik, Op-Ed., *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>. But see Jim Bessen, Op-ed: *How Patent Trolls Doomed Themselves by Targeting Main Street*, ARS TECHNICA (Sept. 12, 2013, 9:57 AM), <http://arstechnica.com/tech-policy/2013/09/op-ed-how-patent-trolls-doomed-themselves-by-targeting-main-street/> (noting that patent trolls are not a new phenomenon and existed in the nineteenth century when they were dubbed "patent sharks," which "asserted dubious patents on mechanical devices").

<sup>5</sup> *President Obama Participates in a Fireside Hangout on Google+*, YOUTUBE (Feb. 14, 2013), [http://www.youtube.com/watch?v=kp\\_zigxMS-Y](http://www.youtube.com/watch?v=kp_zigxMS-Y).

untraditional but successful business models are labeled “modern-day robber baron[s].”<sup>6</sup> Exploiting powerless companies, their actions typically raise a question in the mind of the observer: how can they be stopped?

Historically, the federal government has been tasked with passing patent legislation, as the Constitution explicitly grants Congress that power.<sup>7</sup> This is reinforced by the fact that, unlike most federal law-based claims, federal courts have exclusive jurisdiction over patent infringement claims.<sup>8</sup> Further, federal law generally preempts potential state law claims in patent law.<sup>9</sup> A narrow exception may exist, however, when state courts statutorily have jurisdiction over claims of bad faith business practices involving patents that fall under the state’s consumer protection or unfair competition laws.<sup>10</sup>

Recently, Vermont’s legislature ventured into uncharted territory and became the first state to pass legislation specifically aimed at weakening patent trolls and protecting the State’s small business owners.<sup>11</sup> The legislation amended Vermont’s Consumer Protection Act to provide judges with the power to address bad faith patent infringement assertions when a demand letter recipient sues or counter-sues an alleged patent troll.<sup>12</sup> As states like Vermont enter the evolving

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<sup>6</sup> See 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/>; see also Cheryl Milone, *A Powerful New Weapon Against Patent Trolls*, FORBES (Nov. 15, 2012, 5:21 PM), [www.forbes.com/sites/forbesleadershipforum/2012/11/15/a-powerful-new-weapon-against-patent-trolls/](http://www.forbes.com/sites/forbesleadershipforum/2012/11/15/a-powerful-new-weapon-against-patent-trolls/) (likening patent trolls to the ambulance chasers of patent law).

<sup>7</sup> See *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1355 (Fed. Cir. 1991) (citing *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964)).

<sup>8</sup> *Id.*

<sup>9</sup> See generally *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989).

<sup>10</sup> See generally *Sukumar v. Nautilus, Inc.*, 829 F. Supp. 2d 386 (W.D. Va. 2011).

<sup>11</sup> See *Vermont Attorney General Sues "Patent Troll" in Groundbreaking Lawsuit*, THE STATE OF VERMONT OFFICE OF THE ATTORNEY GENERAL (May 22, 2013), <http://www.atg.state.vt.us/news/vermont-attorney-general-sues-patent-troll-in-groundbreaking-lawsuit.php> [hereinafter *Vermont AG*].

<sup>12</sup> See generally 9 V. STAT. ANN. § 4195 (LEXIS 2013).

arms race, their actions should be preempted because they encroach on Congress's traditional power to regulate patent law and do not comply with judicially-created standards.<sup>13</sup>

This Note asserts that, although limitations on the scope of patent troll activity may be necessary, states should defer to Congress to pass legislation in this arena. Part I introduces and defines the term "patent troll." Part II provides a backdrop of the recent state treatment of patent trolls. Part III then argues that states, like Vermont, cannot validly legislate to limit patent trolls because federal law preempts such legislation. Further, public policy dictates that both state legislatures and state attorneys general should not be permitted to act in the patent troll context. Part IV proposes a temporary solution to patent trolls. Finally, Part V concludes.

## I. Patent Trolls

"Patent troll" is a label stamped onto companies formed with the exclusive intent to acquire and enforce patents.<sup>14</sup> According to Peter Detkin, former Assistant General Counsel to Intel Corporation, patent trolls attempt to make money by asserting rights to patents they never practiced, do not practice, and have no intention to practice.<sup>15</sup> They offer companies a choice between litigation and paying licensing fees for alleged infringement.<sup>16</sup> The result is a low-

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<sup>13</sup> Other states, like Nebraska, Minnesota, and New York are beginning to act against patent trolls, but have not yet passed any legislation specifically dealing with them.

<sup>14</sup> See Brenda Sandburg, *Battling the Patent Trolls*, LAW.COM (June 30, 2001), [http://www.law.com/jsp/article.jsp?id=900005522332&Battling\\_the\\_Patent\\_Trolls#ixzz2ia4uH8Li](http://www.law.com/jsp/article.jsp?id=900005522332&Battling_the_Patent_Trolls#ixzz2ia4uH8Li).

<sup>15</sup> *Id.* ("A patent troll is somebody who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing and in most cases never practiced."); see John A. Amster, *The Patent Troll Toll*, INTELLECTUAL PROPERTY MAGAZINE 33 (June 2013), <http://www.rpxcorp.com/siteFiles/News/9C3677C23C25889A23D3FC9BA845B092.pdf> ("[Patent trolls] acquire patents, identify operating companies that may be infringing those patents, and bring legal action to generate a payment.").

<sup>16</sup> See John F. Martin, *Sued by a Patent Troll? How to Respond to Demand Letters*, IPWATCHDOG (Feb. 24, 2014, 1:42 PM), <http://www.ipwatchdog.com/2014/02/24/sued-by-a-patent-troll-how-to-respond-to-demand-letters/id=48249/>.

risk/high-reward system—it is significantly cheaper for a small company to settle and pay licensing fees than to defend itself from potentially meritless infringement claims at trial.<sup>17</sup>

Although “patent troll” has become a term of art, labels that are more appropriate include “non-practicing entities,” “patent holding companies,” and “patent assertion entities.”<sup>18</sup> Non-practicing entities (“NPEs”) may take the form of small businesses or universities that only obtain patents on their inventions and enforce their patent rights.<sup>19</sup> NPEs can also be large technology companies known for their widespread innovation, such as Microsoft, Google, and Apple.<sup>20</sup> In many cases, however, NPEs behave like the term “patent troll” suggests, and purchase patents with no intention to use, develop, or market a product.<sup>21</sup>

Patent trolls repeatedly use a standard business model: they purchase patents from failed businesses and search for patents that the United States Patent and Trademark Office (“USPTO”) should have never issued because of their sweeping coverage.<sup>22</sup> Not only can the business of

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<sup>17</sup> See Attorney General Lori Swanson Announces First-In-The-Nation Order to Stop Delaware Company from “Patent Trolling” in Minnesota, THE OFFICIAL WEBSITE OF THE OFFICE OF THE MINNESOTA ATTORNEY GENERAL (Aug. 20, 2013), <http://www.ag.state.mn.us/Consumer/PressRelease/130820StopPatentTrolling.asp> [hereinafter *Minnesota AG*] (discussing the difficult decisions small companies must make when faced with bogus infringement claims in possibly unaffordable litigation).

<sup>18</sup> Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 COLUM. L. REV. 2117 (2013). Patent trolls typically take three forms. *Id.* Traditionally, the first type of patent troll is one that owns a patent in hopes of claiming a large reward in court. *Id.* Second, and becoming more popular, is a troll that owns a variety of patents with the intention of claiming “quick, low-value settlements” outside the courtroom. *Id.* The final grouping is patent trolls that aggregate thousands of patents to demand licensing fees for using their patent portfolio. *Id.*

<sup>19</sup> See also Peter Lee, *Patents and the University*, 63 DUKE L.J. 1, 3 (2013) (discussing universities as potential patent trolls who use patents in patent infringement suits to collect large jury awards).

<sup>20</sup> See Michael Risch, *Patent Portfolios as Securities*, 63 DUKE L.J. 89, 101 (2013) (discussing a consortium of technology companies, including Microsoft, Apple, Oracle, Google, Yahoo, Facebook, and AOL, that purchase other companies’ patent portfolios for use as both a weapon and defensive tactic in patent litigation).

<sup>21</sup> *Minnesota AG*, *supra* note 17 (“[P]atent trolls . . . often buy patents of dubious value.”); see George J. Awad et al., *Intellectual Property Update*, DRINKER BIDDLE (June 2005), <http://www.drinkerbiddle.com/Templates/media/files/publications/2005/intellectual-property-update-2005-6-30.pdf> (“Trolls are not themselves inventors, but lawyers or investors who acquire paper patents from insolvent individuals or companies at fire-sale prices.”); see Ian Austen & Lisa Guernsey, *A Payday for Patents ‘R’ Us*, N.Y. TIMES (May 2, 2005), [http://www.nytimes.com/2005/05/02/technology/02patent.html?\\_r=0](http://www.nytimes.com/2005/05/02/technology/02patent.html?_r=0) (describing NTP, an alleged patent trolling entity that exploited wireless e-mail patents it owned, but did not develop, even though its only employees were its founders).

<sup>22</sup> See Duhigg, *supra* note 1. Some potentially invalid patents that the USPTO has granted are so broad and sweeping that they cover “seemingly unrelated products built by others. Often, companies are sued for violating

collecting and enforcing those patents result in potentially lucrative rewards, but those rewards are nearly certain to come, whether in the form of licensing fees or infringement damages from litigation.<sup>23</sup> A new study even suggests that it may be more profitable to be an NPE in an infringement claim than to be a practicing entity.<sup>24</sup> The study suggests that, before 2001, courts granted higher rewards to practicing entities asserting their patent rights, but between 2001 and 2011, the gap in rewards reversed.<sup>25</sup>

Investors may see the patent trolls' business model as beneficial merely because it is profitable.<sup>26</sup> Several academics also consider the model to be a fundamental component of financing new ideas.<sup>27</sup> By suing infringers, investors can enforce the patent's exclusive interest, and collect large rewards that can be used to fund the research and development of technology.<sup>28</sup> Nevertheless, the effect on innovation creates problems for small companies, as several academics opine that patent trolls impose excess costs that suppress innovation.<sup>29</sup> Patent trolls have "war chests," attorneys, and technologists; companies sued by patent trolls, however, often do not have those resources and face the massive costs associated with litigation defense and settlements.<sup>30</sup> In

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patents they never knew existed or never dreamed might apply to their creations, at a cost shouldered by consumers in the form of higher prices and fewer choices." *Id.*

<sup>23</sup> See Chris Barry et al., *2012 Patent Litigation Study, Litigation Continues to Rise Amid Growing Awareness of Patent Value*, (2012) available at <http://patentlyo.com/media/docs/2013/03/2012-patent-litigation-study.pdf>.

<sup>24</sup> *Id.* at 7 ("Over the last decade, median damage awards for NPE's have significantly outpaced those of practicing entities.").

<sup>25</sup> *Id.*

<sup>26</sup> See *id.*

<sup>27</sup> Stacie E. Oberts & Kimberly G. Miller, "Patent Troll": A Self-Serving Label that Should be Abandoned, ROBERTS, KAPLAN, MILLER & CIRESI, LLP (Sept. 28, 2005), [http://www.rkmc.com/Patent\\_Troll\\_A\\_Self-Serving\\_Label\\_that\\_Should\\_be\\_Abandoned.htm](http://www.rkmc.com/Patent_Troll_A_Self-Serving_Label_that_Should_be_Abandoned.htm).

<sup>28</sup> *Id.* For example, Kodak sued Sun Microsystems for infringing inherited Java Patents to collect \$92 million in rewards, which was used to fund the manufacture of new technology. *Id.*

<sup>29</sup> See generally Klobuchar: *Patent Trolls Hurt Small Businesses And Stifle Innovation*, KLOBUCHAR.SENATE.GOV (Dec. 17, 2013), <http://www.klobuchar.senate.gov/public/2013/12/klobuchar-patent-trolls-hurt-small-businesses-and-stifle-innovation>; see also Lemley, *supra* note 18, at 2124 ("By increasing the costs of using patented technologies, . . . [excess costs] would reduce the use of those technologies in research and development (R&D) . . . and thereby reduce innovation.").

<sup>30</sup> See Joe Beyers, *Perspective: Rise of the Patent Trolls*, CNET.COM (Oct. 12, 2005, 7:00 AM), [http://news.cnet.com/Rise-of-the-patent-trolls/2010-1071\\_3-5892996.html](http://news.cnet.com/Rise-of-the-patent-trolls/2010-1071_3-5892996.html); see also Amster, *supra* note 15.

2012 alone, the estimated median cost to resolve disputes involving NPEs was \$550,000.<sup>31</sup> That cost of defending against NPEs hampers innovation because the companies are then unable to fund research and product development for inventors.<sup>32</sup> In some cases, patent trolls even threaten small companies' ability to perform day-to-day business activities, including sending e-mail attachments or using Wi-Fi.<sup>33</sup> Taking matters into their own hands, Congress and states such as Vermont have stepped in to protect these seemingly defenseless small businesses.

## II. Background on Patent Troll Legislation

Federal and state governments have taken action to protect small businesses and innovation in light of the patent trolls' negative effects.<sup>34</sup> In particular, the President, Congress, state Attorneys General, and state legislatures have all sought to frustrate the efforts of patent trolls.<sup>35</sup>

### A. Federal Action to Limit Patent Trolls

On June 4, 2013, President Obama issued executive actions and legislative recommendations calling for greater Congressional efforts to stimulate innovation and the economy by making the patent troll business model less profitable.<sup>36</sup> According to the President,

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<sup>31</sup> Amster, *supra* note 15 (discussing the top five percent of NPE cases, which cost the defendant more than \$19 million each); see *Minnesota AG*, *supra* note 17 (discussing a Boston University study that estimated the patent trolling costs to be \$29 billion).

<sup>32</sup> See Amster, *supra* note 15. (referring to the cost of defending these suits as a tax on innovation).

<sup>33</sup> See, e.g., *Minnesota AG*, *supra* note 17 (discussing the case when MPHJ sent letters to businesses warning them of infringement for a method of uploading attachments to e-mail and demanding licensing fees); see also Richard Levick, *A Danger Lurks in the Righteous War Against Patent Trolls*, FORBES (Dec. 23, 2013, 8:30 AM), <http://www.forbes.com/sites/richardlevick/2013/12/23/a-danger-lurks-in-the-righteous-war-against-patent-trolls/>.

<sup>34</sup> See *Taking the Battle Against Patent Trolls to the Public*, *supra* note 3 (discussing an aggressive radio advertising campaign, launched by a group of retail trade organizations to raise awareness about the devastating effects patent troll litigation is having on businesses and consumer prices). The FTC is requesting public comments on a proposal to gather information for a study on the structure and effect of patent assertion entities. *FTC Seeks to Examine Patent Assertion Entities and Their Impact on Innovation, Competition*, FEDERAL TRADE COMMISSION (Sept. 27, 2013), <http://www.ftc.gov/opa/2013/09/paestudy.shtm>.

<sup>35</sup> See *infra* Part II.A–B.

<sup>36</sup> President Obama sought to “improve incentives for future innovation in . . . patents, a key driver of economic growth and good paying American jobs.” *Fact Sheet: White House Task Force on High-Tech Patent Issues*, THE WHITE HOUSE (June 4, 2013), <http://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues> [hereinafter *White House*]; see generally, *When Patents Attack ... Part Two!*, NATIONAL PUBLIC RADIO (June 4, 2013), <http://www.npr.org/templates/transcript/transcript.php?storyId=188370495>.

patent trolls abuse the patent system.<sup>37</sup> In response, the Obama Administration recommended several measures to Congress.<sup>38</sup> First, the Administration suggested requiring disclosure of the “real party in interest” (the legal owner of a patent) to enhance transparency and level the playing field.<sup>39</sup> To curb abusive infringement claims, the Administration further recommended that demand letters be made publicly available and that federal courts have more discretion to sanction abusive filings.<sup>40</sup> Finally, the Administration, pushed for the Patent Trial and Appeals Board to grant permission to a wider array of challengers for a review of issued patents’ validity.<sup>41</sup> Not only does the Administration clearly view patent troll legislation as a priority, but Congress has also shown interest.<sup>42</sup>

Congress has also begun to consider several pieces of legislation to combat the rise of patent trolls.<sup>43</sup> Though Congress has been unable to pass any legislation, such as the Saving High-Tech Innovators from Egregious Legal Disputes Act, the Patent Litigation and Innovation Act of 2013, and the Patent Abuse Reduction Act, some see support on both sides of the aisle for patent troll regulation.<sup>44</sup> Yet, because Congress has not acted quickly enough, states have responded to the perceived problems.

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<sup>37</sup> See *When Patents Attack ... Part Two!*, *supra*, note 36.

<sup>38</sup> *Id.*

<sup>39</sup> *White House*, *supra* note 36. The administration announced other steps to bring greater transparency, including tightening function claiming, empowering downstream users, expanding outreach and studies, and strengthening the enforcement process of exclusion orders. *Id.*

<sup>40</sup> *Id.* (discussing the judge’s ability to award attorney’s fees to prevailing parties); see also Gregory Ferenstein, 3 *Silly Abuses Obama’s Patent Troll Executive Order Could Stop*, TECHCRUNCH (June 4, 2013), <http://techcrunch.com/2013/06/04/3-silly-abuses-obamas-patent-troll-executive-order-could-stop/> (discussing the SHIELD Act, a piece of proposed legislation, which includes a “loser pays” provision).

<sup>41</sup> *White House*, *supra* note 36.

<sup>42</sup> *But see* Ferenstein, *supra* note 40 (“Whatever you believe, the executive order seems like a step in the right direction.”).

<sup>43</sup> Congress has already passed and enacted the Leahy-Smith America Invents Act. Section 19(d) of the Act limits patent trolls’ ability to join an unlimited number of unrelated defendants (accused infringers) in potentially frivolous lawsuits. See Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 19(d), § 299, 125 Stat. 284, 332-33 (2011).

<sup>44</sup> Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong. (1st Sess. 2013) (generally aiming to give defendants in patent infringement claims a more adequate remedy, including reasonable attorney’s fees); Patent Litigation and Innovation Act of 2013, H.R. 2639, 113th Cong. (2013) (generally aiming to



## B. State Action Against Patent Trolls

Several state attorneys general offices have publicly stated that only the federal government should implement patent troll legislation.<sup>45</sup> Some state legislators grew impatient with Congress's ability to implement legislation limiting patent trolls, however, and took action.

### 1. Vermont Legislation

In response to an alleged patent troll's actions, Vermont became the first state to enact legislation directly aimed at "bad faith patent assertions."<sup>46</sup> The alleged patent troll was MPHJ Technology Investments, L.L.C. ("MPHJ"), a company made up of more than sixty shell subsidiaries.<sup>47</sup> MPHJ sent patent assertion demand letters ("demand letters") to Vermont businesses, allegedly containing assertions of \$1,000–\$1,200 in licensing fees and other deceptive statements based on the infringement of a patent MPHJ held.<sup>48</sup> One of MPHJ's targeted businesses claimed it lost profits and thus, changed its plan to hire new employees because of the threatening

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add procedural requirements to patent infringement claims, including heightened pleading standards, to help increase patent troll transparency); Patent Abuse Reduction Act of 2013, S. 1013 (2013) (employing a cost-shifting mechanism to place the burden of the costs of additional discovery for anything outside of "core documentary discovery" to the requesting party).

<sup>45</sup> See *Vermont And Nebraska Attorneys General Take Patent Trolls Head On*, NATIONAL ASSOCIATION OF ATTORNEYS GENERAL, <http://www.naag.org/vermont-and-nebraska-attorneys-general-take-patent-trolls-head-on.php> (last visited Jan. 1, 2014).

<sup>46</sup> See generally Timothy B. Lee, *How Vermont Could Save the Nation from Patent Trolls*, THE WASHINGTON POST (Aug. 1, 2013, 10:05 AM), <http://www.washingtonpost.com/blogs/the-switch/wp/2013/08/01/how-vermont-could-save-the-nation-from-patent-trolls/> (discussing how the legislation protects innovation and Vermont's businesses); see also Eric Goldman, *Vermont Enacts The Nation's First Anti-Patent Trolling Law*, FORBES (May 22, 2013, 2:22 PM), <http://www.forbes.com/sites/ericgoldman/2013/05/22/vermont-enacts-the-nations-first-anti-patent-trolling-law/>.

<sup>47</sup> See Walter Judge, *Alleged Patent Troll Targeted by Vermont Attorney General*, THE IP STONE (Sept. 25, 2013), <http://theipstone.com/2013/09/25/alleged-patent-troll-targeted-by-vermont-attorney-general/> ("MPHJ stands accused of a nationwide program of sending hundreds or thousands of threatening letters to businesses accusing them of using technology, without a license, under patents acquired by MPHJ — classic patent troll behavior."); "MPHJ had the tell-tale signs of being a 'troll' in the worst sense." Daniel McDonald & William Shultz, *MPHJ Case Is Good News for Downstream Tech Users*, LAW360.COM (Sept. 4, 2013, 12:38 PM), <http://www.law360.com/articles/469626/mphj-case-is-good-news-for-downstream-tech-users>. Using more than sixty subsidiaries, with names including GosNel and JitCom, the company used the shell subsidiaries to send the demand letters in order to hide and conceal the patent's true holder. *Id.* Most of the small companies who received letters lacked counsel and was not in a position to pay potential litigation fees, thus forcing them into settling and accepting the licensing fees. *Id.*

<sup>48</sup> *Id.* MPHJ demanded \$1,000 per employee of each Vermont business it sent the demand letters to, based on infringement of its patent on the process of scanning and attaching documents to an e-mail through a network. *Id.*

letters it received.<sup>49</sup> The business's executive, along with other executives facing similarly unaffordable lawsuits, lobbied for Vermont to take action.<sup>50</sup>

Vermont's new law is entitled "Bad Faith Assertions of Patent Infringement" ("the Act").<sup>51</sup> Supporters of the Act considered this a declaration of war against patent trolls like MPHJ.<sup>52</sup> Vermont targets patent trolls by equating demand letters to bad faith assertions of patent infringement.<sup>53</sup> Ultimately though, Vermont claims its goals are expanding its financial and economic base to attract business, while at the same time, encouraging innovation, increasing patent litigation efficiency, and reducing costs.<sup>54</sup>

Amending Vermont's Consumer Protection Act, this legislation provides Vermont's state courts with a framework for analyzing a party's claims that a demand letter has been sent in bad faith and in violation of this new state law.<sup>55</sup> The Act requires judges to make determinations of bad faith based on the reasonableness of the time and value of demands, along with factors largely stated below:

(1) The demand letter does not contain . . . (B) the name and address of the patent owner or owners and assignee or assignees, if any; and (C) factual allegations concerning the specific areas in which the target's products, services, and technology infringe the patent or are covered by the claims in the patent. (2) Prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target's products, services, and technology, or such an analysis was done but does not identify specific areas in which . . . are covered by the claims in the patent . . . (6) The claim or assertion of patent infringement is

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<sup>49</sup> See Lee, *supra* note 46.

<sup>50</sup> *Id.*

<sup>51</sup> 9 V. STAT. ANN. § 4195 (LEXIS 2013).

<sup>52</sup> See Mike Masnick, *Nebraska Attorney General Sued for Trying to Stop Patent Troll*, TECHDIRT.COM (Sept. 10, 2013, 7:41 AM), <http://www.techdirt.com/articles/20130828/14075324341/nebraska-attorney-general-sued-trying-to-stop-patent-troll.shtml> ("I've always liked the state of Vermont—but mainly because it was a nice place to visit. But, now the state appears to be declaring war on patent trolls."); see also Tim Wu, *How to Make War on Patent Trolls*, THE NEW YORKER (June 3, 2013), <http://www.newyorker.com/online/blogs/elements/2013/06/how-to-make-war-on-patent-trolls.html>.

<sup>53</sup> *Id.* ("A business that receives a letter asserting such claims faces the threat of expensive and protracted litigation and may feel that it has no choice but to settle and to pay a licensing fee, even if the claim is meritless.")

<sup>54</sup> § 4195 (LEXIS 2013) (describing Vermont's goals, which include to "striv[e] to build an entrepreneurial and knowledge based economy").

<sup>55</sup> 9 V. STAT. ANN. § 4197 (LEXIS 2013).

meritless, and the person knew, or should have known, that the claim or assertion is meritless. (7) The claim or assertion of patent infringement is deceptive. (8) The person . . . [has] previously filed or threatened to file one or more lawsuits based on the same or similar claim of patent infringement and . . . the person attempted to enforce the claim of patent infringement in litigation and a court found the claim to be meritless. (9) Any other factor the court finds relevant.<sup>56</sup>

The Act also enumerates factors for judges to consider when a party provides evidence to show that no bad faith was involved.<sup>57</sup> Several of these factors specifically target NPEs and require judges to determine whether the NPE “substantially invests in the use or sale of the patented invention” and whether the NPE claiming infringement is an inventor, an original assignee, or a higher-education institution.<sup>58</sup> The Act also grants judges the power to offer remedies in the event that bad faith is found, including equitable relief, damages, reasonable attorney’s fees, and exemplary damages.<sup>59</sup> Finally, the Act grants the Vermont Attorney General the power to conduct civil investigations and bring civil actions against bad faith patent asserters.<sup>60</sup> Facially promising to limit patent trolls in Vermont, the Act’s underlying legal theory is essentially this: “[i]f a troll makes a threat in bad faith, [then] that is a violation of state consumer protection laws.”<sup>61</sup>

## 2. Attorney General Action

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<sup>56</sup> *Id.*

<sup>57</sup> *Id.*

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

<sup>59</sup> 9 V. STAT. ANN. § 4199 (LEXIS 2013). Exemplary damages are the greater of \$50,000 or three times the total damages, costs, and fees. *Id.*

<sup>60</sup> *Id.*; Goldman, *supra* note 46 (discussing how the Vermont Attorney General already sued an alleged patent troll according to the consumer protection act, but the lawsuit implies that the attorney general already could adequately bring lawsuits).

<sup>61</sup> Lee, *supra* note 46.

Vermont’s groundbreaking legislation enabled the State’s Attorney General to bring a lawsuit against MPHJ—the first suit of its kind.<sup>62</sup> The Vermont Attorney General alleged that MPHJ engaged in unfair and deceptive acts, and violated Vermont’s Consumer Protection Act.<sup>63</sup> The suit is still pending.

Both Minnesota and New York experienced a similar result with the same trolling entity, MPHJ. Unlike the Vermont Attorney General, however, this battle between state and patent troll ended quickly.<sup>64</sup> After numerous small companies complained, Minnesota’s and New York’s Attorney General investigated MPHJ for potential violations of each state’s consumer protection laws and promptly settled with the alleged patent troll.<sup>65</sup> As part of Minnesota’s settlement, the Attorney General issued an Assurance of Discontinuance to prevent MPHJ from resuming its activity in Minnesota without the permission of the Attorney General.<sup>66</sup> According to the settlement between the New York Attorney General and MPHJ, the patent troll is required to void any licenses it granted to New York businesses and offer a full refund.<sup>67</sup> The New York agreement also prohibited MPHJ from contacting certain businesses it previously targeted.<sup>68</sup> Finally, it presented guidelines the company must follow if it sends letters to New York businesses in the future.<sup>69</sup>

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<sup>62</sup> *Vermont AG, supra* note 11 (“It marks the first time that a state attorney general has filed suit against a so-called patent troll.”).

<sup>63</sup> *See Judge, supra* note 47.

<sup>64</sup> *See Judge, supra*, note 47. Minnesota settled, while the Vermont lawsuit is ongoing with a debate about whether the suit should be heard in state or federal court. *Id.*

<sup>65</sup> Minnesota became the first State where a patent troll entity agreed to end its trolling businesses in the State. *Minnesota AG, supra* note 17.

<sup>66</sup> *Id.*

<sup>67</sup> *See A.G. Schneiderman Announces Groundbreaking Settlement With Abusive “Patent Troll”*, NEW YORK STATE OFFICE OF THE ATTORNEY GENERAL (Jan. 14, 2014), <http://www.ag.ny.gov/press-release/ag-schneiderman-announces-groundbreaking-settlement-abusive-%E2%80%9Cpatent-troll%E2%80%9D>.

<sup>68</sup> *Id.*

<sup>69</sup> *Id.*

Following the lead of the Vermont and Minnesota Attorneys General, the Nebraska Attorney General tried to prevent patent troll activity in the state.<sup>70</sup> To punish the law firm Farney Daniels L.L.P. for sending demand letters from MPHJ to Nebraska's businesses and violating the state's consumer protection laws, the Nebraska Attorney General attempted to undercut a pending patent infringement suit filed by Activision TV ("Activision"), another one of the firm's clients.<sup>71</sup> The Attorney General sent cease and desist letters to Farney Daniels, prohibiting the firm from negotiating in the pending suit and initiating future patent infringement suits in Nebraska.<sup>72</sup> As a result, the firm added the Attorney General as a defendant to Activision's suit, alleging violations of Activision's First Amendment right to associate with the counsel of its choice and Fifth and Fourteenth Amendment rights to due process.<sup>73</sup> The court enjoined the Attorney General from preventing Activision's patent infringement claim in Nebraska and found in favor of Activision, likening the cease and desist order to prior restraint.<sup>74</sup>

In the opinion, the District Court judge not only addressed the constitutional issues, but also touched on potential preemption issues that could affect the Nebraska Attorney General's actions.<sup>75</sup> The Court cited *Globetrotter Software, Inc.* to define the requirements of proving bad faith and explained that, without such a showing of bad faith, federal law would govern the patent rights (including the right to send demand letters to allegedly infringing business owners) and preempt state law claims.<sup>76</sup>

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<sup>70</sup> See Masnick, *supra* note 52 ("Nebraska's Attorney General Jon Bruning has tried a similar strategy, sending a cease-and-desist to at least one patent troll for violating state consumer protection laws and speaking out against patent trolls.").

<sup>71</sup> See *Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, 2013 U.S. Dist. LEXIS 140805 (D. Neb. Sept. 30, 2013).

<sup>72</sup> *Id.*

<sup>73</sup> *Id.*

<sup>74</sup> *Id.*

<sup>75</sup> *Id.*

<sup>76</sup> See *Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, 2013 U.S. Dist. LEXIS 140805 (D. Neb. Sept. 30, 2013); see also Bernard Nash, Maria Cosley Heard & Christopher J. Allen, *Taming the Troll Toll – AGs Heighten Scrutiny of Patent Trolls*, STATE AG MONITOR (Oct. 31, 2013), <http://www.stateagmonitor.com/2013/10/31/taming-the-troll->

### III. States Should Leave Patent Troll Legislation to the Federal Government

States have begun to take action against patent trolls in various ways. For instance, Vermont's "Bad Faith Assertions of Patent Infringement" Act attempts to punish patent holders that send demand letters to allegedly infringing businesses.<sup>77</sup> The Act provides Vermont's state court judges with factors to address bad faith patent infringement assertions when a demand letter recipient sues or counter-sues the letter sender.<sup>78</sup> However, a patent holder should not be required to file suit in order to enforce its patent. Instead, it should be permitted, as any other litigant would be, to communicate with alleged infringers to reach an amicable resolution. The courts have recognized that "[p]atents would be of little value if infringers could not be notified of the consequences of infringement or proceeded against in the courts. Such [communication] considered by itself cannot be said to be illegal."<sup>79</sup> Proponents of the Vermont Act regulating those communications argue that it is "an example of how federalism is supposed to work."<sup>80</sup> They also argue that states should be encouraged to legislate against patent trolls because a decentralized patent system could benefit both inventors and businesses and would not hinder an inventor's ability to patent an invention.<sup>81</sup> Regardless of the proponents' arguments, states are exceeding their authority and are preempted from passing this kind of legislation.

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toll-ags-heighten-scrutiny-of-patent-trolls/ ("The court also noted that the federal government largely has preempted the field of patent law.").

<sup>77</sup> See 9 V. STAT. ANN. § 4197 (LEXIS 2013).

<sup>78</sup> *Id.*

<sup>79</sup> *Mikohn Gaming Corp. v. Acres Gaming*, 165 F.3d 891, 897 (Fed. Cir. 1998) (citing *Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8 (1913)).

<sup>80</sup> Camilla A. Hrdy, *What is Happening in Vermont? Patent Law Reform From the Bottom Up*, PATENTLY-O (May 27, 2013), <http://www.patentlyo.com/patent/2013/05/what-is-happening-in-vermont-patent-law-reform-from-the-bottom-up.html>.

<sup>81</sup> *Id.*

### A. States Are Preempted From Legislating Against Patent Trolls

States may regulate the use of intellectual property only in ways consistent with federal law.<sup>82</sup> In the patent field, courts have considered three types of preemption: express, field, and conflict preemption.<sup>83</sup> Express preemption exists when a federal statute explicitly states that the federal law preempts any state law.<sup>84</sup> Field preemption can be found when federal occupation in an area of law is so pervasive that state law cannot co-exist.<sup>85</sup> Finally, conflict preemption can be split into direct conflict preemption and obstacle preemption.<sup>86</sup> Direct conflict preemption occurs when a state law directly conflicts with federal law, making it impossible for a party to comply with both laws.<sup>87</sup> In contrast, obstacle preemption applies when a party would be able to comply with both the federal and state laws, but the state law cause of action frustrates the federal law's objectives.<sup>88</sup>

Express preemption does not apply to the Vermont Act because no federal patent statute explicitly mentions the state law. Though compliance with both federal and state patent law may not be impossible as required under direct conflict preemption, and state patent troll legislation does not fit neatly under any preemption category, the legislation may still run afoul under a combination of obstacle preemption and field preemption.<sup>89</sup> Courts have discounted obstacle preemption claims under state unfair competition laws that implicate patents because the claims do not interfere with patent law's objectives to incentivize invention and promote the full disclosure

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<sup>82</sup> *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979).

<sup>83</sup> *Id.* (citing *Hunter Douglas, Inc. v. Harmonic Design*, 153 F.3d 1318 (Fed. Cir. 1998)).

<sup>84</sup> *See Sukumar v. Nautilus, Inc.*, 829 F. Supp. 2d 386, 393 (W.D. Va. 2011).

<sup>85</sup> *Id.*

<sup>86</sup> *Id.*

<sup>87</sup> *Id.* (citing *English v. Gen. Elec. Co.*, 496 U.S. 72, 79 (1990)); *see Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 156–57 (1989).

<sup>88</sup> *See Sukumar*, 829 F. Supp. 2d at 393.

<sup>89</sup> *Id.* at 396–97 (citing *Fla. Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. 132, 142–43 (1963)).

of inventions.<sup>90</sup> For example, in *Sukumar*, the plaintiffs alleged a breach of California’s false advertising and unfair competition laws as part of a federal suit alleging bad faith and falsely marking a patented product.<sup>91</sup> The court held that the plaintiff’s state law claims would not endanger patent law’s objectives because they did not impose requirements inconsistent with federal law.<sup>92</sup> Yet, those courts seem to ignore one of patent law’s most important objectives: to maintain uniformity.<sup>93</sup>

Similarly, courts have discounted field preemption in narrow instances where federal law was held not to preempt state tort claims against patent holders arising under a state’s unfair competition and consumer protection laws.<sup>94</sup> This narrow exception only comes into play when a claimant can prove the patent holder exercised bad faith in its conduct—the claimant would have to show the patent holder either knew the asserted patent was invalid or had no reasonable basis to claim the patent was infringed.<sup>95</sup> For instance, in the usual scenario, the defendant in a suit claims that the suit interfered with its business practices by imposing unnecessary costs to deal with unlawfully asserted patents, resulting in a violation of the state’s unfair competition laws.<sup>96</sup> In order for a state law to avoid the narrow exceptions to federal patent law’s preemption, the law would have to both comply with the federal courts’ standard for bad faith, and avoid inhibiting patent law’s uniformity objective.<sup>97</sup> The Vermont patent troll legislation does neither and is

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<sup>90</sup> *Id.* at 398.

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

<sup>92</sup> *Id.*

<sup>93</sup> See *infra* Part III.B.

<sup>94</sup> See generally *Sukumar v. Nautilus, Inc.*, 829 F. Supp. 2d 386 (W.D. Va. 2011).

<sup>95</sup> *Adept, Inc. v. Murex Sec., Ltd.*, 539 F.3d 1354, 1369 (Fed. Cir. 2008) (“State tort claims against a patent holder . . . based on enforcing a patent in the marketplace, are ‘preempted’ by federal patent laws, unless the claimant can show that the patent holder acted in ‘bad faith’ in the publication or enforcement of its patent.”).

<sup>96</sup> See *Adept, Inc.*, 539 F.3d at 1357.

<sup>97</sup> *Id.* at 1369–70. The preemption of a claim without bad faith is supported by the following:

“A patentee that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers.” Accordingly, a patentee must be allowed to make its rights known to a potential infringer so that the latter can determine whether to cease its allegedly infringing



therefore preempted.

Under federal law, a showing of bad faith is necessary for a state law claim dealing with communications that allege patent infringement to avoid federal preemption.<sup>98</sup> This requires an understanding of the term “bad faith.” In *Globetrotter Software, Inc.*, the Court of Appeals for the Federal Circuit affirmed a clear bad faith standard for courts to use when determining whether federal patent law preempts a state law tort claim dealing with patent communications.<sup>99</sup> In its opinion, the court surveyed the bad faith standard’s development and determined that the accepted standard should be one where the allegations of patent infringement must be “objectively baseless.”<sup>100</sup> Adopting an objective standard and specifically denying the plaintiff’s suggestion that a subjective bad faith standard should apply, the court ruled that there was no bad faith.<sup>101</sup> In *Mirafi, Inc.*, the Court of Appeals for the Federal Circuit determined that no bad faith existed, even though the alleged infringers received letters and other communications.<sup>102</sup> According to the court, prior intent to not litigate the patent, failure to litigate infringement claims, and initiation of a lawsuit were all within the party’s rights to enforce a patent.<sup>103</sup> The court also concluded that,

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activities, negotiate a license if one is offered, or decide to run the risk of liability and/or the imposition of an injunction.

Va. Panel Corp. v. MAC Panel Co., 133 F.3d 860, 869 (Fed. Cir. 1997), *cert. denied*, 525 U.S. 815 (1998) (quoting *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709 (Fed. Cir. 1992)).

<sup>98</sup> *Id.*

<sup>99</sup> See *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367, 1375–76 (Fed. Cir. 2004).

<sup>100</sup> *Id.* The court relied on *Profl Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49 (1993), which elaborated the “objectively baseless” standard, stating, “[t]he lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized.” *Id.*

<sup>101</sup> *Id.* at 1375. The alleged misuse of three allegedly infringed patents arose out of a claim that theasserter, by claiming infringement of license management software, interfered with a deal to purchase the outstanding shares of another company and other negotiations with the CEO. *Id.*

<sup>102</sup> *Mirafi, Inc. v. Murphy*, 1991 U.S. App. LEXIS 1636, at \*7 (Fed. Cir. 1991) (holding that the district court’s finding, of “continuing course of conduct . . . and a series of extra-judicial acts” equates to bad faith, was not supported by clear and convincing evidence).

<sup>103</sup> *Id.* at 7–8.

unless the patent was already invalid, or the patent holder knew there was no infringement, there could be no bad faith.<sup>104</sup>

Vermont's standard for bad faith does not meet the Federal Circuit's standard, which courts have applied to state law claims based on communications that allege patent infringement. The Vermont Act's approach simply takes a far broader stance on bad faith. In short, bad faith under state law may well be good faith under federal law. As we have seen, Vermont sets forth factors a court may consider to assess bad faith infringement claims.<sup>105</sup> When Vermont's factor-oriented test is compared to the judge-made "objectively baseless" standard, the state's factor-oriented test would create liability in situations where bad faith, as defined by the federal courts, does not exist.

For example, factor six of the Vermont statute, which requires proof that the sender knew or should have known the patent was invalid, may facially comply with the bad faith standard, but in reality, it does not.<sup>106</sup> Finding that the defendant knew the patent was invalid necessarily requires a determination of the patent's validity to begin with. Indeed, the Vermont law requires state court judges to determine if demand letters point to specific areas of potential infringement in factors one, two, six, and eight of the Vermont Act.<sup>107</sup> This necessarily requires the judges to interpret a patent's claims—something that is ordinarily done in the federal courts.

Claim construction can be determinative of an entire patent infringement suit.<sup>108</sup> If state court judges construe the meaning of a patent's claims to determine whether patent infringement

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<sup>104</sup> *Id.*

<sup>105</sup> *Id.*

<sup>106</sup> Factor six, like the federal bad faith standard, may be onerous to prove. For example, the demand letter recipient would satisfy this factor only by providing explicit evidence that the sender actively withheld prior art even though the sender knew the art would invalidate its patent. This is only one factor, however, and judges may take into account subjective factors that do not comply with federal law.

<sup>107</sup> 9 V. STAT. ANN. § 4197 (b)(1)(C), (b)(2), (b)(6) (LEXIS 2013) (requiring specific areas of infringement to be claimed in a demand letter and a determination of the merit of patent infringement).

<sup>108</sup> See Peter S. Menell, Matthew D. Powers & Steven C. Carlson, *Patent Claim Construction: A Modern Synthesis and Structured Framework*, 25 BERKELEY TECH. L.J. 711, 714 (2010).

suits have merit, their findings could have an impact far greater than decisions solely determining whether a patent assertion is made in bad faith. For instance, the implications could project into validity claims.<sup>109</sup> Also, any appeal of a patent infringement claim, specifically an appeal of claim construction and validity claims, should go to the Court of Appeals of the Federal Circuit (“CAFC”), which has exclusive jurisdiction over those cases.<sup>110</sup> An appeal of a decision under the Vermont Act would instead go to the state’s appeals court.

Another issue with the factors arises in factor nine, a catchall which accords a court the discretion to consider any evidence it deems relevant to make a determination of bad faith.<sup>111</sup> This discretionary provision could lead to decisions that are subjective and certainly not objectively baseless, and could result in a fragmented approach to patent reform.<sup>112</sup> Although there is statutory language requiring reasonableness determinations, the open-endedness points to a subjective test, violating the objective standard.<sup>113</sup> As discussed in Part B, uniformity is of the utmost importance and such a wide grant of discretion would conflict with that objective.

Finally, Vermont’s General Assembly repeatedly stated that it does not intend to conflict with federal law.<sup>114</sup> These statements, however, only prove that the drafters likely attempted to carefully craft the statute to prevent preemption. This indicates that the drafters were concerned

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<sup>109</sup> See Ha Kung Wong & John P. Dillon, *Patent Claim Construction*, FITZPATRICK, CELLA, HARPER & SCINTO (2013), [http://www.fitzpatrickcella.com/DB6EDC/assets/files/News/Patent%20Claim%20Construction%20Wong\\_Dillon.pdf](http://www.fitzpatrickcella.com/DB6EDC/assets/files/News/Patent%20Claim%20Construction%20Wong_Dillon.pdf) (“In the litigation context, a patent infringement determination requires a two-step process: [t]he court must construe the patent claims [and] [t]he fact finder must evaluate the construed claims against the allegedly infringing device or process. Likewise, patent validity determinations are based on the construed patent claims.”).

<sup>110</sup> *Id.*

<sup>111</sup> 9 V. STAT. ANN. § 4197(b)(9) (LEXIS 2013) (“Any other factor the court finds relevant.”).

<sup>112</sup> See Michael Sherby, *Vermont’s Move to Target Patent Trolls*, BAKER BOTTS (July 2013), [http://www.bakerbotts.com/file\\_upload/IPReport201307-VermontsMovetoTargetPatentTrolls.htm](http://www.bakerbotts.com/file_upload/IPReport201307-VermontsMovetoTargetPatentTrolls.htm) (“The Act establishes an open-ended subjective test to determine bad faith assertion, including eight factors tending to demonstrate bad faith and six factors indicating absence of bad faith.”).

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

<sup>114</sup> “The General Assembly also recognizes that Vermont is preempted from passing any law that conflicts with federal patent law.” 9 V. STAT. ANN. § 4195 (LEXIS 2013). Vermont wants to avoid costs by “encouraging the most efficient resolution of patent infringement claims without conflicting with federal law.” *Id.*

with the possibility that federal patent law would in fact preempt state legislation against bad faith patent assertions.<sup>115</sup> The drafters may have attempted to avoid preemption, but they failed to do so. Therefore, federal law should preempt the Vermont Act.

### B. *Uniformity and Inconsistency Issues*

In *Bonito Boats*, in which the Supreme Court of the United States considered preemption questions regarding a state statute, Justice O'Connor wrote:

Given the inherently ephemeral nature of property in ideas, and the great power such property has to cause harm to the competitive policies which underlay the federal patent laws, the demarcation of broad zones of public and private right is “*the type of regulation that demands a uniform national rule.*”<sup>116</sup>

Justice O'Connor stressed the power of patents and recognized that their regulation should be uniform.<sup>117</sup> Given the status of patents, governments and courts should tread lightly when dealing with NPEs, as they can have a significant impact on the national market.<sup>118</sup> Failure to do so would run into obstacle preemption issues.

Although Congress considers a patent to be personal property, patent rights fundamentally differ from those under contract or tort law theory.<sup>119</sup> Unlike the enjoyment of physical devices, the use of knowledge or ideas cannot be depleted.<sup>120</sup> A patent grants the holder an exclusive right,

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

<sup>116</sup> *Bonito Boats v. Thunder Craft Boats*, 489 U.S. 141, 162–63 (U.S. 1989) (quoting *Ray v. Atl. Richfield Co.*, 435 U.S. 151 (1978)) (emphasis added).

<sup>117</sup> *Id.*

<sup>118</sup> *But see* Goldman, *supra* note 46 (discussing cybersquatters (domain name squatters somewhat equivalent to the patent troll) that became an issue, albeit briefly, in the 1990's, but were regulated by the Anti-Cybersquatting Consumer Protection Act of 1999); *see also* Tenesa S. Scaturro, *The Anticybersquatting Consumer Protection Act and the Uniform Domain Name Dispute Resolution Policy*, 11 NEV. L. J. 877, 883 (2010) (discussing the Federal Trademark Dilution Act, which was useful in controlling cybersquatters for time, but the cybersquatters quickly became more sophisticated and difficult to regulate).

<sup>119</sup> 35 U.S.C. § 261 (2012).

<sup>120</sup> F. SCOTT KIEFF, PAULINE NEWMAN, HERBERT F. SCHWARTZ & HENRY E. SMITH, *PRINCIPLES OF PATENT LAW 1* (Robert C. Clark et al. eds., 6th ed. 2013) (“Knowledge and ideas are, to an important extent, non-excludable and non-exhaustible, that is, unlike a car or a computer, the use and enjoyment of knowledge or ideas by one consumer does not deplete the supply for another.”).

one that does not specifically give the patent holder the right to actually use, sell, or make what is patented.<sup>121</sup> Instead, the holder has the right to *exclude* others from those activities.<sup>122</sup> Thus, patent law regulation has far-reaching consequences and is an exception to the laws against monopolies.<sup>123</sup>

Patent law has traditionally developed solely under federal law.<sup>124</sup> After all, the United States Constitution specifically enables *Congress* “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>125</sup> Federal law reflects these objectives, which include promoting nationwide uniformity of patent law.<sup>126</sup> Therefore, it is especially important for patent law to be stable, consistent, and clear given the uncertainty surrounding the rapidly changing field.<sup>127</sup>

In *Florida Prepaid*, the Supreme Court conceded that national uniformity in patent law was undoubtedly important, but stated that it was only one factor to be considered.<sup>128</sup> *Florida Prepaid* involved a claim brought by a patent holder against a Florida state agency, alleging that the state infringed on the patent holder’s patent.<sup>129</sup> The state agency argued that it was immune from suit under the doctrine of sovereign immunity, and thus the patent holder had no valid claim.<sup>130</sup> Though the case involved a federal statute abrogating sovereign immunity, which allowed the patent holder to sue the state agency, the court ultimately overturned the statute

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<sup>121</sup> 35 U.S.C. § 271 (2012).

<sup>122</sup> *Id.*

<sup>123</sup> See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971).

<sup>124</sup> See 1-SEC 1000 Patent Law Digest 1800; see also *Bilski v. Kappos*, 130 S. Ct. 3218, 3257 (2010) (Stevens concurring) (“Congress has established an intricate system of intellectual property.”).

<sup>125</sup> U.S. Const. art. I, § 8, cl. 8.

<sup>126</sup> See *Ultra-Precision Mfg. v. Ford Motor Co.*, 411 F.3d at 1377–78 (Fed. Cir. 2005) (quoting *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 162–63 (1989)).

<sup>127</sup> *Bilski v. Kappos*, 130 S. Ct. 3218, 3231 (2010) (Stevens concurring).

<sup>128</sup> See *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Savings Bank*, 527 U.S. 627, 645 (1999) (holding that patent law uniformity should not be the only factor in determining whether sovereign immunity in a patent infringement claim is preempted).

<sup>129</sup> *Id.* at 2202–04.

<sup>130</sup> *Id.*

because it found that patent infringement claims brought against a state were not a significant problem.<sup>131</sup> In reaching this conclusion, the court noted that in the past 110 years, only 8 similar suits had been brought to court.<sup>132</sup> As a result, the court recognized that sovereign immunity was an inappropriate remedy for these cases even though the possibility of varying state-specific remedies still remained.<sup>133</sup>

Here, the patent troll issue is much more pervasive than the issue in *Florida Prepaid*, as patent trolls frequently send demand letters and sue alleged infringers in all states. According to a company that tracks patent troll activity, in 2013 alone, those entities filed approximately 3,000 claims or about 52 percent of all patent lawsuits.<sup>134</sup> These statistics illustrate that the patent troll issue is far more significant than the issue in *Florida Prepaid*, which resulted in only 8 lawsuits over 110 years. Therefore, while the court found that state-specific remedies would suffice in *Florida Prepaid*, the case is distinguishable because patent trolls have been a nuisance that requires uniform federal action.

Applicable to the patent troll context and consistent with the Justice Steven's dissent in *Florida Prepaid*, Congress traditionally provides patent legislation; thus, there is a strong federal interest in uniformly interpreting patent statutes.<sup>135</sup> That way, the statute's interpretation would be faithful to patent law's constitutional goals.<sup>136</sup> Justice Stevens cited to Justice Story's commentary regarding the Constitution's Patent and Copyright Clause:

It is beneficial to all parties, that the national government should possess this power; to authors and inventors, because, otherwise, they would be subjected to the varying

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<sup>131</sup> *Id.* at 2207.

<sup>132</sup> *Id.*

<sup>133</sup> *Id.*

<sup>134</sup> James Bessen, *Patent Trolling Was Up 11 Percent Last Year*, THE WASHINGTON POST (Jan. 31, 2014, 11:30 AM), <http://www.washingtonpost.com/blogs/the-switch/wp/2014/01/31/patent-trolling-was-up-11-percent-last-year/>.

<sup>135</sup> *Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. at 649–50 (Stevens dissenting).

<sup>136</sup> Patent law's constitutional goals include "stimulating invention and rewarding the disclosure of novel and useful advances in technology." *Id.*; see generally *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1 (1966).

laws and systems of the different states on this subject, which would impair, and might even destroy the value of their rights.<sup>137</sup>

Like Justice O'Connor in *Bonito Boats*, Justice Story believed that a patchwork of state regulation could destroy a patent's value and undermine the patent system's uniformity.<sup>138</sup>

If states are granted the right to police patent trolls, the piecemeal approach to patent troll legislation may be fatal to the once traditionally uniform federal patent law. Patents involve complex and sophisticated rights that states courts are not accustomed to dealing with. As businesses grow based on the lucrative patent troll model, fragmenting the model's regulation would result in inconsistent state court determinations.<sup>139</sup> And, since the Vermont statute leaves open the possibility that judges could focus on and give more weight to some factors than others, the courts within the state of Vermont alone could create wildly wavering standards. In an area of law that the federal government has traditionally regulated, this would be troublesome.<sup>140</sup>

For example, several factors in the Vermont statute deal with the sender's specificity in the demand letter regarding the patent and specific areas in the patent that potentially lack sufficient disclosure.<sup>141</sup> An NPE could send a letter to an alleged infringer and include the patent number, name, and address of the patent owner or assignee, but there is a grey area regarding the specific areas of alleged infringement and analysis the sender of the demand letter potentially performed. Further, different judges could have different opinions on the reasonableness of time required to

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<sup>137</sup> *Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. at 649–50 (Stevens dissenting) (quoting J. Story, COMMENTARIES ON THE CONSTITUTION OF THE UNITED STATES 402 (R. Rotunda & J. Nowak eds. 1987)); *see* *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996) (quoting H.R. Rep. No. 97-312, at 20–23 (1981)) (“[I]ncreased uniformity would ‘strengthen the United States patent system in such a way as to foster technological growth and industrial innovation.’”).

<sup>138</sup> *Id.* (quoting House Hearings, at 38 (statement of Robert Merges)); *see* *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996) (discussing the importance of uniformity in allocating issues of patent claim construction to the federal court); *but see* Hrdy, *supra* note 80 (arguing that state-level solutions and robust federalism can actually help to enhance the goals of patent law by promoting intergovernmental competition with the diffusion of different sovereign authorities, therefore growing innovation within individual localities).

<sup>139</sup> *See* Barry, *supra* note 23.

<sup>140</sup> *See supra* note 124.

<sup>141</sup> *See generally* 9 V. STAT. ANN. § 4197 (LEXIS 2013).

provide requested information or to pay a demanded license fee. What happens if one court interprets a demand letter to be specific enough, while another finds the opposite?<sup>142</sup> Uniformity in patent law and patent troll legislation would prevent such inconsistent decision-making.<sup>143</sup>

### C. *Other Policy Issues: Forum Shopping and Accountability*

Two other concerns arise if power to pass patent troll legislation is delegated to the states, namely: (1) forum shopping and the so-called “race to the bottom,” and (2) accountability.

If states enact legislation with provisions similar to Vermont’s factor test for determining whether there is bad faith in a patent assertion claim, state judges may interpret the factors with varying degrees of importance. If this occurs, the patent trolls can engage in forum shopping.<sup>144</sup> Within a state, patent trolls could send letters to companies only in jurisdictions that have more favorable treatment of patent troll demand letters.<sup>145</sup>

Furthermore, patent trolls could choose which state to target. Patent trolls could fall victim to the race to the bottom, which is traditionally described in areas of labor and tax law.<sup>146</sup> States would consider the benefits, business activity, and effects on innovation from enforcing patent troll legislation and determine the baseline standards for patent infringement assertions.<sup>147</sup> Those states looking to protect and spur small business activity may seek to limit patent trolls and

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<sup>142</sup> The same could be said for the reasonable amount of time hypothetical. In that case, the demand letter sender or recipient could engage in a form of forum-shopping. *See infra* Forum Shopping, Part III.C.

<sup>143</sup> *See* *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996) (“It was just for the sake of such desirable uniformity that Congress created the Court of Appeals for the Federal Circuit as an exclusive appellate courts for patent cases.”).

<sup>144</sup> *See Forum Shopping*, LEGAL INFORMATION INSTITUTE, [http://www.law.cornell.edu/wex/forum\\_shopping](http://www.law.cornell.edu/wex/forum_shopping) (last visited Feb. 13, 2014).

<sup>145</sup> This may not actually be the case, as the Vermont statute claims that the state, uniformly, is aiming to protect Vermont’s IT business. *See* 9 V. STAT. ANN. § 4195, *supra* note 54 (see accompanying text).

<sup>146</sup> *See, e.g., Race to the Bottom*, LEGAL INFORMATION INSTITUTE, [http://www.law.cornell.edu/wex/race\\_to\\_the\\_bottom](http://www.law.cornell.edu/wex/race_to_the_bottom) (last visited Feb. 13, 2014) (“Some observers claim that a race to the bottom results when governments compete for business by lowering labor standards or corporate taxes.”).

<sup>147</sup> *See* Richard L. Revesz, *Rehabilitating Interstate Competition: Rethinking the “Race-to-the-Bottom” Rationale for Federal Environmental Regulation*, 67 NYU L. REV. 1210, 1215 (“[C]ompetitive jurisdictions will consider the potential benefits, in terms of inflows of industrial activity, of setting standards that are less stringent than those of other jurisdictions.”).



compete for stringent patent assertion legislation. Depending on a state's attitude towards patent trolls, the businesses could also seek to move to a state with the toughest anti-troll legislation. Patent trolls could similarly benefit by bringing patent infringement claims or charging licensing fees in other states with more favorable laws. Therefore, one state would not be more advantageous for businesses to fight patent trolls in than another.

Aside from preventing forum shopping, uniform standards for determining NPE sanctions would be beneficial from an accountability standpoint. If state legislatures gain more control in the patent law arena, citizens will not know who to blame if they disagree with the legislation regarding patent assertions.<sup>148</sup> While state legislation may provide a check on federal patent law, many people would not know which level of government to hold accountable.<sup>149</sup> This is problematic, as the Vermont test for bad faith is highly subjective and allows different states to have different factors.<sup>150</sup> If a state is too strict or too lenient, citizens may want to vote for change. Because the federal government is widely known to regulate patent law, citizens may encounter difficulty distinguishing the correct body of law to change or who to contact to change it. In the end, state-by-state regulation of patent trolls is undesirable. Patent trolls would engage in forum shopping and citizens of each state would not know who to hold accountable.

#### **IV. A Temporary Solution to Deal with Patent Trolls**

One of the few solutions to keep states from legislating against patent trolls is for Congress to pass its own legislation. During President Obama's 2014 State of the Union Address, he urged Congress to do so: "[L]et's pass a patent reform bill that allows our businesses to stay focused on

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<sup>148</sup> See, e.g. *Reno v. Condon*, 528 U.S. 141 (2000). The court upheld a federal law that limited commercial vending of personal data by states and that had previously regulated the activity. *Id.* An accountability issue arose when determining if both laws could be complied with – if citizens in a state wanted to vote to change the law, they would not necessarily know whether to vote for change in Congress or state legislature. *Id.*

<sup>149</sup> *Id.*

<sup>150</sup> See *Globetrotter Software, Inc.*, 362 F.3d at 1375.

innovation, not costly, needless litigation.”<sup>151</sup> To limit such needless litigation and encourage more informed discussion between parties, Congress should mirror several amended local patent rules of the United States District Court for the District of New Jersey to encourage more informed discussion between parties.

First, amended Local Patent Rule 3.6(b) should be considered in national legislation. The Rule provides that the party asserting infringement must specifically disclose, within seven days of the Scheduling Conference, each patent claim the opposing party allegedly infringes.<sup>152</sup> Though mainly referenced in patent litigation lawsuits under the Hatch Waxman Act when pharmaceutical companies file an Abbreviated New Drug Application (“ANDA”), the rule could apply more broadly.<sup>153</sup> Before the amendment, ANDA filers (generic pharmaceutical companies) could attempt to negotiate the asserted infringement claims with the patent holder, but could only speculate as to which claims the patent holder would assert.<sup>154</sup> The amended rule would eliminate the inefficiency of speculation in the broader context of general patent litigation. Patent trolls or other enforcers would have to point to specific claims of the patents the accused parties are infringing. This could force patent trolls to think twice before sending frivolous demand letters, as they would have to cite upfront where the alleged infringement is occurring.

Second, amended Local Patent Rule 3.2 requires a patent holder to produce certain documents early in litigation, including documents that establish a priority date (the earliest date a patent’s rights can be enforced), establish any sale, offer to sell, or public use of the claimed

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<sup>151</sup> *Obama’s 2014 State of the Union address: Full text*, CBS NEWS (Jan. 28, 2014, 9:20 PM), <http://www.cbsnews.com/news/obamas-2014-state-of-the-union-address-full-text/>.

<sup>152</sup> Scott Cuning, *Hatch-Waxman Litigation Alerts: New Jersey Amends Local Patent Rules*, HAYNES AND BOONE (Mar. 31, 2011), [http://www.haynesboone.com/hatch-waxman\\_litigation\\_alerts\\_03-30-2011/](http://www.haynesboone.com/hatch-waxman_litigation_alerts_03-30-2011/) (citing L. Pat. R. 3.6(b)).

<sup>153</sup> *Id.*

<sup>154</sup> *Id.*

invention, and establish the ownership rights of the patent at issue.<sup>155</sup> Speedy disclosure here would force a patent holder to initially establish and disclose its ownership to ensure that a potentially legitimate claim has been brought.

Similarly, if Congress were to adopt this rule, the alleged infringer would be required to disclose certain evidence as part of its “Invalidity Contentions” within 45 days of the patentasserter’s production of documents.<sup>156</sup> In the Invalidity Contentions, the alleged infringer must identity each prior art reference it uses to support its counter-claim.<sup>157</sup> The alleged infringer must also provide a chart directing the Court to each limitation it declares invalid, accompanied by a detailed explanation and prior art reference invalidating the limitation.<sup>158</sup> Thus, the burden would be on both parties to produce documents supporting their respective claims early on in litigation. Sharing the burden would encourage even earlier mediation or settlement between parties and limit litigation costs. This is especially important because smaller companies sued by alleged patent trolls are often forced into unreasonable licensing fees due to the enormous cost of litigation.

Following New Jersey’s local patent rules, the entire early disclosure process would be completed within two months of the initial scheduling conference.<sup>159</sup> Further, parties would not be able to amend their contentions without filing an application and a showing of good cause.<sup>160</sup> Difficulty to change the initially disclosed documents would further expedite the early stages of litigation and comport with President Obama’s State of the Union Address—through efficient and early disclosure, parties may be discouraged from “needless litigation.”

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<sup>155</sup> Michael Cukor & Lisa H. Wang, *New Jersey Local Patent Rules: Fostering a Good Venue for Patent Litigation*, GIBBONS LAW (Jan. 22, 2009), [http://www.gibbonslaw.com/news\\_publications/articles.php?action=display\\_publication&publication\\_id=2661](http://www.gibbonslaw.com/news_publications/articles.php?action=display_publication&publication_id=2661).

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

<sup>157</sup> *Id.*

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

<sup>159</sup> *Id.*

<sup>160</sup> *Id.* (citing *L. Pat. R. 3.7*).

Finally, other court districts, including the Eastern District of Texas and the Northern District of California share similar early disclosure provisions; however, New Jersey's rules are unique in that New Jersey's Magistrate Judges are principally responsible for the pre-trial activities and are highly involved at the early disclosure stage.<sup>161</sup> National legislation mandating increased judicial involvement early on would be beneficial as a deterrent. Adopting these rules makes it more likely that patent trolls would be discouraged from filing frivolous patent infringement lawsuits, as they would be forced to disclose specific areas of infringement under the close supervision of Magistrate Judges.

Although these provisions may not be the permanent answer to limiting the effects of patent trolls, they could be a temporary solution to buy time for Congress to pass more stringent and uniform measures. National adoption of New Jersey's local patent rules would help to enhance patent infringement lawsuits' speed and efficiency, while increasingly level the playing field.

## V. Conclusion

Whether patent trolls are arming themselves with patents in a "destructive arms race" or simply chasing more effective business strategies, one thing is certain: the nation is campaigning for a crackdown on patent trolls and NPEs. Congress has been slow to react to the fast-paced evolution of modern technology. So, even though proposed legislation is waiting to be passed, the states are impatient and are seeking to get involved.

As with any state legislation in areas where federal law exists, concerns of preemption arise. While Vermont attempts to take aim at bad faith patent assertions in the state, the state should be wary. The factors the Vermont legislation sets out are far too subjective to comply with

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<sup>161</sup> See Michael Cukor & Lisa H. Wang, *New Jersey Local Patent Rules: Fostering a Good Venue for Patent Litigation*, GIBBONS LAW (Jan. 22, 2009), [http://www.gibbonslaw.com/news\\_publications/articles.php?action=display\\_publication&publication\\_id=2661..](http://www.gibbonslaw.com/news_publications/articles.php?action=display_publication&publication_id=2661..)

the case law that provides for an “objectively baseless” standard in proving bad faith, and leaves open the possibility of inconsistent judicial interpretations.

Even if federal law does not ultimately preempt the Vermont amendment to its Consumer Protection Act, Vermont and other states should still not legislate against patent trolls. Uniformity in patent law is a critical concern. The Constitution granted Congress the power to further science and innovation through controlling patent law. If states are permitted to enact their own legislation and destroy the uniformity objective of patent law, issues of forum shopping and accountability will also arise. States should not be granted authority to act in Congress’s place. Congress must act quickly and pass effective anti-troll legislation if it wishes to control the perceived patent troll problem, but for now, the traditional federal patent system should be preserved.