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Inhibiting Patent Trolling: A New Approach for Applying Rule 11

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**Inhibiting Patent Trolling:
A New Approach for Applying Rule 11**

Eric Rogers & Young Jeon



Inhibiting Patent Trolling: A New Approach for Applying Rule 11

By Eric Rogers & Young Jeon*

There has been an alarming rise in the number of litigious entities—commonly referred to as patent trolls or non-practicing entities—that make no products but file dubious patent infringement lawsuits merely to extract money from commercially productive companies. High litigation costs provide a fertile environment for an exploitive business model that uses shotgun tactics to threaten patent infringement claims against numerous companies, many of which will make a purely financial decision to pay patent trolls rather than expend even more money in litigation. Sometimes the payoff is a settlement strategically set below the likely cost of litigation defense. Other times, the payoff is a license fee too small to justify expending litigation costs to adjudicate, even if it is likely a frivolous claim.

Patent infringement claims asserted by patent trolls are a type of nuisance lawsuit—a lawsuit in which the defendant pays to make the lawsuit go away simply to avoid expending the considerable costs associated with litigation, not because the lawsuit has any significant merit or chance of success. While nuisance lawsuits are not new, the direct, focused, and widespread negative effects of nuisance patent lawsuits on innovation and productive entities by those neither innovating nor producing anything make these lawsuits particularly damaging to society. In addition, the public’s negative perception of patent trolls filing baseless patent infringement claims endangers the legitimacy of the patent system as a whole. Most people agree something must be done, but there is little agreement on any specific solution, approach, or strategy.

Yet one need only look to the Federal Rules of Civil Procedure for a suitable remedy to help curb this vexing problem. This Article proposes a specialized implementation of Rule 11 to combat some of the unique difficulties created by the patent-trolling business model. A Rule 11-based solution is not only preferable to new legislation, but also complementary because it is 1) immediately available without any legislative action, 2) flexible enough to handle evolving behavior that exploits patent litigation inefficiencies through bad-faith patent infringement claims, and 3) strong enough to deter variations of patent-trolling behavior—whether conducted by a traditional patent troll, NPE, PAE, or even a commercially active entity. Broadly stated, this approach identifies patent-trolling-predisposed claimants before the accretion of discovery costs and provides a swifter litigation exit ramp. The proposed inquiry treats all NPEs the same and analyzes

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objective indicia as proxies for ascertaining the intent behind the entity's litigious conduct. In sum, an upfront application of Rule 11 provides a less expensive escape route to end the most readily detectable patent infringement nuisance lawsuits.

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INTRODUCTION

¶1 There has been an alarming rise in the number of litigious entities—commonly referred to as patent trolls or non-practicing entities (NPEs)—that make no products but file dubious patent infringement lawsuits merely to extract money from commercially productive companies.¹ High litigation costs provide a fertile environment for an exploitive business model that uses shotgun tactics to threaten patent infringement claims against numerous companies, many of which will make a purely financial decision to pay the patent troll rather than expend even more money in litigation. Sometimes the payoff is a settlement strategically set below the likely cost of litigation defense. Other times, the

¹ See *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 395 (2006) (Kennedy, J., concurring) (“An industry has developed in which firms use patents . . . primarily for obtaining licensing fees.”); EXEC. OFFICE OF THE PRESIDENT, PATENT ASSERTION AND U.S. INNOVATION (2013) [hereinafter PATENT ASSERTION AND U.S. INNOVATION REPORT], available at www.whitehouse.gov/sites/default/files/docs/patent_report.pdf (“Suits brought by PAEs have tripled in just the last two years, rising from 29 percent of all infringement suits to 62 percent of all infringement suits.”); RPX CORP., 2012 NPE ACTIVITY REPORT 12 (2013) [hereinafter RPX CORP. REPORT], available at <http://www.rpxcorp.com/wp-content/uploads/2013/09/0BF995E82CFF591EE80EFE8AC69259E7.pdf> (“In 2012, for the first time, NPE cases filed accounted for the majority of all patent infringement cases filed. The NPE share of cases filed has more than doubled since 2008. A substantial portion of the increase occurred after the enactment of the [America Invents Act] and likely reflects a disproportionate effect of the [law’s] joinder rule on NPE cases filed.”); *NPEs Have Broader Impact than GAO Headlines Suggest*, RPX BLOG (Sept. 9, 2013) [hereinafter RPX BLOG], <http://www.rpxcorp.com/NPEs-Have-Broader-Impact-Than-GAO-Headlines-Suggest>; PRICEWATERHOUSECOOPERS, 2012 PATENT LITIGATION STUDY, <http://www.pwc.com/us/en/forensic-services/publications/2012-patent-litigation-study.jhtml> (last accessed Dec. 10, 2013) [hereinafter 2012 PATENT LITIGATION STUDY]; see also James Bessen, Jennifer Ford, & Michael J. Meurer, *The Private and Social Costs of Patent Trolls*, 34 REGULATION 26, 26–27 (2011–12) [hereinafter Bessen, *The Private and Social Costs of Patent Trolls*] (discussing how patent troll litigation makes up majority of total patent lawsuits filed); Colleen V. Chien, *Of Trolls, Davids, Goliaths, and Kings: Narratives and Evidence in the Litigation of High-Tech Patents*, 87 N.C. L. REV. 1571, 1608–11 (2009) (reporting that non-practicing entities own the majority of the most litigated patents); Brian J. Love, *An Empirical Study of Patent Litigation Timing: Could a Patent Term Reduction Decimate Trolls Without Harming Innovators?*, 161 U. PA. L. REV. 1309 (2013).

payoff is a license fee too small to justify expending litigation costs to adjudicate, even if it is likely a frivolous claim.

This exploitive business model, and patent infringement lawsuits brought by patent trolls generally, are facing increasing criticism.² Complaints come from various corners, including small businesses, politicians, and lobbyists representing major corporations.³ One of the main concerns with the rise of patent-troll lawsuits is the overall economic waste associated with this type of patent litigation.⁴ More importantly, patent trolling can needlessly increase the costs of using patented technologies and thus restrain the practicing of patented technologies.⁵ This contradicts the fundamental goal of the U.S. patent system—promoting technological innovation for society’s benefit.⁶

During congressional discussion of proposed legislation, Representative DeFazio cited a study that concluded, “[P]atent troll suits cost American technology companies over \$29 billion in 2011 alone.”⁷ President Obama decried patent trolls, saying they

² See Randall R. Rader, Colleen V. Chien, & David Hricik, Op-Ed., *Make Patent Trolls Pay in Court*, N.Y. TIMES (June 4, 2013) [hereinafter Rader Op-Ed.], <http://www.nytimes.com/2013/06/05/opinion/make-patent-trolls-pay-in-court.html> (“The onslaught of litigation brought by ‘patent trolls’—who typically buy up a slew of patents, then sue anyone and everyone who might be using or selling the claimed inventions—has slowed the development of new products, increased costs for businesses and consumers, and clogged our judicial system.”); *This American Life: When Patents Attack!*, NAT’L PUB. RADIO (July 22, 2011) (downloaded using iTunes).

³ See Colleen V. Chien, *Startups and Patent Trolls*, 17 STAN. TECH. L. REV. 461, 483–85 (2014).

⁴ See John A. Amster, *The Patent Troll Toll*, INTELLECTUAL PROP. MAG., June 2013, at 34, available at <http://www.rpxcorp.com/wp-content/uploads/2014/02/The-Patent-Troll-Toll.pdf> (“On average, defendants stay in the case for less than 12 months before settling. This only reinforces the notion that, for all intents and purposes, these cases are transfers of value between patent users and patent owners. Using the legal system to make that transfer—and incur 50% of transaction costs—makes the tax on innovation far more burdensome than it needs to be.”).

⁵ See FED. TRADE COMM’N, *THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION* 67–68 (2011), available at <http://www.ftc.gov/reports/evolving-ip-marketplace-aligning-patent-notice-remedies-competition-report-federal-trade>.

⁶ See U.S. CONST. art. I, § 8, cl. 8 (“To Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”).

⁷ See James E. Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 CORNELL L. REV. 387, 412–13 (2014) [hereinafter Bessen, *The Direct Costs from NPE Disputes*] (“Over a decade, the amount of NPE litigation has grown from less than 5% of all U.S. patent litigation to over 60%.”). However, an increase in the number of patent litigations by NPEs can be explained by the implementation of the America Invents Act changes to Rule 20 of the Federal Rules of Civil Procedure in September 2011. See RPX CORP. REPORT, *supra* note 1. The new procedural rule for joining defendants in patent litigation was designed to prevent patent trolls from suing dozens of defendants in the same case where there is no commonality between complaints other than the allegedly infringed patent. Thus, a status quo for the number of defendants in patent trolling litigation can now be better represented from the increase of independent cases. See *id.*; see also Christopher A. Cotropia, Jay P. Kesan, & David L. Schwartz, *NPE Patent Data Project*, NPE DATA, npedata.com (last visited Dec. 10, 2013) (“[W]e find that most differences between the years—an increase in the number of patent holding companies and individual inventor suits—is likely explained by a change in the joinder rules adopted in 2011 as part of the America Invents Act.”); David Schwartz & Jay Kesan, *Analyzing the Role of Non-Practicing Entities in the Patent System*, 99 CORNELL L. REV. 425, 433 (2014) (arguing that Bessen and Meurer’s study was fundamentally flawed because their definition of patent trolls included individual inventors, universities, and entities intending to practice their patent(s) in the future); Mark Summerfield, *A \$29 Billion US Troll-Tax or Just Another Statistical Smokescreen?*, PATENTOLOGY BLOG (June 29, 2012, 1:52 AM), <http://blog.patentology.com.au/2012/06/29-billion-us-troll-tax-or-just-another.html>; *Do NPE’s “Cost” Us \$29 B? Intellectual Ventures Co-Founder Peter Detkin Sets the Record Straight*, GAMETIME IP (last updated July 17, 2012, 5:43 PM), <http://gametimeip.com/2012/06/28/do-npes-cost-us-29-b-intellectual-ventures-co-founder-peter-detkin-sets-the-record-straight/>.

“essentially leverage and hijack somebody else’s idea and see if they can extort some money out of them.”⁸ The potential drag on the economy caused by the widespread use of the patent-troll business model has led Congress to consider new legislation that implements a one-way, “loser-pays” system for patent litigation. This system would require each NPE claimant to post bond for the full cost of defending a lawsuit before trial, and if a court finds that no infringement occurred, the NPE pays the defendant’s full legal costs.⁹

¶14 Patent infringement claims asserted by patent trolls are a type of nuisance lawsuit—a lawsuit in which the defendant pays to make the lawsuit go away simply to avoid expending the considerable costs associated with litigation, not because the lawsuit has any significant merit or chance of success.¹⁰ While nuisance lawsuits are not new, the direct, focused, and widespread negative effects of nuisance patent lawsuits on innovation and productive entities by those neither innovating nor producing anything make these lawsuits particularly damaging to society. In addition, the public’s negative perception of patent trolls filing baseless patent infringement claims endangers the legitimacy of the patent system as a whole. Most people agree something must be done,¹¹ but there is little agreement on any specific solution, approach, or strategy.¹²

¶15 Yet one need only look to the Federal Rules of Civil Procedure (FRCP) for a suitable remedy to help curb this vexing problem. One purpose of the FRCP’s Rule 11 (Rule 11) is to discourage abusive litigation tactics.¹³ This Article proposes a specialized implementation of Rule 11 to combat some of the unique problems created by the patent-trolling business model. A Rule 11-based solution is not only preferable to new legislation, but also complementary because it is 1) immediately available without any legislative action, 2) flexible enough to handle evolving behaviors that exploit patent litigation by using bad-faith patent infringement claims, and 3) strong enough to deter variations of patent-trolling behavior—whether conducted by a traditional patent troll or less predatory entity.

¶16 Part I of this Article clarifies the patent-trolling business model and analyzes the unique ways patent trolls can manipulate patent litigation, settlements, and patent licensing. Part II explains the predominant proposals and tactics recently offered to inhibit patent trolling, which this Article predicts to be ineffective and/or indirectly weaken the patent system overall. Part III explains the current doctrine for imposing Rule 11 sanctions for patent infringement claims. Part IV proposes a new implementation of

⁸ PATENT ASSERTION AND U.S. INNOVATION REPORT, *supra* note 1, at 2.

⁹ H.R. 845, 113th Cong. § 285A(a)(b) (2013) (leaving the bond amount to be determined by the court on a case-by-case basis).

¹⁰ The nuisance lawsuit problem is not new. Adam Mossoff, *The Rise and Fall of the First American Patent Thicket: The Sewing Machine War of the 1850s*, 53 ARIZ. L. REV. 165, 183–84 (2010) (noting that since the early 1850s, individual inventors have complained about corporations that refuse to pay fair license fees for their inventive works); see Matthew B. Wills & Neil Gold, *Attorneys’ Fees in Litigation: Time to Discard the American Rule?*, 4 LITIG. 31, 31 (1978) (“[N]uisance law suits are at the heart of the medical malpractice insurance crisis.”).

¹¹ See Matt Levy, *Patent Progress’s Guide to Patent Reform Legislation*, PATENT PROGRESS (Mar. 4, 2014), <http://www.patentprogress.org/2013/10/23/patent-progresss-guide-to-patent-reform-legislation/>.

¹² See *Improving the Patent System to Promote American Innovation and Competitiveness: Hearing on H.R. 3309 Before the H. Comm. on the Judiciary*, 113th Cong. (2013) (statement of Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary).

¹³ *FDIC v. Maxxam, Inc.*, 523 F.3d 566, 586 (5th Cir. 2008).

Rule 11 to help immediately alleviate the problems caused by patent trolling through a mechanism that identifies patent-trolling-predisposed claimants and delays the accretion of discovery costs. The proposed inquiry treats all NPEs the same and analyzes objective indicia as proxies for ascertaining the intent behind an entity's litigious conduct. This Article proposes an upfront application of Rule 11 as a less expensive escape route to end the most readily detectable patent infringement nuisance lawsuits.

I. NUISANCE PATENT INFRINGEMENT THREATS: PATENT TROLLS AND PATENT TROLLING

¶17 The prominence of intellectual property in the economy and its importance to businesses has dramatically increased over the past few decades. Similarly, this period has seen a rapid increase in the quantity of technological innovation across multiple industries, especially patented technologies related to products and services. Along with the rising prevalence, quantity, and value of patents, there has been a concomitant rise in rent seeking through the misuse of patent rights by entities pejoratively referred to as “patent trolls.” Patent trolls never plan to commercialize or practice their patents. Instead, patent trolls wait for others to commercialize technologies related to their patents so that they can later attempt to coerce the actual users of technology into exploitative license agreements or lawsuit settlements at exorbitant prices.

¶18 Various factors have led to the proliferation of patent trolling. For instance, many point to 1) a lack of demand for products in a faltering economy; 2) an increase in the U.S. Patent and Trademark Office's (USPTO) practice of issuing weak patents from the late 1990s until *KSR v. Teleflex*;¹⁴ and/or 3) the explosion of patenting computer-related business methods, such as “software patents,” and the subsequent growth in e-commerce applications following the *State Street Bank & Trust Co. v. Signature Financial Group* decision.¹⁵ In addition, some suggest that an inherently litigation-averse corporate culture has contributed to the rise of patent trolling, with company leadership favoring relatively inexpensive payoffs to avoid costly and unpredictable litigation.¹⁶

¹⁴ See Bessen, *The Direct Costs from NPE Disputes*, *supra* note 7; see, e.g., *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007). See generally JAMES BESSEN & MICHAEL J. MEURER, *PATENT FAILURE: HOW JUDGES, BUREAUCRATS AND LAWYERS PUT INNOVATORS AT RISK* (2008); DAN L. BURK & MARK A. LEMLEY, *THE PATENT CRISIS AND HOW THE COURTS CAN SOLVE IT* (2009); ADAM B. JAFFE & JOSH LERNER, *INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS AND WHAT TO DO ABOUT IT* (2004); NAT'L RESEARCH COUNCIL OF THE NAT'L ACADEMIES, *A PATENT SYSTEM FOR THE 21ST CENTURY* (Stephen A. Merrill, Richard C. Levin, & Mark B. Myers, eds., 2004), available at www.nap.edu/html/patentsystem/0309089107.pdf.

¹⁵ John R. Allison et al., *Patent Quality and Settlement Among Repeat Patent Litigants* (Stanford L. and Econ. Olin, Working Paper No. 398, 2010), available at <http://ssrn.com/abstract=1677785>; see *State Street Bank & Trust Co. v. Signature Fin. Grp.*, 149 F.3d 1368 (Fed. Cir. 1998); see also U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-13-465, *ASSESSING FACTORS THAT AFFECT PATENT INFRINGEMENT LITIGATION COULD HELP IMPROVE PATENT QUALITY* (2013) [hereinafter GAO Report]. After the *State Street* decision, software patenting jumped from 1,000 patents per year to 2,500 patents per year. See GAO Report, *supra* note 15. In more detail, the GAO Report found that by 2011, a majority of patents were software-related. *Id.* Also, from 2007 to 2011, the number of patent infringement lawsuits significantly increased. *Id.* For instance, just from 2010 to 2011, lawsuits increased 31 percent. *Id.* Further, between 2007 and 2011, the number of defendants increased by 129 percent, 89 percent of which were software-related patents. *Id.*

¹⁶ Hon. Randall R. Rader, C.J., Fed. Cir., Address at the 27th Annual Intellectual Property Law Conference: E-Discovery in Patent Litigation—A Model Order to Quiet the Tail that Wags the Dog (Mar.

¶9 Patents can create value for their owners in many ways. Patent holders have the right to 1) monopolize markets by practicing their inventions while excluding others from doing so; 2) license their patent rights for remuneration; and 3) build a large patent portfolio as a defensive strategy to prevent patent litigation and to gain greater freedom. The first two ways are by far the most commonly exercised and involve the direct application of the patented technology in society. These strategies produce value based on real commercial markets for products and services. Monopolization allows the patent rights holder to use supra-competitive pricing in the marketplace; however, this pricing is constrained by economic factors such that other goods or services can become substitutes if the price exceeds an optimal market value. Similarly, the remuneration terms of licensing agreements often relate to the commercial value of the technology. And the defensive strategy gives the patent rights holder the option to assert patent infringement counterclaims when others assert patents against them, which both deters patent lawsuits and encourages cross-licensing arrangements between competitors.

¶10 In contrast, patent trolling is a type of patent monetization that relies solely on patent infringement litigation, or at least the threat of litigation, to create value for a patent holder.¹⁷ A patent-trolling business model creates value by leveraging the threat and cost of patent infringement lawsuits to obtain settlements and license fees.¹⁸ In the United States, the default rule (the American Rule) is that each party pays its own legal fees, which encourages more nuisance lawsuits and quick settlements before litigation costs substantially accrue.¹⁹ In sum, patent infringement lawsuits filed by patent-trolling entities are a type of nuisance lawsuit in which the accused infringer is often financially compelled to pay to make the lawsuit go away just to avoid exorbitant litigation costs, not because the claim has much merit or chance of success.²⁰

A. *The Patent-Trolling Problem*

¶11 Patent trolls are a type of patent-asserting entity (PAE) typically classified as NPEs and/or patent aggregators.²¹ Many characterize the patent-trolling business model as

2012) [hereinafter Rader Address to AIPLC].

¹⁷ A famous example of a patent infringement nuisance lawsuit is a non-practicing entity's use of the Lemelson patents for barcode scanners to threaten hundreds of companies with litigation, eventually resulting in over \$1 billion in license fees for the NPE. *See* *Symbol Techs., Inc. v. Lemelson Med., Educ. & Research Found.*, 301 F. Supp. 2d 1147 (D. Nev. 2004), *aff'd*, *Symbol Techs., Inc. v. Lemelson Med., Educ. & Research Found.*, 422 F.3d 1378 (Fed. Cir. 2005), *amended on reh'g in part sub nom.* *Symbol Techs., Inc. v. Lemelson Med., Educ. & Research Found., LP*, 429 F.3d 1051 (Fed. Cir. 2005).

¹⁸ "Patent holders frequently assert that another party is using a patented invention, and for a fee, offer to grant a license for such use. . . . [P]arties receiving such licensing letters have a strong incentive to pay up even if they believe they are not engaged in infringement." 150 CONG. REC. E1935 (daily ed. Oct. 11, 2004) [hereinafter Rep. Berman statement] (statement of Rep. Berman).

¹⁹ One exception to this default rule is that federal appellate courts may impose that the losing party pay the prevailing party for damages caused by frivolous litigation under 28 U.S.C. § 1912.

²⁰ *See generally* Ranganath Sudarshan, *Nuisance-Value Patent Suits: An Economic Model and Proposal*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 159 (2008).

²¹ "In 2001, Peter Detkin, then vice president and general counsel at Intel Corporation, stated that 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.'" Shaun McVicar et al., "Who's that Walking on My Bridge?": *Navigating 'Patent Troll' Activity in the UK and Australia*, LEXOLOGY (Mar. 31, 2014), <http://www.lexology.com/library/detail.aspx?g=56d0d62a-7656-42ec-a14f-cd38e7f5aaff>. *See, e.g.*, ACACIA RESEARCH CORP., <http://acaciaresearch.com/about-us/#history> (last visited Oct. 13, 2014) ("Acacia and our

simply another form of rent seeking. Patent trolls often collect never-practiced, never-licensed, or never-asserted patents in order to assert claims against established businesses that might have been unknowingly infringing those patents for years.²² In many instances, the patents are overly broad and thus invalid to some extent, if not in their entirety, or the patents do not cover the allegedly infringing activity. Nonetheless, even if a targeted business believes that the patent infringement claim lacks merit, they often choose not to litigate and settle for paying a patent licensing fee because litigation costs are prohibitively expensive. In other words, the mere threat of patent infringement litigation is the patent troll's most effective weapon in this exploitive, rent-seeking business model.

¶12 A patent-trolling strategy's success largely derives from the high legal costs associated with defending against a patent infringement claim, even if simply to get the claim dismissed at the summary judgment stage. Patent litigation has become one of the most expensive and time-consuming types of commercial litigation, which further amplifies the pressure to settle or pay a licensing fee.²³ This increasing cost drives the growing popularity of the patent-trolling business model, and makes patent infringement lawsuits one of the most lucrative forms of modern nuisance lawsuits. Moreover, the average cost of patent right acquisition and assertion is far less than the average cost of defending against patent infringement claims, further incentivizing entities—often funded by recirculated revenue from previous rounds of patent trolling—to actively search for and purchase patents for patent trolling purposes. Lastly, the large quantity of unused, overly broad patents; the notice-pleading rule; and the default American Rule have created an environment for patent trolling to flourish.²⁴

¶13 The U.S. legal system generally disfavors a cost-shifting scheme based on who wins a civil suit.²⁵ However, 35 U.S.C. § 285 (the Patent Statute) provides cost shifting for “exceptional” cases where the court may order the patent infringement claimant to pay the prevailing party's legal fees.²⁶ But this harsh penalty has been used only

patent partners have signed more than 1,200 licensing agreements with many of the world's largest companies.”); CONVERSANT INTELLECTUAL PROP. MGMT. INC., <http://www.conversantip.com/our-portfolio/> (last visited Oct. 13, 2014) (maintaining over “12,000 patents and applications under management” at the entity formerly known as Mosaid Technologies); INTELLECTUAL VENTURES MGMT., LLC, FACT SHEET (2014), *available at* http://www.intellectualventures.com/assets_docs/IV_Corporate_Fact_Sheet_Sep2014.pdf (“With more than \$6 billion committed capital and more than 40,000 IP assets in active monetization programs, we own one of the world's largest and fastest growing intellectual property portfolios”); ROUND ROCK RESEARCH LLC, <http://www.roundrockresearch.com/> (last visited Oct. 13, 2014); *see also* Tom Ewing & Robin Feldman, *The Giants Among Us*, 2012 STAN. TECH. L. REV. 1 (2012).

²² See Robert P. Merges, *The Trouble with Trolls: Innovation, Rent-Seeking, and Patent Law Reform*, 24 BERKELEY TECH. L.J. 1583, 1590 (2009).

²³ See Bessen, *The Direct Costs from NPE Disputes*, *supra* note 7.

²⁴ See Stanley Clark, *The Risks and Costs of Patent Litigation: A House Counsel's View*, 315 UTAH L. REV. 618, 618 (1973) (discussing “the protracted nature, enormous risks and the inordinately high costs of patent litigation”).

²⁵ See Thomas D. Rowe, Jr., *The Legal Theory of Attorney Fee Shifting: A Critical Overview*, 31 DUKE L.J. 651, 652 (1982). *See generally* Philip M. Payne, *Costs in Common Law Actions in the Federal Courts*, 21 VA. L. REV. 397 (1935).

²⁶ 35 U.S.C. § 285 (stating attorney's fees may be awarded for “vexatious or unjustified litigation or frivolous suit”). The purpose of the “exceptional” case statute has been described as compensation to the prevailing party for its legal costs. *See Cent. Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1578 (Fed. Cir. 1983).

sparingly, and judicial precedent has defined the contours of what constitutes an exceptional case narrowly.²⁷

¶14 Even if a business suspects that the lawsuit is baseless, justifying unpredictable litigation costs is difficult when parties can so easily eliminate this threat by paying the patent troll a sum far less than the cost of successfully defending the lawsuit. Often, the commercial value of a patent does not correspond with the dollar amount of settlements or license fees because exorbitant legal costs distort the patent's actual value. Consequently, the cost of litigation can dictate settlement amounts and license fees instead of traditional marketplace economics related to the value of the patent.²⁸ Thus, some patent license fees represent an economic inefficiency as compared to their actual commercial value—creating significant, legally created, deadweight loss in the economy.²⁹

¶15 When a business encounters the threat of patent litigation, it has three main choices besides ceasing the allegedly infringing activities: 1) design around the threatened patent claim(s); 2) negotiate and obtain a patent license; or 3) litigate hoping the court will find the threatened patent invalid, unenforceable, or not infringed. Litigation is often undesirable because of high legal costs, uncertainty associated with construing patent claims, unpredictability of jury verdicts, and potentially negative effects on share prices.³⁰ In addition, deciding to design around a possibly invalid patent may not be wise because of considerable research costs, the uncertainty regarding a successful design-around, and/or the interruption of business operations during an indeterminate period.³¹ That leaves the quick and easy choice—pay the license fee and continue with business as normal. In other words, if the patent infringement claim is seemingly dubious, and the license or settlement fee is strategically set below the cost of litigation, then a company is likely facing a patent-troll “shakedown” fee.³²

¶16 Based on the current patent litigation system, it is often economically efficient to settle some patent lawsuits as quickly as possible to avoid legal costs. Litigation expenses average nearly \$5.5 million for cases with more than \$25 million at risk, and \$650,000 for cases with less than \$1 million at risk.³³ It can cost over \$3 million and take eighteen

²⁷ Since the creation of the statutory “exceptional” patent case in 1952, there have been about 3,300 cases that cite the “exceptional case” statute. Westlaw search, WESTLAW, <https://a.next.westlaw.com> (search “35 U.S.C. § 285”; then click the “citing references” tab; then click the “cases” tab) (last searched Aug. 18, 2014). Of these, 2,409 cases were at the district court level, 858 cases were heard before the Federal Circuit, and 15 cases were heard before the Supreme Court of the United States. *Id.*

²⁸ See Mark A. Lemley & Carl Shapiro, *Probabilistic Patents*, 19 J. ECON. PERSP. 75, 87–89 (2005).

²⁹ John Johnson, Gregory K. Leonard, Christine Meyer, & Ken Serwin, *Don't Feed the Trolls*, 52 LES NOUVELLES 3, 487–95 (2007).

³⁰ See Anna Mayergoyz, *Lessons from Europe on How to Tame U.S. Patent Trolls*, 42 CORNELL INT'L L.J. 241 (2009) (noting that about 50% of all appealed patent litigation decisions are reversed). In the short term, defending a patent infringement suit can cause stock prices to drop. See Bessen, *The Private and Social Costs of Patent Trolls*, *supra* note 1, at 30 (estimating the median decline in common stock value of defendant corporations in patent infringement suits brought by NPEs at \$20.4 million).

³¹ Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991 (2007); John M. Golden, *Patent Trolls and Patent Remedies*, 85 TEX. L. REV. 2111 (2007).

³² See Tina M. Nguyen, *Lowering the Fare: Reducing the Patent Troll's Ability to Tax the Patent System*, 22 FED. CIR. B.J. 101, 114 (2012).

³³ AM. INTELLECTUAL PROP. LAW ASS'N, REPORT OF THE ECONOMIC SURVEY 2011 I-153-56 (reporting median litigation costs for patent infringement lawsuits as follows: when less than \$1 million was at risk, \$350,000 and \$650,000; when more than \$1 million but less than \$25 million was at risk, \$1.5 million and \$2.5 million; and when more than \$25 million was at risk, \$3 million and \$5.5 million, through the

months just to proceed to the claim construction and discovery phases to reach summary judgment.³⁴ These litigation realities afford any patent rights holder the opportunity to use threats of patent infringement as a “scare tactic to obtain unwarranted licenses and settlements”³⁵—something akin to blackmail, extortion, and a Mafioso-style “shakedown.”

¶17 This economic reality allows for a patent-trolling business model wherein PAEs use patents solely for rent seeking via nuisance lawsuits. PAEs search to acquire patents wholesale or in bankruptcy auctions, and often target commercial activity only superficially related to the subject matter of the patents. In addition, the cost of bringing a lawsuit is often minimal because a patent troll can make money by merely threatening potential defendants with cease-and-desist letters.³⁶ This allows patent trolls to perform an efficient first-pass screen by “fishing” with identical letters to all the companies active in a particular product market, many of which will pay license fees without the PAE ever having to file a complaint.³⁷ Additionally, these legal economies-of-scale continue to exist after the first-pass screen, as seen when a PAE files nearly identical complaints against successive defendants without any additional work.

¶18 The patent-trolling problem creates economic deadweight loss, taxes technology users with transaction costs, and perhaps, impedes the spread and development of technology at large.³⁸ Further, patent trolling unnecessarily harasses members of the business community. Moreover, when any entity asserts a frivolous patent infringement claim without a bona fide belief that the claim has legal merit, it hinders judicial economy, interferes with fair competition, distorts the purpose of patent litigation, and lowers public opinion of the legal system and profession.³⁹

B. Defining the Patent Troll

¶19 A patent troll can loosely be defined as a bad-faith legal actor that seeks a payoff by threatening patent infringement lawsuits against product-manufacturing entities. A patent troll does not practice, or in many instances does not even have the means to

discovery phases and final disposition respectively); *see, e.g.*, Mayergoyz, *supra* note 30.

³⁴ *Abusive Patent Litigation: The Impact on American Innovation and Jobs, and Potential Solutions: Hearing Before the Subcomm. on Courts, Intellectual Prop., and the Internet of the H. Comm. on the Judiciary*, 113th Cong. (2013) (testimony of John G. Boswell, Senior Vice President & Gen. Counsel, SAS Inst.) (arguing that the high cost of discovery exacerbates the patent-troll problem, in one instance costing accused infringers up to \$8 million just to get to the summary judgment stage).

³⁵ Nguyen, *supra* note 32; *see* Rep. Berman statement, *supra* note 18.

³⁶ Johnson, *supra* note 29, at 487 (discussing how extortionary royalty payments “constitute a ‘tax’ that ultimately leads to less product development and higher prices for consumers”).

³⁷ Jim Spencer, *Patent Trolls Collect “Nuisance Fees” and Political Enemies*, STAR TRIBUNE (June 15, 2013), <http://m.startribune.com/business/?id=211615651>. Tim Scobie, Gen. Counsel of Mason Cos. of Chippewa Falls, Wis. stated, “[w]e are a small organization in a small town” and that “[i]f it’s going to cost us \$25,000 for a license fee or it’s going to cost us \$250,000 to fight, don’t even bother asking me.” *Id.*

³⁸ *See* Bessen, *The Direct Costs from NPE Disputes*, *supra* note 7, at 400 (“[A] substantial part of the direct costs of NPE litigation is a deadweight loss to society.”); *see also* Rader Op-Ed., *supra* note 2 (“[Patent Trolling] has slowed the development of new products, increased costs for businesses and consumers, and clogged our judicial system.”).

³⁹ The relative standards of “meritless” or “frivolous” as compared to “objectively unreasonable” or “low likelihood of success” is difficult to articulate. Transcript of Oral Argument at 10–12, *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) (No. 12-1184); *see* Bessen, *The Direct Costs from NPE Disputes*, *supra* note 7, at 389; Spencer, *supra* note 37.

practice, its patented technology. Then, if an alleged infringer rejects a cheap licensing fee, the patent troll indiscriminately sues the infringer, without investigating if grounds exist to claim infringement, in hopes of obtaining a settlement fee less than the cost of litigation. However, detailing the exact parameters of what constitutes a patent troll is problematic because the description above is both over- and under-inclusive. Moreover, the intent behind offers for license and/or settlement fees is often opaque.

¶20 It is difficult for society to police something that it cannot define.⁴⁰ Many suggest that there is no satisfactory definition of a patent troll.⁴¹ For instance, some consider patent-trolling behavior permissible, such as when universities develop proprietary technologies but do not commercialize the technologies themselves.⁴² Further, most definitions of a patent troll are over-inclusive because they often include other types of NPEs, such as individual inventors, inventive startup companies, failed businesses, and patent purchasers.⁴³ After examining the patent troll, this Article argues for an approach that focuses on extortionary patent trolling instead of NPE status, and proposes what types of conduct are indicative of harmful patent trolling.

¶21 This Article suggests that a “patent troll” is an entity that:

- (1) asserts a patent against a product-manufacturing company, while the patent is not being legally “practiced by anyone, i.e. neither licensed nor practiced by the owner,”⁴⁴ and the owner has no intention of ever practicing;⁴⁵
- (2) pursues a business model that aims to acquire overly broad patents to make profits by threatening lawsuits against anyone that makes products even remotely related to its patented technologies in order to get favorable license arrangements and/or settlements;⁴⁶ and/or
- (3) does not plan to initially license or practice the patent it acquires, but rather hides and waits for potential infringers to come along, using the patent primarily to obtain high license fees while never practicing the patent.⁴⁷ In

⁴⁰ See Tracie L. Bryant, *The America Invents Act: Slaying Trolls, Limiting Joinder*, 25 HARV. J.L. & TECH. 687, 690 (2012); Marc Morgan, *Stop Looking Under the Bridge for Imaginary Creatures: A Comment Examining Who Really Deserves the Title Patent Troll*, 17 FED. CIR. B.J. 165, 166 (2007); John T. Funk, *In Defense of the Trolls: Part 4 (Final)*, VIEW FROM THE BRIDGE (July 4, 2006, 9:10 PM), http://evergreenip.typepad.com/view_from_bridge/2006/07/in_defense_of_t_1.html.

⁴¹ John M. Golden, “Patent Trolls” and Patent Remedies, 85 TEX. L. REV. 2111, 2112 n.7 (2007) (noting the lack of a satisfactory definition for a patent troll).

⁴² See Mark A. Lemley, *Are Universities Patent Trolls?*, 18 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 611, 611 (2008) (arguing that universities should not be deemed trolls); see also Michael Risch, *Patent Troll Myths*, 42 SETON HALL L. REV. 457, 468 (2012) (“[U]niversities are very rarely patent plaintiffs.”).

⁴³ See Spencer, *supra* note 37 (quoting Rep. Paulsen) (“There is abuse that’s going on . . . the challenge is to target the abusers in an effective way without casting too wide a net.”); Nguyen, *supra* note 32, at 103.

⁴⁴ Eric J. Rogers, *Ten Years of Inter Partes Patent Reexamination Appeals: An Empirical View*, 29 SANTA CLARA COMPUTER & HIGH TECH. L.J. 305, 350 n.157 (2013).

⁴⁵ See Rader Address to AIPLC, *supra* note 16; *Patent Trolls: Unfair Name-Calling, or Threat to Current Patent System?*, 69 PAT. TRADEMARK & COPYRIGHT J. (BNA) 565 (2005); see also David G. Barker, *Troll or No Troll? Policing Patent Usage with an Open Post-Grant Review*, DUKE L. & TECH. REV., Apr. 2005, at 7.

⁴⁶ See Funk, *supra* note 40.

⁴⁷ Rep. Berman statement, *supra* note 18, at E1936; see Elizabeth D. Ferrill, Comment, *Patent Investment Trusts: Let’s Build a PIT to Catch the Patent Trolls*, 6 N.C. J.L. & TECH. 367, 376 (2005); Mayergoyz, *supra* note 30. A parallel phenomenon is the trademark troll exemplified by Leo Stoller, who claimed rights to a large inventory of popular trademarks and attempted to assert those rights. However,

the alternative, a patent troll may acquire an overly broad patent after companies have already commercialized the technology and created a mature market rife with potential infringers, which it then uses primarily to obtain high settlements fees and/or damage awards.⁴⁸

¶22 This Article also suggests that the following types of conduct are indicative of “patent trolling”:

- (1) Reasserting the same patent against multiple entities to achieve advantageous economies-of-scale, whereas defending against patent infringement lawsuits is usually conducted one defendant at a time.
- (2) Not manufacturing or practicing any patents, which means the entity has no fear of having to (a) defend against a counterclaim, (b) consider cross-licensing arrangements during license negotiations, (c) produce witnesses for depositions, or (d) expend additional legal costs beyond those associated with filing complaints and reusing documents and arguments made against previous defendants.⁴⁹
- (3) Joining multiple defendants with different attributes and locales in the same patent infringement suit in an effort to promote efficiency and inhibit transfers of venue.⁵⁰
- (4) Not making any products and thus having no customer base, which shields the patent troll from public relations problems related to litigation.
- (5) Retaining attorneys under contingency-fee agreements, which create nothing-to-lose, low-risk scenarios for patent assertion.⁵¹

¶23 The characteristics of a typical patent troll make them particularly difficult opponents in a lawsuit because they create asymmetries with patentees that commercialize their patented technologies. As noted in the second characteristic listed above, the typical patent troll does not fear a patent infringement counterclaim because it does not actively manufacture any products. Thus, the typical patent troll does not have any of its own products at risk from an injunction. These first two asymmetries prevent cross-licensing solutions and peace negotiations that are possible among competitors in most cases. As per the fifth characteristic listed above, the typical patent troll does not

trademark law has a “use” requirement, which makes trademark trolling less feasible. See Mike Masnick, *Is Famed Trademark Troll Leo Stoller Trying to Stealthily Reclaim Bogus Stealth Trademarks?*, TECHDIRT (July 19, 2010, 9:37 AM), <https://www.techdirt.com/articles/20100719/02130110270.shtml>.

⁴⁸ Funk, *supra* note 40.

⁴⁹ See, e.g., *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1327 (Fed. Cir. 2011). An NPE has far fewer documents to produce, fewer witnesses, and a much smaller legal bill than a commercially active company that makes or sells products, or offers services. GAO Report, *supra* note 15, at 3.

⁵⁰ Patent trolls use the tactic of joining multiple but unrelated defendants in the same patent infringement suit to keep the trial in the venue of their choice, typically the Eastern District of Texas. See Bryant, *supra* note 40, at 688–89. The America Invents Act of 2011 tried to end this, but consolidation for pretrial purposes is still available. See, e.g., *In re Bear Creek Techs., Inc.*, 858 F. Supp. 2d 1375, 1378 (J.P.M.L. 2012).

⁵¹ William R. Towns, *U.S. Contingency Fees: A Level Playing Field?*, WIPO MAGAZINE (Feb. 2010), http://www.wipo.int/wipo_magazine/en/2010/01/article_0002.html (“Contingency fee arrangements are conducive to [patent trolling], as they allow [NPEs] to effectively spread the financial risk involved in patent litigation by partnering with their lawyers.”).

fear reputational harm or retribution from the public because it has no customers. And in reference to the last listed characteristic, patent trolling may be funded by contingency-fee arrangements that create markets for patent litigators to find and bring the most financially promising lawsuits or settlements, regardless of the patented technologies' value or the merits of the infringement claims. Thus, contingency-fee-based patent infringement representation is readily available for patent-trolling entities, whereas there is no counterpart patent-defense litigator market for defendants because accused infringers rarely receive large damage payouts and cannot use contingency-fee setups. These legal asymmetries are typical in patent-trolling cases. As a result, similar to “gamblers playing with house money—[patent trolls] can win, but cannot lose.”⁵²

C. *Who Is Not a Patent Troll?*

¶24 Unlike the stereotypical patent troll—a commercially inactive shell company that purchases a patent as an investment for the sole purpose of threatening enforcement—universities or inventors that do not practice their patents rarely deserve the patent-troll label. This is true despite the fact that these parties rarely produce goods and might threaten commercially active entities with accusations of patent infringement.

¶25 The typical university exhibits many of the hallmark characteristics of a patent troll. However, while it does not make products of its own, a university can license without threats of litigation, and rarely relies on patent litigation for revenue.⁵³ This makes economic sense because a rational, profit-maximizing monopolist who is unable to bring a technology to market independently should be free to license it to others who can.

¶26 Besides universities, many startups and individuals can invent something so revolutionary that it threatens established companies and requires widespread litigation to protect. These startups or individual inventors may choose to grant licenses to more established companies for a modest return, or they may choose to exclude others, including established companies, while bringing the invention to market. In either scenario, the established companies would likely fight back by raising barriers to market entry, such that the most promising battleground for startups and lesser-funded entities might be in court.⁵⁴ However, once in litigation, a startup or lesser-funded entity often finds itself up against a well-prepared litigation machine with a well-funded war chest. Thus, a research university, individual inventor, or startup company that develops and patents an invention intending to commercialize it in good faith should not be classified as a patent troll.

¶27 For many NPEs—such as universities and individual inventors—to receive compensation for their patents, they need licensees or provable infringers that are commercially active. Individual inventors often lack access to capital and channels of manufacturing, marketing, and distribution. In response, these NPEs might benefit the most by selling their patent rights to patent trolls, resulting in an immediate reward for their inventive activities. Recent evidence suggests that some universities have begun to

⁵² Peter Schechter, *Guest Editorial: Throwing Trolls off the Bridge*, PATENTLY-O (Mar. 10, 2013), <http://patentlyo.com/patent/2013/03/guest-editorial-throwing-trolls-off-the-bridge.html>.

⁵³ See Cotropia, *supra* note 7; Lemley, *supra* note 42; Risch, *supra* note 42.

⁵⁴ See Interview by Gene Quinn with Eric Gould Bear (Mar. 25, 2013), <http://www.ipwatchdog.com/2013/04/30/software-patents-drafting-for-litigation-and-a-global-economy/id=39570/> (“[T]op technology innovators simply won’t listen to licensing overtures unless they are first sued.”).

exercise this option,⁵⁵ despite the fact that many openly consider this contrary to the public interest.⁵⁶ If the number of patent trolls were largely reduced, instead of having the option to sell patents to parties that exploit the legal system, NPEs like universities and individual inventors would be forced to rely upon non-exploitive alternatives that value patents based on real-world technology.

¶28 Another problem is that some commercially active companies that invest heavily in research and development might “find it profit-maximizing not to vertically integrate their R&D and manufacturing processes, choosing instead to set up patent-holding companies that focus on development, acquisition, maintenance and licensing of intellectual property.”⁵⁷ In addition, universities often assign their patents to related entities for separate management.⁵⁸ These patent-holding companies appear to be NPE patent trolls despite their close relationship to the original inventive entity.⁵⁹ Finally, some transaction-only firms aggregate patents solely for collaborative cross-licensing/licensing-alliance purposes or for setting industry standards.⁶⁰

D. Focusing on the Claimant’s Intent Rather than Status

¶29 The hallmarks of a patent troll are that it makes no products of its own, licenses patent rights only after threatening litigation, and primarily uses threats of patent litigation to generate revenue from licensing and settlements because potential defendants fear costly litigation and the possibility of injunctions.⁶¹ However, which indicators, if any, are most telling of the patent-trolling behavior that so many wish to prevent? For instance, certain characteristics could indicate deleterious patent trolling, such as an entity’s lack of manufacturing capability or its licensing activity prior to litigation. But as discussed previously, this approach is both under- and over-inclusive. Thus, this Article posits that an entity’s litigious conduct, such as whether it makes indiscriminate threats or offers strategic settlements, provides the best guidance. In other words, the intent behind

⁵⁵ See Heidi Ledford, *Universities Struggle to Make Patents Pay*, 501 NATURE 471, 471–2 (Sept. 2013), available at http://www.nature.com/polopoly_fs/1.138111/menu/main/topColumns/topLeftColumn/pdf/501471a.pdf; see also Ashby Jones, *When Lawyers Become Trolls*, WALL ST. J. (Jan. 23, 2012), <http://online.wsj.com/news/articles/SB10001424052970203750404577173402442681284>; Ewing, *supra* note 21.

⁵⁶ See Memorandum from the Cal. Inst. of Tech. et al., *In the Public Interest: Nine Points to Consider in Licensing University Technology* 8 (Mar. 6, 2007), available at <http://otl.stanford.edu/documents/whitepaper-10.pdf> (“[U]niversities would better serve the public interest by ensuring appropriate use of their technology by requiring their licenses to operate under a business model that encourages commercialization and does not rely primarily on threats of infringement litigation to generate revenue.”). While originally drafted by eleven organizations, over ninety institutions of higher education have voiced support for this document since 2007. See Ron Katz, Isaac Vaughn, & Mike Gilleran, *Nine Points to Consider Regarding the Payment of College Athletes*, INST. OF SPORTS L. & ETHICS (2013).

⁵⁷ Johnson, *supra* note 29, at 488.

⁵⁸ See, e.g., *Quick Facts*, WIS. ALUMNI RESEARCH FOUND. (Oct. 1, 2011), <http://www.warf.org/home/about-us/background/quick-facts/quick-facts.cmsx>.

⁵⁹ Johnson, *supra* note 29, at 488.

⁶⁰ For example, the patent aggregator RPX Corp. claims it acquires patents for defensive purposes only, licenses every patent it owns to all of its clients, and promises never to assert any of its patents. RPX, www.rpxcorp.com (last visited Sept. 12, 2014).

⁶¹ See Todd Klein, Comment, *eBay v. MercExchange and KSR Int’l Co. v. Teleflex, Inc.: The Supreme Court Wages War Against Patent Trolls*, 112 PENN ST. L. REV. 295, 296, 300–02 (2007); M. Qaiser & P. Mohan Chandran, *Patent Terrorism: Terror of the Intangibles*, IP FRONTLINE (June 27, 2006), <http://www.ipfrontline.com/depts/article.asp?id=11605&deptid=3>; see also Ferrill, *supra* note 47, at 377.

the entity's actions should direct patent-trolling analysis, rather than its commercial characteristics or NPE status.

¶30 An entity that lacks good-faith intent at the time of patent acquisition is more likely to be a patent troll. Entities evince this lack of good faith if they never plan to commercialize or otherwise practice a patent. Some NPEs might obtain a patent with the goal of eventually commercializing the invention, whereas the true patent troll “never has the intention of bringing the invention to market.”⁶² Further, patent trolls often acquire relatively inexpensive patents from bankrupt companies or independent inventors.⁶³ As such, with some difference in degree, patent trolls generally inhibit or tax the commercialization of technologies, which does not benefit the public. But it is important to note that the grant of a patent creates only the legal right to exclude others from practicing the patent—not the obligation to practice the patent or license patent rights to others.⁶⁴

¶31 Creating further complexities, a competitive business environment can incent companies to switch from a business model focused on technological development to one motivated by generating legal revenue through patent trolling. Thus, an originally innovative and commercially active company may also manifest the problematic conduct identified above.⁶⁵ Moreover, markets now exist that allow for outside investment in patent rights, which monetizes patents solely via patent assertion. This further promotes patent trolling because investor returns stem either directly from a PAE's exploitative conduct or indirectly by the sale of patents to other PAEs intending to do the same.⁶⁶

¶32 Even patent-practicing entities can exhibit behavior indicative of patent trolling when it relates to patents “well outside the area in which they make products.”⁶⁷ For example, if a commercially active cellphone company acquires patent rights in an unrelated industry (e.g., the medical-device industry), and then threatens active companies in this other industry with cease-and-desist letters demanding license fees, many would characterize this as patent trolling, despite the lack of NPE status. In fact, cash-rich technology companies that never intend to commercialize the claimed

⁶² Nguyen, *supra* note 32, at 105; see Rep. Berman statement, *supra* note 18.

⁶³ See Bryant, *supra* note 40, at 691. When bankruptcy courts approve the transfer of patent rights, the transfer is without any encumbrances. See, e.g., *In re PBBPC, Inc.*, 484 B.R. 860 (1st Cir. B.A.P. 2013).

⁶⁴ See *Continental Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405 (1908) (holding that it was the essence of the patent to exclude others without question of motive and thus establishing the principle that patent holders have no obligation to use their patent). This principle, which is more than a century old, has not changed. See Alexander Poltorak, Letter to the Editor, *Inventors, Trolls, Patents and Improving the System*, WALL ST. J. (June 26, 2013), <http://online.wsj.com/news/articles/SB10001424127887324577904578559632006573250>. In fact, there are many reasons why patent owners may not practice their patents, including government regulations, blocking patents, and antitrust implications. See generally JANICE M. MUELLER, INTRODUCTION TO PATENT LAW (2d ed. 2006); 1 JOHN GLADSTONE MILLS III ET AL., PAT. L. FUNDAMENTALS § 1:12 (2d ed. 2014) (“A dominant patent is in some contexts referred to as a blocking patent, because its holder can prevent others, including those who hold subservient patents, from practicing their inventions.”).

⁶⁵ See Richard S. Hill, *Don't Turn My Company into a Patent Troll!*, FORBES (May 13, 2013), <http://www.forbes.com/sites/forbesleadershipforum/2013/05/13/dont-turn-my-company-into-a-patent-troll/>.

⁶⁶ J. Jason Williams et al., *Strategies for Combating Patent Trolls*, 17 J. INTEL. PROP. L. 367, 372 (2010). For example, Round Rock Research is an NPE that obtained 4,200 patents with help from venture-capital fund, Gemas Capital Inc. See Jones, *supra* note 55.

⁶⁷ Bessen, *The Direct Costs from NPE Disputes*, *supra* note 7, at 395; RPX CORP. REPORT, *supra* note 1, at 7 (defining noncompeting entities as “operating companies asserting patents outside their areas of products of services”); see Jones, *supra* note 55.

technologies are often the most active patent acquirers.⁶⁸ Eventually, a company may choose to monetize a portfolio of unused patents for patent trolling or sell the patents to others for patent trolling.⁶⁹

¶33 Furthermore, a new practice called “patent privateering” has surfaced with the potential of becoming yet another form of patent trolling.⁷⁰ This practice involves specialized patent-litigation firms, such as patent aggregators, which are assigned a patent just for litigation and/or technology transfer purposes.⁷¹ Patent privateering can help those who develop inventions recover remuneration from a proportion of the damages received from infringers. In addition to outsourcing litigation, some companies create their own patent holding companies for the sole purpose of enforcing and licensing patents.⁷² Both of these approaches shield the sponsoring company from bad public relations, antitrust lawsuits, and tortious interference with other companies.⁷³

E. *The Positive Effects of Patent Trolls and Patent Trolling*

¶34 Some view patent trolling as a legitimate means of extracting value from a patent.⁷⁴ The fact that a patent infringement claimant is not practicing the invention does not disturb the basic setup of the patent system, which trades exclusive rights for a limited time in exchange for disclosure.⁷⁵ Practicing the patented technology is not required as part of the bargain—it is only the disclosure that is required by law.⁷⁶ In fact, a patent grant from the government does not automatically confer the patentee with the legal right

⁶⁸ See Joff Wild, *The Entities that Own the 100 Biggest US Patent Portfolios Own Over 30% of All Active US Patents*, IAM MAGAZINE BLOG (Feb. 4, 2013), <http://www.iam-magazine.com/blog/Detail.aspx?g=840f9fef-ef84-4e4f-951d-b163251dd47d> (reporting that while 140,000 entities own at least one active U.S. patent, the top 100 entities own well over 30% of all currently active U.S. patents).

⁶⁹ See Peg Brickley, *Nortel Gets Court Nod for Auction of Patents*, WALL ST. J. (May 2, 2011), <http://online.wsj.com/news/articles/SB10001424052748704436004576299571398866698>.

⁷⁰ See Tom Ewing, *Indirect Exploitation of Intellectual Property Rights by Corporations and Investors: IP Privateering & Modern Letters of Marque & Reprisal*, 4 HASTINGS SCI. & TECH. L.J. 5 (2012); see also Johnson, *supra* note 29.

⁷¹ See Klein, *supra* note 61, at 298–99. In 2004, Asure Software, known then as Forgent Networks, sued forty companies worldwide for patent infringement and expects to receive more than \$1 billion in licensing fees as a result. *Id.*

⁷² *Spine Solutions v. Medtronic Sofamor Danek USA*, 620 F.3d 1305, 1317–18 (Fed. Cir. 2010) (holding that the parent and sister companies of the plaintiff lacked standing for the patent infringement claim because neither were exclusive licensees).

⁷³ However, some proposed bills in Congress would allow fee shifting for non-prevailing parties to reach the controlling entities of shell companies. See, e.g., H.R. 3309, 113th Cong. (1st Sess. 2013).

⁷⁴ See James F. McDonough III, *The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy*, 56 EMORY L.J. 189, 190 (2006); see also Funk, *supra* note 40; Merges, *supra* note 22, at 1597. See generally Joel Benjamin, *The Other Side of the Debate over Patent Trolls*, IPWATCHDOG (Dec. 10, 2013), <http://www.ipwatchdog.com/2013/12/10/the-other-side-of-the-debate-over-patent-trolls/id=46671/>.

⁷⁵ An un-commercialized patent is like a blueprint for a technology that no one can use; however, society would rather have more blueprints for “bridges” than no bridges at all, which according to the disclosure theory of the patent system, increases the storehouse of knowledge. *But see* Steven J. Moore, *A Fractured Fairy Tale: Separating Fact & Fiction on Patent Trolls*, IPWATCHDOG (July 29, 2013), <http://www.ipwatchdog.com/2013/07/29/a-fractured-fairy-tale-separating-fact-fiction-on-patent-trolls/id=43697/> (positing the analogy that as mythical trolls are to travel, patent trolls are to innovation, in that both lockup the resources found on the other side of their respective bridges).

⁷⁶ See *supra* note 63 and accompanying text.

to use or sell the patented invention. For example, the existence of a blocking patent might prevent a patentee from ever practicing its own patent.⁷⁷

¶35 The legal right to exclude others created by a patent grant is freely alienable.⁷⁸ Neither the identity of the patent holder nor the means by which the patent was acquired is generally relevant to the legality of enforcing the right—it is the conduct and intent in bringing the litigation that matters when characterizing patent-trolling behavior. Certain NPEs referred to as “patent monetizing entities” (PMEs) or “patent licensing entities” (PLEs) might acquire patents as investments to generate revenue primarily from licensing and resale, but not from litigation.⁷⁹ In fact, this conduct provides incentives to invent and promotes innovation by increasing the liquidity of patent markets.

¶36 And not all patent trolling causes deadweight economic loss.⁸⁰ Some NPEs, even if lacking good-faith intent when acquiring patents, might still provide the same benefits to society by promoting innovation and patent liquidity. For instance, patent trolls can obtain patents from small inventive companies and individual inventors, which helps recoup losses for failed startups and reduces risk for inventors.⁸¹ This in turn provides economic incentives for investing in startup technology companies because even if the company fails, its investors own a patent portfolio that might retain some value.⁸² In addition, some large companies might feel free to infringe individual inventors’ and small businesses’ patents because the patent owner likely cannot afford the legal costs of fighting in court. Transferring their patents to a patent troll might be an economically sound decision that rewards them for their inventive contribution to society. Thus, even bad-faith PAEs can provide the benefits of innovation incentives and patent liquidity to small businesses and individual inventors.

¶37 Further, contingency-funded patent assertion might enfranchise a greater population of patent rights for potential litigation and thus reduce costs for patentees, especially for small-entity patent holders. That being said, the often-coercive financial burden placed on defendants likely outweighs the equitable benefits of this legal phenomenon.

¶38 Thus, some NPE lawsuits promote invention; increase investment in research and development; offset financial risk for startup companies and their investors; and compensate actual inventors who cannot enforce patents. However, from 2000–2007, NPEs filed more than 80% of repeat patent lawsuits and owned more than 50% of the most litigated patents, which clearly suggests an imbalance.⁸³

⁷⁷ *Id.*

⁷⁸ *Waterman v. Mackenzie*, 137 U.S. 252, 255–56 (1891).

⁷⁹ *See Rembrandt Techs., LP v. Harris Corp.*, C.A. No. 07C-09-059-JRS, 2009 WL 402332 (Del. Super. Ct. Feb. 12, 2009) (“Alternatively, if the patents could not be acquired, the partnership would form a joint venture or limited partnership with the patent owner and/or financing partners, frequently resulting in the creation of a patent licensing entity.”).

⁸⁰ *See Chien*, *supra* note 3, at 479–82.

⁸¹ *See McDonough*, *supra* note 74, at 208–9.

⁸² *See Steve Seidenberg*, *Troll Control*, 92 A.B.A. J. 51 (2006).

⁸³ John R. Allison, Mark A. Lemley, & Joshua H. Walker, *Extreme Value or Trolls on Top? The Characteristics of the Most Litigated Patents*, 158 U. PA. L. REV. 1, 24 (2009).

F. Weak, Borderline, and Dubious Patent Infringement Claims are the Real Culprits

¶39

Professors Jay Kesan and David Schwartz argue that the focus should be on the merits of the patent infringement lawsuit instead of on the characteristics or conduct of the patent infringement claimant.⁸⁴ This approach gets to the heart of the problem—a nuisance lawsuit is by definition a complaint without a sound legal basis that is just strong enough to survive a Rule 12(b)(6) motion to dismiss.⁸⁵ One study reported that the troll-variety of NPE rarely wins judgments against wealthy defendants.⁸⁶ A different study reported that patent trolls win on the merits less than 10% of the time, while another found the rate to be slightly higher at 25%.⁸⁷ These numbers support the common perception that patent infringement claims brought by NPEs tend to be weak, arbitrary, and/or legally dubious. Simply stated, weak or meritless patent infringement threats are the gist of the patent-trolling problem because a legitimate claim would not constitute a nuisance lawsuit. “[T]rolls . . . make money by threatening companies with expensive lawsuits and then using that cudgel, rather than the merits of a case, to extract a financial settlement” before the lack of merit in the case is exposed.⁸⁸

¶40

In conclusion, although a patent troll is difficult to define, the assertion of credible patent claims versus nuisance claims can be policed. Instead of identifying the patent troll by its status to declare the entire lawsuit a nuisance,⁸⁹ courts should first isolate the nuisance patent infringement claim and then declare the patent infringement claimant’s behavior as patent trolling. Similar to Justice Stewart’s opinion on pornography that—“I know it when I see it”⁹⁰—while one might not be able to define what constitutes a patent troll, one can recognize certain nuisance patent infringement claims. Thus, courts should be able to identify and handle discernible nuisance patent infringement claims regardless

⁸⁴ See Cotropia, *supra* note 7; GAO Report, *supra* note 15, at 45.

⁸⁵ Johnson, *supra* note 29, at 477–88.

⁸⁶ Bryant, *supra* note 40, at 693.

⁸⁷ Michael J. Mazzeo, Jonathan H. Ashtor, & Samantha Zyontz, *Do NPEs Matter? Non-Practicing Entities and Patent Litigation Outcomes*, 9 J. OF COMPETITION L. & ECON. 879 (forthcoming 2014) (reporting lower patent litigation win rates for NPEs as compared to practicing entities); Risch, *supra* note 42, at 481 (reporting that NPE’s lose patent infringement suits more often than practicing entities, and further suggesting that this is caused by NPEs asserting weaker patents on average); see Allison et al., *supra* note 15; see also *Abusive Patent Litigation: The Impact on American Innovation and Jobs, and Potential Solutions: Hearing Before the Subcomm. on Courts, Intellectual Prop., and the Internet of the H. Comm. of the Judiciary*, 113th Cong. 10 (2013) (statement of Mark Chandler, Senior Vice President & Gen. Counsel, Cisco Sys., Inc.) (“PAEs ultimately lose 92 percent of the time . . . versus 60 percent for other plaintiffs.”). But see Jonathan H. Ashtor, Michael J. Mazzeo, Samantha Zyontz, *Patents At Issue: The Data Behind the Patent Troll Debate*, Address at the Commercial Function of Patents in Today’s Innovation Economy Conference (Mar. 4, 2011), available at http://www.kellogg.northwestern.edu/faculty/mazzeo/html/patents_at_issue.pdf (finding from 1995–2011 “approximately equal success rates for PAEs as for other patent claimants”); Robin Feldman, Tom Ewing, & Sara Jeruss, *The AIA 500 Expanded: The Effects of Patent Monetization Entities*, UC HASTINGS RESEARCH PAPER No. 45 (Apr. 9, 2013) (showing that because settlements are so common, the statistical differences in win rates between NPEs and non-NPEs are not clear); Steven J. Moore, *Probing 10 Patent Troll Myths: A Fractured Fairy Tale*, IPWATCHDOG (July 30, 2013), <http://www.ipwatchdog.com/2013/07/30/probing-10-patent-troll-myths-a-fractured-fairytale-part-2/> (“[W]e saw little difference between the outcome profile of Producers and the NPEs.”).

⁸⁸ Rader Op-Ed., *supra* note 2.

⁸⁹ It is important to note that not every case brought by a patent troll lacks merit. Also, not every NPE that asserts a patent claim is automatically patent trolling despite readily raised accusations of such by defendants. See *supra* note 75 and accompanying text.

⁹⁰ *Jacobellis v. Ohio*, 378 U.S. 184, 197 (1964) (Stewart, J., concurring).

of the characteristics, conduct, and strategies of various patent infringement claimants, which may evolve over time.

II. PROPOSED CHANGES TO INHIBIT PATENT TROLLING

¶41 Many have proposed solutions to combat the rise of patent trolling, which typically focus on thwarting NPEs' exploitation of inefficiencies in the patent litigation system. These reforms include legislation, judicial opinions, and private-party tactics. Part II addresses these proposals in kind.

¶42 Congress has proposed at least seven bills for this purpose over the past two years, such as the SHIELD Act and Innovation Act discussed below.⁹¹ Given the bipartisan nature of these bills, the intensity of lobbying by the business community, and the Obama administration's interest, the likelihood of legislative reform continues to increase.⁹²

A. *The Federal Response*

¶43 The federal response to the rise of patent trolling has involved proposed legislation and agency actions. The Saving High-Tech Innovators from Egregious Legal Disputes Act (SHIELD Act) would create a limited, loser-pays system that shifts litigation costs to

⁹¹ See, e.g., Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong. (2013) (proposing cost shifting for prevailing defendants' legal fees and costs to infringement claimants as a "loser-pays system," which is similar to the default English rule, except the proposal does not apply when the claimant is an original inventor, substantial investor, university, or technology-transfer organization); Innovation Act, H.R. 3309, 113th Cong. (2013) (suggesting a variety of reforms including fee shifting based on the outcome of the case, having the requesting party pay the cost of discovery, and delaying discovery until after claim construction); End Anonymous Patents Act, H.R. 2024, 113th Cong. (2013) (targeting the use of shell companies to disguise the "real party-in-interest"); Patent Litigation and Innovation Act, H.R. 2639, 113th Cong. (2013) (proposing changes to the rules for pleadings, joinder, and discovery in patent litigation, as well as delaying discovery until preliminary motions are resolved); Patent Abuse Reduction Act, S. 1013, 113th Cong. (2013) (proposing shifting the major costs of discovery to the requesting party); Patent Quality Improvement Act, S. 866, 113th Cong. (2013) (proposing an expanded scope for post-grant challenges to business method patents under the Covered Business Method Review Program); Stopping Offensive Use of Patents Act, H.R. 2766, 113th Cong. (2013) (proposing a similar expansion of post-grant challenges to business method patents under the Covered Business Method Review Program); Patent Litigation Integrity Act, S. 1612, 113th Cong. (2013) (deterring abusive patent litigation involving frivolous lawsuits); Patent Transparency and Improvements Act, S. 1720, 113th Cong. (2013) (promoting transparency in patent ownership among other things); Transparency in Assertion of Patents Act, S. 2049, 113th Cong. (2013) (attempting to reduce unfair and deceptive practices in the assertion of patents).

⁹² Andrew Ramonas, *Patent Troll Bills Moving up in Senate and House*, CORP. COUNSEL (Nov. 19, 2013), <http://www.corpcounsel.com/id=1202628689137/Patent-Troll-Bills-Moving-Up-in-Senate-and-House?slreturn=20140315005345>; Letter from Alliance of Automobile Mfrs. et al., to Rep. John Boehner, Speaker, H. of Reps., et al. (July 17, 2013), available at <http://www.patentprogress.org/wp-content/uploads/2013/07/BigTent-Patent-Letter.pdf> ("There is a growing consensus that now is the time to address this issue."). Other solutions should be proposed, such as clawback or bounty systems, which refund past patent-litigation settlement payers if a patent troll loses to a subsequent defendant in litigation regarding the same patent claims and substantially similar allegedly infringing conduct. This approach would remedy unjust enrichment of patent trolls for all or part of settlement and/or license fees gained at the cost of previous defendants by disgorging past, ill-gotten gains and returning them to the deserving parties. See generally Jay P. Kesan, *Carrots and Sticks to Create a Better Patent System*, 17 BERKELEY TECH. L.J. 763 (2002); John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. ILL. L. REV. 305 (2001); Joseph S. Miller, *Building a Better Bounty: Litigation Stage Rewards for Defeating Patents*, 19 BERKELEY TECH. L.J. 667 (2004).

the non-prevailing party in patent infringement lawsuits.⁹³ This bill aims to dissuade PAEs from bringing meritless patent infringement lawsuits by imposing more financial risk, and attempts to encourage accused infringers to defend the case instead of giving in to empty threats. This loser-pays system would be limited in that inventors, original assignees, universities, and practicing entities would not be subject to this cost shifting; these NPEs could bring a patent infringement lawsuit without fear of paying the other side's costs, regardless of outcome.

¶44 Similarly, other legislation proposes that courts award reasonable fees to the prevailing party “unless the court finds that the position and conduct of the nonprevailing party or parties were substantially justified or that special circumstances make an award unjust.”⁹⁴ Before asserting a patent infringement claim, the claimant would have to post bond to cover litigation costs if the PAE loses.⁹⁵ Although posting a bond for litigation costs might unfairly burden certain claimants, such as an individual inventor who wishes to pursue a meritorious claim against a well-funded defendant, this cost shifting would normally be justified.

¶45 This legislation alters the default American Rule, which normally requires that each party pay its own costs. The American Rule unfortunately creates an environment where businesses have little to gain but much to lose if they choose to fight a patent troll. A common justification for the American Rule is that it provides everyone an opportunity to be heard by a court without worrying about financial calamity in case of an unfortunate or unexpected verdict.⁹⁶ However, the American Rule has long been criticized because defendants may be forced into court without much assurance that their legal expenses will be reimbursed, even if the accusation is without merit and entirely frivolous.⁹⁷ The proposed legislation intends to remedy the downside of the American Rule in the patent litigation context. Yet variants of the SHIELD Act have repeatedly failed to pass Congress.

¶46 On December 5, 2013, the House of Representatives passed the Innovation Act with a large bipartisan majority. This bill includes a modified loser-pays system that provides for fee shifting from the prevailing party to the non-prevailing if the position and conduct of the non-prevailing party was not reasonably justified in law and fact.⁹⁸ However, unlike a closely related Senate bill requiring the asserting entity to post bond to cover the shifted litigation costs,⁹⁹ the Innovation Act does not have a bond requirement, but holds interested parties financially responsible if the party to the litigation is unable to pay the shifted fees.¹⁰⁰ One of the key characteristics of the Innovation Act is that it mandates the disclosure of the “real party-in-interest,” including assignees, licensees, and

⁹³ It is limited in the sense that it shifts the cost only one way, from claimants to accused infringers.

⁹⁴ S. 1612, 113th Cong. § 285 (2013).

⁹⁵ *Id.*

⁹⁶ See John F. Vargo, *American Rule on Attorney Fee Allocation: The Injured Person's Access to Justice*, 42 AM. U. L. REV. 1567, 1594 (1992).

⁹⁷ See *id.* at 1592; John Leubsdorf, *Toward a History of the American Rule on Attorney Fee Recovery*, 47 LAW & CONTEMP. PROBS. 9 (1984).

⁹⁸ H.R. 3309, 113th Cong. (2013) (explaining that courts may find an exemptible circumstance, such as undue hardship, for an individual inventor patent infringement claimant).

⁹⁹ Patent Litigation Integrity Act, S. 1612, 113th Cong. § 285 (2013).

¹⁰⁰ H.R. 3309.

other entities.¹⁰¹ In addition, the Innovation Act introduces heightened pleading requirements for patent infringement lawsuits that require the claimant to identify the specific element of the accused instrumentality on which the patent claim reads. In other words, the Innovation Act would render blanket demand letters lacking specific details legally inadequate to put the receiver on notice of patent infringement, which starts the accrual of damages.¹⁰² Importantly, the Innovation Act would limit discovery in the early stages of patent litigation to only things related to claim construction until the Markman hearing is completed.¹⁰³ Although the Innovation Act has some components that would help inhibit abusive behavior related to patent litigation, it is likely to wither in the Senate like its predecessors.

¶47 The Federal Trade Commission (FTC) recently announced tighter regulations of patent trolls. The FTC planned to begin an investigation focused on a few selected companies to determine if they are stockpiling patents for the sole purpose of suing others for patent infringement.¹⁰⁴ The investigation would include using the FTC's subpoena power to pierce the veil of secrecy that some patent trolls hide behind using shell companies.¹⁰⁵ This investigation might also consider the anticompetitive behavior of certain patent trolls, and could suggest an antitrust investigation by the Antitrust Division.¹⁰⁶ However, these investigations concern criminal collusion in violation of federal fair competition laws, and thus will unlikely have an impact on nuisance lawsuits brought by patent trolls.

¶48 In 2013, the Obama administration went on the offensive against patent trolls, recommending certain legislative action. President Obama announced that he would take major steps to address the problem of patent trolls.¹⁰⁷ In relevant parts, the announcement recommended legislation that includes 1) requiring patentees and applicants to disclose the "real party-in-interest," an action aimed to publically expose the identities of patent trolls who frivolously demand a quick and cheap licensing agreement, 2) permitting more discretion in awarding fees to prevailing parties in patent cases, and 3) expanding the USPTO's transitional program designed to provide an affordable alternative to patent litigations, among other things.¹⁰⁸ Further, three executive actions were proposed: 1) adopting a rule requiring patent applicants and owners to regularly update ownership information with the USPTO in the hopes that registration records would reveal the real party-in-interest, 2) training patent examiners to more highly scrutinize functional claims,

¹⁰¹ *Id.* The Act defines financial interest as "(i) with regard to a patent or patents, the right of a person to receive proceeds related to the assertion of the patent or patents, including a fixed or variable portion of such proceeds; and (ii) with regard to the plaintiff, direct or indirect ownership or control by a person of more than 5 percent of such plaintiff." *Id.* § 4.

¹⁰² See 35 U.S.C. § 287 (2003).

¹⁰³ H.R. 3309, § 299A.

¹⁰⁴ See Press Release, Fed. Trade Comm'n, FTC Seeks to Examine Patent Assertion Entities and Their Impact on Innovation, Competition (Sept. 27, 2013), available at <http://www.ftc.gov/news-events/press-releases/2013/09/ftc-seeks-examine-patent-assertion-entities-their-impact>.

¹⁰⁵ *Id.*

¹⁰⁶ *Id.*

¹⁰⁷ Press Release, Exec. Office of the President, 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>.

¹⁰⁸ *Id.*

which have been heavily exploited by patent trolls, and 3) expanding dedicated outreach studies with regard to patent policies and laws.¹⁰⁹

B. *Deficiencies in the Various Federal Proposals*

¶49

While many of the proposed laws could have a major impact on patent litigation, none would sufficiently deter the majority of patent trolling. First, executive action would unlikely have significant impact, even if Congress implements all the recommendations as planned. The recommendation for cost-shifting legislation only adds support for the passage of the SHIELD Act, and the recommendation to expand the study of patent policies ensures only more questions, not solutions. Second, the implementation of the SHIELD Act might discourage a patent-rights holder with limited financial resources from bringing a meritorious patent action against zealous or previously successful defendant infringers. As a result, this legislative approach might have the unintended consequence of creating something similar to the core problem stemming from the English Rule (non-prevailing parties always pay opposing parties' legal fees), which denies an opportunity for some legitimate patent infringement claimants from ever having their day in court.¹¹⁰

¶50

Less significant proposals include expanding the covered-business-method review program, providing better training for patent examiners, imposing heightened pleading standards for claims of patent infringement, and revealing the "real party-in-interest." First, training patent examiners to issue less vague and abstract patent claims and making patent review under the USPTO's transitional program available to more patents would reduce the arsenal of patent claims available for patent trolling prospectively. It would not, however, directly and immediately thwart patent trolling. Second, revealing the "real party-in-interest" is unlikely to significantly deter patent trolling, but would assist the receivers of cease-and-desist letters in gathering information about a common accuser, which thus helps private parties better prepare for and defend against frivolous patent infringement allegations.¹¹¹ Lastly, the stricter pleading standards proposed by the Patent Litigation and Innovation Act would merely nationalize the local patent rules of several districts.¹¹²

¹⁰⁹ *Id.*

¹¹⁰ See Letter from Louis J. Foreman, CEO, Enventys & Edison Nation, et al., to Sen. Patrick J. Leahy, Chairman, Comm. on the Judiciary, et al. 6 (Nov. 19, 2013), available at <http://democrats.judiciary.house.gov/sites/democrats.judiciary.house.gov/files/documents/InventGrp131119.pdf> ("[The U.S.] rejected the British system in large part to allow all citizens access to courts, in which disputes would be resolved on the merits. Over the years, when Congress has granted exceptions to the American Rule, it has generally been for the purpose of encouraging litigation by creating 'private attorneys general' to conduct litigation to enforce public policies that might otherwise be too risky to pursue."). Congress granted exceptions to the American Rule when passing the Civil Rights and Voting Rights Acts of the mid-1960s, the Equal Access to Justice Act, the Truth in Lending Act, the Fair Credit Reporting Act, and the Freedom of Information Act. *Id.*

¹¹¹ See *infra* Part II.D.

¹¹² See, e.g., *Connectel, LLC v. Cisco Sys., Inc.*, 391 F. Supp. 2d 526, 528 (E.D. Tex. 2005) (applying Local Patent Rules for the U.S. District Court for the Eastern District of Texas); D.C.COLO.LPTr 1–17 (outlining proposed local patent rules for the U.S. District Court for the District of Colorado); see also Megan M. La Belle, *The Local Rules of Patent Procedure*, 46 ARIZ. ST. L.J. (forthcoming 2015). However, the Eastern District of Texas has not experienced a decrease in patent troll litigation. RPX CORP. REPORT, *supra* note 1, at 4; 2012 PATENT LITIGATION STUDY, *supra* note 1.

¶51 In summary, encouraging businesses to stand up to patent trolls reduces the amount of frivolous claims that result in settlement and license fees. This makes patent trolling less profitable and reduces the patent arsenal available for patent trolls to exploit the patent system. Ultimately, this has the collective effect of reducing patent trolling by an amount equated to the increased risk of pursuing a claim resulting in financial loss, which leaves the patent-trolling problem for the market to decide after only a slight modification to the cost/risk asymmetries discussed *supra* Part I.B. However, small businesses cannot afford costly litigation, and even well-funded businesses are unlikely to willingly engage in litigation unless the licensing deal offered by patent trolls costs more than litigation. And as discussed previously, patent trolls will make every calculation before offering a deal in order to avoid asking for too much. Thus, market participants will likely continue to pay off patent trolls to make these nuisance lawsuits go away, albeit at a lower price than at present. By marginally readjusting the economic asymmetries against the patent troll, these proposals serve, at best, as only a partial fix for the fundamental problem of patent-trolling exploitation of litigation inefficiencies. Notably, the preceding fee-shifting proposals penalize not only the patent trolls, but also other non-prevailing NPEs.

C. *One State at the Vanguard in Fighting Patent Trolling*

¶52 The states, as well as the courts, have acknowledged the patent trolls' exploitation of the patent system. Lawmakers backed by entrepreneurial funding have tried to address the patent-trolling problem at the state level.¹¹³ Their efforts focus on creating a hostile environment for those acting in bad faith and exploiting the system. States have taken steps to hinder patent-trolling entities by making it more likely that claimants, when shown to be acting in bad faith, reimburse unfairly accused infringers for litigation costs.

¶53 The first state action occurred in 2013 when the State of Vermont filed a lawsuit against MPHJ Technology Investment, LLC, an entity alleged to have a track record of harassing Vermont businesses.¹¹⁴ Meanwhile, taking effect on July 1, 2013, a law titled "Bad Faith Assertions of Patent Infringement," was enacted.¹¹⁵

¶54 The Vermont law allows targets of patent trolling to bring retaliatory actions (in state and federal district courts) to obtain compensatory and exemplary damages, plus costs and fees.¹¹⁶ The Vermont law created a factor-based test to determine when acts constitute bad-faith patent assertions.¹¹⁷ The test identifies non-exhaustive factors that might indicate bad faith by the PAE, such as sending demand-letters that lack basic information about the infringement claim or that seek payment of unreasonable royalty fees.¹¹⁸ In contrast, factors that suggest good-faith patent assertion by an NPE include whether the PAE is the original inventor or an educational institution.¹¹⁹

¶55 Over a dozen states have followed Vermont's lead and enacted similar laws, and about a dozen more states are considering doing the same.¹²⁰ However, state actions face

¹¹³ See VT. STAT. ANN. tit. 9, §§ 4195–99 (2013).

¹¹⁴ See Complaint, Vermont v. MPHJ Tech. Inv., LLC, No. 282-5-13Wncv (Vt. Sup. Ct. 2012).

¹¹⁵ §§ 4195–99.

¹¹⁶ *Id.*

¹¹⁷ *Id.*

¹¹⁸ *Id.*

¹¹⁹ *Id.*

¹²⁰ Anti-patent-troll laws exist in these states: Alabama (S.B. 121, Reg. Sess. (2014)), Georgia (Act 513,

multiple limitations in restricting the activities of patent trolls. The long-term effects of these state actions are hard to predict, especially because this approach is subject to judicial review. Ultimately, a federal court will have to decide whether a state law restricting patent rights is, or is not, preempted by federal law.¹²¹

¶56 Many criticize individual state laws for being non-uniform and suppressing the rights of patent holders. First, differing state laws might force multistate companies to employ state-specific defensive strategies against patent trolls, which is both inefficient and potentially costly. Further, patent trolls are better equipped to formulate new manipulative strategies to overcome state action. Thus, this lack of uniformity might in fact exacerbate current legal asymmetries in the patent litigation system. Second, as mentioned above, state legislation might impermissibly restrict the federal rights of patent-rights holders, thereby rendering the laws preempted. In the end, the best solution requires a uniform approach in order to both level the legal playing field and not discourage legitimate patent infringement lawsuits brought in good faith.

D. Private-Party Tactics

¶57 One counter to the patent-trolling problem is the creation of a public registry of demand letters.¹²² This enables small players to better understand why they might have been targeted by a cease-and-desist letter or license offer. Further, it allows future targets of patent trolling to take preventative measures by exposing certain entities using shotgun tactics and their corresponding, previously asserted patents. An example is the Electronic Frontier Foundation's Trolling Effects, which allows users to share and get information on demand letters.¹²³

¶58 Another solution is one where potential defendants can cooperatively form litigation cost-sharing arrangements to lower legal expenses, such as through joint-defense and representation groups. These arrangements enable the sharing of work product and privileged information without having to waive attorney-client privilege and work-product immunity. However, these contractual agreements often obligate members to litigate to the judgment stage, which is often prohibitively expensive, even when parties share the financial burden.¹²⁴

¶59 In conclusion, although these state and federal actions have merit, none focuses on the inherent wrongfulness of the patent troll's exploitative conduct. Rather, state and

Reg. Sess. (2014)), Idaho (S.B. 1354, 62d Leg. (2014)), Illinois (S.B. 3405, 98th Gen. Assemb. (2014)), Louisiana (S.B. 255, Reg. Sess. (2014)), Maine (S.P. 654, 126th Leg., Reg. Sess. (2014)), Maryland (S.B. 585, Reg. Sess. (2014)), Missouri (H.B. 1374, Reg. Sess. (2014)), New Hampshire (S.B. 303, Reg. Sess. (2014)), Oklahoma (H.B. 2837, 54th Leg., 2d Sess. (2014)), Oregon (S.B. 1540, Reg. Sess. (2014)), South Dakota (S.B. 143, Reg. Sess. (2014)), Tennessee (H.B. 2117, 108th Reg. Sess. (2014)), Utah (H.B. 117, Gen. Sess. (2014)), Virginia (H.B. 375, Reg. Sess. (2014)), and Wisconsin (Act 339, Reg. Sess. (2013)). Other states are currently considering similar legislation—Connecticut, Kansas, Kentucky, Michigan, Mississippi, Nebraska, New Jersey, Ohio, Pennsylvania, Rhode Island, and South Carolina. See Tony Dutra, *Nine States Now Have Enacted Legislation Targeting Patent Troll Demand Letter Abuse*, BLOOMBERG BNA (May 7, 2014), <http://www.bna.com/nine-states-enacted-n17179890261/>. The Virginia law (H.B. 375) is unique in that it lays out indicia of bad faith or lack thereof for letters containing accusations of patent infringement, such as cease-and-desist letters and demands for licenses.

¹²¹ See Caleb Nelson, *Preemption*, 86 VA. L. REV. 225 (2000).

¹²² See, e.g., TROLLING EFFECTS, <https://trollingeffects.org/letters> (last visited Dec. 31, 2013).

¹²³ See *id.*

¹²⁴ See *Dura Global Techs., Inc. v. Magna Donnelly Corp.*, 662 F. Supp. 2d 855 (E.D. Mich. 2009).

federal legislators and administrative branches seem to be simply reacting to the outcry of businesses that the patent system is flawed and hurting the economy by using quick-fix patent law reforms. These government actions might make patent litigation a slightly less nurturing environment for patent trolls, especially by increasing the risk of losing a lawsuit. However, the most progressive proposals would also weaken the patent system as a whole by inhibiting the ability of some legitimate patent holders to litigate good faith, non-frivolous patent claims.¹²⁵ For instance, as discussed *supra* Part II.B., the SHIELD Act and the Innovation Act are over-inclusive because they punish non-predatory PAEs with meritorious complaints. These unintended consequences and constraints on patent enforcement could inhibit legitimate claims, devalue patents, and endanger future innovation.¹²⁶ In addition, these proposals might impede the free transfer of patents, which helps entities—often individual inventors—move assets in return for capital, and allows the recirculation of capital to investors from failed companies.

III. RULE 11 ANALYSES FOR CLAIMS OF PATENT INFRINGEMENT

¶160 Irrespective of one’s view on the positives or negatives of patent trolling, the economics of patent trolling indisputably rely on high patent litigation costs and inefficiencies in the patent litigation system, both of which help NPEs monetize patents by threatening to bring dubious claims and forcing businesses to pay unwarranted license fees. Some of these inefficiencies stem from the sheer complexity and cost of patent litigation in general. However, other inefficiencies are caused simply by the structure and design of civil procedural rules. To combat the latter, this Article proposes that district courts use a specialized Rule 11-based approach that imposes sanctions against parties who objectively appear to be patent trolling.

A. Federal Rules of Civil Procedure: Rule 11 Background

¶161 Attempts to manipulate and take advantage of inefficiencies in the legal system are not new. In 1937, when the Supreme Court proposed the Federal Rules of Civil Procedure (FRCP), the Court was concerned about frivolous lawsuits.¹²⁷ Rule 11 of the FRCP clearly renounces any conduct before the court that serves “an improper purpose such as to harass, cause unnecessary delay, or needlessly increase the cost of litigation.”¹²⁸

¹²⁵ See Hon. Paul Michel, C.J., Fed. Cir., Address at the 15th Annual Niro Distinguished Intellectual Property Lecture: How to Retain Patent Enforcement While Reforming It—Judges and Counsel Should Manage Infringement Suits, Not Congress (Oct. 15, 2013) (“If passed, the bills separately and together would weaken the patent system; not strengthen it. None of these current bills would address the problems with the current patent system: litigation is slow, complicated and unpredictable. The bills, however, would make litigation slower, more complicated and less predictable.”); David J. Kappos, Op-Ed., *Let’s Not Miss this Opportunity for Consensus-Based Patent Reform*, THE HILL (Dec. 5, 2013), <http://thehill.com/opinion/op-ed/192063-lets-not-miss-this-opportunity-for-consensus-based-patent-reform> (“[S]ome are using the need to address the patent troll issue as cover to unnecessarily weaken our nation’s patent laws.”).

¹²⁶ See *Hearing Before the Subcomm. on Courts, Intellectual Prop., and the Internet of the H. Comm. on the Judiciary*, 113th Cong. 49 (2013) (testimony of C. Graham Gerst, Global IP Law Grp., LLC) (urging Congress not to pass the SHIELD Act or other patent reforms involving cost shifting).

¹²⁷ FED. R. CIV. P. 11 advisory committee’s note (1937).

¹²⁸ FED. R. CIV. P. 11(b)(1).

¶62 The main purpose of Rule 11 is to deter improper litigious conduct and reduce the growing cost and burdensomeness of civil litigation.¹²⁹ Rule 11 arises from the judiciary’s inherent equity powers, one of which is the ability to sanction both parties and attorneys for certain actions. This punishable conduct includes engaging in frivolous or vexatious litigation.¹³⁰

¶63 In U.S. courts, an attorney of record must sign every pleading, written motion, and other paper, unless the party is unrepresented.¹³¹ By signing, the attorney certifies to the court that the paper is not frivolous in its content and purpose to the best of the attorney’s knowledge, information, and belief.¹³² Similarly, an unrepresented party must certify every paper submitted to the court.¹³³ Therefore, in theory, neither side should intentionally harass, unnecessarily delay, or needlessly increase the cost of litigation, except under the threat of sanctions.

¶64 Rule 11 imposes requirements for both asserted facts and legal arguments. It mandates that factual contentions before a court “have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery.”¹³⁴ And it requires that “the claims, defenses, or other legal contentions” before a court be “warranted by existing law or by a non-frivolous argument for extending, modifying, or reversing existing law or for establishing new law.”¹³⁵

¶65 If Rule 11 sanctions are proper, the court has discretion to impose punishment on the attorney and/or the party.¹³⁶ The power of the court to sanction attorneys for frivolous complaint filing was a continuation of former Federal Equity Rule 24, which punished perceived litigation abuses by weeding out frivolous, unnecessary, or unfounded pleadings.¹³⁷ According to the 1983 amendment, Rule 11 sanctions were mandatory if the elements were met; however, such a strict approach turned out to be unsuccessful in practice, and Rule 11 was eventually modified such that sanctions are now available on a

¹²⁹ FED. R. CIV. P. 11 advisory committee’s note (amended 1993); *see* *Clinton v. Jones*, 520 U.S. 681, 709 n.42 (1997) (quoting FED. R. CIV. P. 11(c)(2)) (“[Rule 11 sanctions] may be set at a level ‘sufficient to deter repetition of such conduct or comparable conduct by others similarly situated.’”); *Donaldson v. Clark*, 819 F.2d 1551, 1559 (11th Cir. 1987) (en banc).

¹³⁰ FED. R. CIV. P. 11 advisory committee’s note (amended 1993) (“Since its original promulgation, Rule 11 has provided for the striking of pleadings and the imposition of disciplinary sanctions to check abuses in the signing of pleadings. Its provisions have always applied to motions and other papers by virtue of incorporation by reference in Rule 7(b)(2). The amendment and the addition of Rule 7(b)(3) expressly confirms this applicability.”); *see, e.g., Chambers v. NASCO, Inc.*, 501 U.S. 32, 40–41 (1991).

¹³¹ FED. R. CIV. P. 11(a).

¹³² FED. R. CIV. P. 11(b).

¹³³ *Id.*

¹³⁴ *Id.*

¹³⁵ *Id.*

¹³⁶ *See* FED. R. CIV. P. 11(c) (“[T]he court may impose an appropriate sanction on any attorney, law firm, or party.”); 28 U.S.C. § 1927 (“Any attorney or other person admitted to conduct cases in any court . . . who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys’ fees reasonably incurred because of such conduct.”). Although Rule 11 has been silent on the point, courts have claimed the power to impose sanctions on an attorney personally, either by imposing costs or holding them in contempt of court. *See* 5 CHARLES ALAN WRIGHT & ARTHUR R. MILLER, *FEDERAL PRACTICE AND PROCEDURE: CIVIL* § 1334 (1969); 6 JAMES WM. MOORE ET AL., *MOORE’S FEDERAL PRACTICE* ¶ 11.02 (2d ed. 1988).

¹³⁷ FED. R. CIV. P. 11 advisory committee’s note (amended 1937).

discretionary basis after a party to the litigation files a motion.¹³⁸ In addition, the FRCP expressly give the district courts discretion to file *sua sponte* motions for Rule 11 sanctions because courts appeared reluctant to intervene without a request from one of the parties to the litigation.¹³⁹ Today, federal courts have tremendous discretion to proactively detect and punish Rule 11 violations to deter inappropriate conduct and ensure the proper operation of the legal system.

*B. Rule 11 and Asserting Patent Infringement Claims:
Reasonable Pre-Filing Investigation*

¶166 The following sections explain the current application of Rule 11 sanctions in the context of assertions of patent infringement. In a patent case invoking Rule 11 sanctions, “courts are often asked to weigh whether the substantive allegations are so weak that they are not grounded in fact and legally tenable.”¹⁴⁰ A party claiming patent infringement must perform a good faith, two-step analysis before filing the lawsuit or counterclaim. That said, Rule 11 awards against signing attorneys appear to occur less frequently in patent infringement cases than those resulting from the Patent Statute’s cost-shifting provisions for “exceptional” cases.¹⁴¹

1. Standards for Enforcing Rule 11 Sanctions for Bad-Faith Patent Infringement Assertions

¶167 Through appellate opinions, the Federal Circuit has shaped Rule 11 jurisprudence in the context of patent infringement.¹⁴² Generally, Rule 11 requires all factual contentions to have sufficient evidentiary support or at least a likelihood thereof following discovery. It further requires that all claims be either warranted by existing law, or in the alternative, based on a non-frivolous argument to change the law.¹⁴³

¶168 For patent infringement claims, Rule 11 sanctions may be imposed if the claimant’s attorney fails to perform a reasonable inquiry, often evinced by improper due diligence. Stated broadly, attorneys must adequately investigate the facts prior to filing the claim of infringement.¹⁴⁴ Currently, the Federal Circuit has two reasonable inquiry requirements, the failure to meet either of which can justify enforcing Rule 11 sanctions.¹⁴⁵ A reasonable inquiry requires a good-faith effort to 1) construe the patent claims to the extent necessary to support the claim and 2) compare the patent claim to the accused

¹³⁸ *Id.*

¹³⁹ *Id.* (“[T]he power of the court to act on its own initiative is retained.”); FED. R. CIV. P. 11 advisory committee’s note (amended 1983) (“Courts currently appear to believe they may impose sanctions on their own motion. See *N. Am. Trading Corp. v. Zale Corp.*, 83 F.R.D. 293 (S.D.N.Y. 1979). Authority to do so has been made explicit in order to overcome the traditional reluctance of courts to intervene unless requested to do so by one of the parties.”).

¹⁴⁰ *Raylon, LLC v. Complus Data Innovations, Inc.*, 700 F.3d 1361, 1373 (Fed. Cir. 2012).

¹⁴¹ See *supra* notes 26–27 and accompanying text.

¹⁴² See *Judin v. United States*, 110 F.3d 780, 784 (Fed. Cir. 1997); *S. Bravo Sys., Inc. v. Containment Techs. Corp.*, 96 F.3d 1372, 1375 (Fed. Cir. 1996).

¹⁴³ FED. R. CIV. P. 11(b).

¹⁴⁴ See *Phonometrics, Inc. v. Econ. Inns of Am.*, 349 F.3d 1356 (Fed. Cir. 2003).

¹⁴⁵ See, e.g., *S. Bravo Sys., Inc.*, 96 F.3d at 1373 (vacating district court order denying Rule 11 sanctions and remanding for further consideration where attorney had apparently failed to conduct an adequate inquiry).

infringer's product, apparatus, or method.¹⁴⁶ Under the former, the claimant's attorney has a pre-filing duty to independently and reasonably construe the patent claim(s). Under the latter, the claimant's attorney has a pre-filing duty to investigate the infringement accusation(s) by exhausting all publicly available material and information, such as by obtaining or inspecting the accused infringer's product or process.¹⁴⁷

¶169 Each regional circuit can have its own circuit-specific Rule 11 standards because, when reviewing patent cases, the Federal Circuit defers to each regional circuit law as long as a certain issue is not exclusive to patent law.¹⁴⁸ However, regional circuit standards are generally uniform, as all have adopted an objective standard with only slight variations in specific language.¹⁴⁹ The consensus is that at the time of filing a complaint for patent infringement: 1) the claimant must independently construe the patent claim, 2) the claim construction must be objectively sound, and 3) the claimant must make the infringement judgment after exhausting all available methods publicly known.¹⁵⁰

2. Attorney's Independent and Objectively Reasonable Construction of the Patent Claim

¶170 For the first reasonable inquiry requirement, the claimant must be able to provide adequate support for a claim construction that renders the alleged infringer's conduct within the scope of the claim(s).¹⁵¹ Because this judgment depends on a question of law as to claim construction, it is subject to the Rule 11(b)(2) requirement that all legal arguments be non-frivolous.¹⁵² Therefore, an attorney seeking to file a patent infringement claim should not rely solely on her client's claim interpretation. Instead, the attorney has an affirmative duty to perform an independent claim analysis.¹⁵³

¶171 In *South Bravo Systems v. Containment Technologies*, the plaintiff's lawyers failed to independently construe the patent claims at issue and compare their claim construction with the accused devices or products.¹⁵⁴ Although the patentee conferred with the lawyer regarding his observation of the accused device, such blind reliance on a lay opinion was sanctionable.¹⁵⁵

¹⁴⁶ *Id.* at 1375.

¹⁴⁷ *See Judin*, 110 F.3d at 784–85.

¹⁴⁸ *See* Kathleen M. Dorr, Annotation, *Comment Note—General Principles Regarding Imposition of Sanctions Under Rule 11, Federal Rules of Civil Procedure*, 95 A.L.R. FED. 107, § 6(a) (1989); *see, e.g.,* *Biodex Corp. v. Loredan Biomedical, Inc.*, 946 F.2d 850, 857–58 (Fed. Cir. 1991) (“[O]ur practice has been to defer to regional circuit law when the precise issue involves an interpretation of the Federal Rules of Civil Procedure or the local rules of the district court.”).

¹⁴⁹ *See* Dorr, *supra* note 148.

¹⁵⁰ *S. Bravo*, 96 F.3d at 1375.

¹⁵¹ *Judin*, 110 F.3d at 784.

¹⁵² *Id.* *Sua sponte* motions put the burden on the party to be sanctioned to show the justification for his or her actions under Rule 11. *Id.*; *see, e.g.,* *Donaldson v. Clark*, 819 F.2d 1551, 1560 (11th Cir. 1987) (en banc) (“The accused must be given an opportunity to respond, orally or in writing as may be appropriate, to the invocation of Rule 11 and to justify his or her actions.”).

¹⁵³ *See Judin*, 110 F.3d at 784.

¹⁵⁴ *S. Bravo*, 96 F.3d at 1374.

¹⁵⁵ *Id.* at 1375 (finding district court abused its discretion because “there [was] no evidence that either of [patentee’s] attorneys ever compared the accused devices with the patent claims”). The Federal Circuit opined that blind reliance on a lay client for the factual and legal questions of infringement would rarely constitute a reasonable inquiry under Rule 11. *See id.*

¶72 In addition, the claim construction must read on the apparatus or process/method, and under Rule 11(b)(3) there must be evidentiary support for all factual allegations as to the infringement.¹⁵⁶ Because all questions of fact will be determined later in litigation, this requirement of evidentiary support is germane to not overstretching Rule 11 sanctions. In fact, the sufficiency of evidentiary support should be determined based not on the court's (therefore the correct) claim construction, but on any independent, good-faith construction relied on in the complaint.¹⁵⁷

¶73 For example, in *Antonious v. Spaulding & Evenflo Companies*, Rule 11 sanctions were not proper even though the plaintiff attorneys' patent claim construction was inconsistent with the court's claim construction because the claimant's argued-for claim construction was not frivolous.¹⁵⁸ Although the court's claim construction did not read on the accused-infringer's products—and thus no patent infringement could be found—this was immaterial. Because the evidence supported the claimant's construction and read on the accused-infringer's products, the argument was not frivolous.¹⁵⁹

¶74 Additionally, preclusive effects from concurrent proceedings can affect inquiries for Rule 11 sanctions. In *Phonometrics, Inc. v. Economy Inns of America*, the claimant owned a patent claiming a device that computed, recorded, and showed the cost of long-distance phone calls via a digital display, which he accused the hotel chain of infringing.¹⁶⁰ The patent owner had previously sued various manufacturers and sellers of telephone equipment on similar grounds in cases still pending at the time of filing.¹⁶¹ He was meanwhile also engaged in various lawsuits against other hotel chains.¹⁶² The specific complaint in *Phonometrics* was based on a claim construction where a digital display showed the cost of a long-distance phone call to anyone, including hotel employees.¹⁶³

¶75 In one of the manufacturing lawsuits, the Federal Circuit ruled on its claim construction and disagreed with the patent owner's construction, holding that the claim limitation “digital display” did not include a machine-readable device.¹⁶⁴ Subsequently, the Federal Circuit concluded that the language “substantially instantaneous” limited the

¹⁵⁶ *Antonious v. Spaulding & Evenflo Cos.*, 275 F.3d 1066, 1074 (Fed. Cir. 2002) (“[A]n attorney violates Rule 11(b)(3) when an objectively reasonable attorney would not believe, based on some actual evidence uncovered during pre-filing investigation, that each claim limitation reads on the accused device literally or under the doctrine of equivalents.”).

¹⁵⁷ *Id.*

¹⁵⁸ *Id.* at 1068–71.

¹⁵⁹ When reviewing a determination of the first reasonable inquiry requirement, the Federal Circuit must apply the standard of the regional circuit that the case was appealed from because it is a question of law. *Antonious*, 275 F.3d at 1072. “[T]o satisfy that requirement, there must be ‘some basis in law’ to support each legal argument in the complaint.” *Id.* For instance, under the Fourth Circuit’s standard, a claim construction would be unjustified if a reasonable lawyer would recognize it as frivolous. *See Cox v. Saunders*, 136 F.3d 349, 352 (4th Cir. 1998).

¹⁶⁰ *Phonometrics, Inc. v. Econ. Inns of Am.*, 349 F.3d 1356 (Fed. Cir. 2003).

¹⁶¹ *See, e.g., Intellicall, Inc. v. Phonometrics, Inc.*, 952 F.2d 1384, 1387 (Fed. Cir. 1992).

¹⁶² *Phonometrics*, 349 F.3d at 1358–59.

¹⁶³ The previous court held the patent claim language “digital display” did not include machine-readable devices, but it did not require that the display be shown directly to the persons placing the calls. *Phonometrics*, 349 F.3d at 1367. Therefore, the plaintiff may have properly argued that one employed by the hotel must have access to some display, thus infringing the patent. *See id.* at 1359. *But see Phonometrics, Inc. v. N. Telecom Inc.*, 133 F.3d 1459, 1462 (Fed. Cir. 1998).

¹⁶⁴ *Phonometrics*, 349 F.3d at 1358–59.

claim scope for the “digital display.” As a result, the *Phonometrics* court held that only a hotel-guest caller, and not any hotel employees, must be able to perceive the cost of a long-distance call through a digital display during and after the call to warrant infringement.¹⁶⁵

¶76 The defendants in *Phonometrics* moved for Rule 11 sanctions against the attorney that filed the patent infringement complaint.¹⁶⁶ The district court granted Rule 11 sanctions, which the Federal Circuit upheld based on two premises: 1) the patent infringement claimant must voluntarily dismiss any claims incongruent with a precedential claim construction, even if the precedent came down after the filing of the claim,¹⁶⁷ and 2) although it is possible to abolish a precedential claim construction from a previous case during litigation, the precedential claim construction is binding against subsequent litigants within the same context.¹⁶⁸

3. Infringement Judgment Only After Exhausting All Publicly Available Materials and Information

¶77 For the second reasonable inquiry requirement, the claimant’s attorney must attempt to obtain or inspect an allegedly infringing product, apparatus, or process before making an infringement judgment. Attempts to obtain or inspect must exhaust all publicly available methods possible without judicial recourse.

¶78 In *Judin v. United States*, the Federal Circuit reversed a denial of Rule 11 sanctions, ruling that a lack of due diligence in trying to obtain or inspect a non-consumer product—a barcode scanner used by the U.S. Post Office—was sanctionable.¹⁶⁹ This holding is particularly striking because the Federal Circuit showed very little leniency to the reality that the claimant’s claim construction obviated the necessity of a close inspection of the accused device.¹⁷⁰ Thus, the second step could be that the claimant must at least attempt to obtain or inspect the accused infringer’s product or process, even if it is impossible to do so, regardless of the necessity to examine the product before concluding that the patent claim reads on it.¹⁷¹

¶79 Conversely, in *Q-Pharma, Inc. v. Andrew Jergens Company*, the Federal Circuit affirmed a denial of Rule 11 sanctions even though the claimant performed only cursory analysis of the defendant’s product.¹⁷² Q-Pharma sued a lotion manufacturer for

¹⁶⁵ *Id.* at 1359.

¹⁶⁶ *Id.* at 1360.

¹⁶⁷ *Id.* at 1361 (discussing how Rule 11 applies to later advocating “untenable contentions made in previously-filed papers”).

¹⁶⁸ *Phonometrics*, 349 F.3d at 1362–63. On the other hand, Judge Newman would have vacated the sanctions because the claim construction in *Northern Telecom* was only non-precedential dicta outside the context of an equipment-manufacturer defendant, and similarly, the *Choice Hotels* opinion was non-precedential. *Phonometrics*, 349 F.3d at 1367–68 (Newman, C.J., dissenting) (citing *Phonometrics, Inc. v. N. Telecom, Inc.*, 133 F.3d 1459 (Fed. Cir. 1998), and *Phonometrics, Inc. v. Choice Hotels Int’l, Inc.*, 21 F. App’x 910, 2001 WL 1217219 (Fed. Cir. 2001)).

¹⁶⁹ *Judin v. United States*, 110 F.3d 780, 784 (Fed. Cir. 1997).

¹⁷⁰ *Id.* at 783 (“[A] more thoughtful pre-filing examination would not likely have deterred Judin’s interest in the suit.”).

¹⁷¹ See *id.* at 782; see, e.g., *View Eng’g Inc. v. Robotic Vision Sys., Inc.*, 208 F.3d 981 (Fed. Cir. 2000); *Hoffmann-La Roche Inc. v. Invamed Inc.*, 213 F.3d 1359 (Fed. Cir. 2000); *Cambridge Prods. Ltd. v. Penn Nutrients Inc.*, 962 F.2d 1048 (Fed. Cir. 1992).

¹⁷² *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1306 (Fed. Cir. 2004).

infringing its patent related to lotions containing Coenzyme Q₁₀ (CoQ₁₀).¹⁷³ Rule 11 sanctions were not imposed against Q-Pharma's attorneys for failure to perform a chemical analysis before filing the patent infringement claim to confirm the composition of the allegedly infringing lotion.¹⁷⁴ The court held that Q-Pharma's attorneys met the Rule 11 requirements by 1) interpreting the patent and concluding the limitation, "therapeutically effective amount," meant any amount with no specified threshold, and 2) acquiring a sample of the CoQ₁₀ lotion to review its label and other advertising materials in order to conclude that the lotion contained at least some CoQ₁₀.¹⁷⁵

¶180 Further, parties asserting counterclaims are similarly required to fulfill the reasonable inquiry requirements. In *View Engineering Inc. v. Robotic Vision Systems, Inc.*, the Federal Circuit affirmed an imposition of Rule 11 sanctions against a defendant who failed to exhaust the judicial process in its pre-claim investigation.¹⁷⁶ View Engineering initially sued Robotic Vision Systems (Robotic) for patent infringement of View Engineering's patent.¹⁷⁷ In response, Robotic's attorney brought counterclaims for patent infringement of several of Robotic's patents.¹⁷⁸ The pre-filing investigation by Robotic's attorney merely consisted of obtaining advertising materials because "View [Engineering] refused to permit examination of its machine or drawings."¹⁷⁹ The Federal Circuit affirmed the sanctions against Robotic's attorney by reasoning that the attorney "had the opportunity to file immediately for the protective order that eventually resulted in discovery."¹⁸⁰ Following this logic, the pre-complaint-filing inquiry should not end until all publicly available options are exhausted, including judicial recourse in case of counterclaims.

¶181 While the *Q-Pharma* opinion is on the lenient side and the *View Engineering* opinion is on the strict side, the Federal Circuit distinguished *Q-Pharma* from *View Engineering* in that "an infringement analysis can simply consist of a good faith, informed comparison of the claims of a patent against the accused subject matter."¹⁸¹ The Federal Circuit held that Q-Pharma's claim interpretation was independent and made in good faith, and that it had obtained and analyzed the accused product to the point where the analysis led to a plausible infringement claim,¹⁸² whereas in *View Engineering*, Robotic's attorney seemed to have quickly filed a counterclaim of patent infringement without adequate due diligence.

4. Putting the Two Steps of the Reasonable Inquiry Together

¶182 The PAE must attempt to obtain or inspect infringing products or processes regardless of its necessity determined upon completion of the first reasonable inquiry step. However, the PAE may stop performing due diligence at the point when observation

¹⁷³ *Id.* at 1297–98.

¹⁷⁴ *Id.* at 1297, 1300.

¹⁷⁵ *Id.* at 1301.

¹⁷⁶ *View Eng'g*, 208 F.3d at 981.

¹⁷⁷ *Id.* at 982.

¹⁷⁸ *Id.*

¹⁷⁹ *Id.* at 985.

¹⁸⁰ *Id.* at 986.

¹⁸¹ *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1302 (Fed. Cir. 2004).

¹⁸² *Id.*

or analysis of the accused apparatus or method leads to a plausible claim of infringement upon the independent and good-faith claim construction from the first step.

¶183 A plausible excuse for stopping the second reasonable inquiry step, which might fulfill the Rule 11 duty, must be distinguished from a plausible claim of infringement. In *View Engineering*, Rule 11 sanctions were warranted when a party only asked the other party to cooperate, which turned out to be futile, and did not follow through by petitioning for judicial recourse to compel cooperation.¹⁸³ Although the original defendant raised the excuse of the plaintiff's lack of cooperation with regard to the production of certain information, without attempting to exhaust any available judicial recourse, the second step was inadequate under Rule 11.¹⁸⁴

¶184 Nonetheless, there is an impracticability excuse for ending the second step inquiry without obtaining adequate evidentiary support for infringement claims. Such an excusable circumstance was found in *Hoffman La Roche, Inc. v. Invamed, Inc.*, where a product made by a patented process was reverse engineered by a competitor. However, the details of the competitor's manufacturing process were concealed from the public, which further contributed to the patent owner's suspicions.¹⁸⁵ The patent owner sued for patent infringement of its manufacturing process, and stated, "plaintiffs are presently not aware of any analytical technique which can be used to definitively establish that the [generic form of defendant's proprietary drug] was made by use of the invention of one or more claims of the [plaintiff's patents]."¹⁸⁶ Over the course of litigation, the defendant disclosed the process at issue, and the plaintiffs voluntarily dismissed the lawsuit after concluding non-infringement.¹⁸⁷

¶185 Subsequently, the defendant moved for Rule 11 sanctions.¹⁸⁸ The Federal Circuit agreed with the district court's denial of Rule 11 sanctions where, although the plaintiffs could have assumed a lack of factual support for non-infringement when the pre-filing investigation met a dead-end, they chose to file suit to engage in discovery.¹⁸⁹ Therefore, the patent holder could seek judicial recourse to investigate the infringement where there was no practical alternative to discovery.¹⁹⁰

¶186 Parties can detail the reasonable inquiry requirements under Rule 11 before filing a complaint. The claimant's attorney must: 1) independently construe the patent claims in good faith, which may differ from the court's construction; 2) initiate a factual investigation even though their independent claim construction obviated this necessity in the abstract; and 3) continue the factual investigation until the facts lead to a plausible claim of infringement or the investigation becomes impracticable by all publicly available means other than filing the complaint. In addition, it should be noted that courts

¹⁸³ *View Eng'g*, 208 F.3d at 986.

¹⁸⁴ *Id.*

¹⁸⁵ *Hoffmann-La Roche Inc. v. Invamed Inc.*, 213 F.3d 1359, 1361 (Fed. Cir. 2000).

¹⁸⁶ *Id.*

¹⁸⁷ *Id.* at 1364.

¹⁸⁸ *Id.* at 1362.

¹⁸⁹ *Id.* at 1363 ("[Defendant] refused to disclose the manufacturing processes because of a confidentiality agreement it had with the manufacturer.").

¹⁹⁰ *Id.* at 1364–65 ("[The plaintiff in *Cambridge*] had tested a sample of the allegedly infringing product and had commissioned further chemical analyses and acquired documentary evidence that appeared to confirm that the product alleged to infringe fell within the chemical specifications of the patented method. Without the aid of discovery, any further information was not practicably obtainable.") (quoting *Cambridge Prods. Ltd. v. Penn Nutrients Inc.*, 962 F.2d 1048 (Fed. Cir. 1992)).

cannot base a Rule 11 sanction exclusively on incongruence between its claim construction and the claimant's claim construction.¹⁹¹

5. New Legal Theories and Arguing for a Change of Law

¶87 Despite preclusive effects and Rule 11 sanctions, parties may argue for a change in the law if the argument is non-frivolous.¹⁹² However, the time and place of the argument for a change of law matters. In *Phonometrics*, the litigant's insistence on the same claim construction despite previous contradicting final judgments resulted in a proper finding of Rule 11 sanctions.¹⁹³ The Federal Circuit implied that if the attorney wanted to make an argument for a change of law, the attorney should have appealed the previous rulings, rather than sue different defendants and then argue for a change in claim construction.¹⁹⁴

¶88 It makes sense that a claimant may not argue for a change of the claim construction simply because he sues different defendants. While the claimant should not be discouraged from bringing lawsuits against other defendants after a single lawsuit fails, courts should not waste time and resources reading and interpreting the same patent, and should only rely on the factual differences when an opposite result is clearly warranted.

6. Recent Developments in Rule 11 Jurisprudence: Acknowledging Patent Trolling

¶89 In *Eon-Net v. Flagstar Bancorp*, the district court held that Eon-Net brought a baseless claim in bad faith because its patent claim construction was unwarranted by the written description and the lawsuit exhibited "indicia of extortion."¹⁹⁵ Eon-Net had filed nearly identical patent infringement complaints against almost one hundred different defendants and offered quick settlements at prices far below the cost of litigation.¹⁹⁶ On appeal, the Federal Circuit upheld the district court's imposition of Rule 11 sanctions against Eon-Net.¹⁹⁷

¶90 Eon-Net was a holding company for a patent portfolio of document-processing systems. The district court found that Eon-Net did not perform an objective evaluation of the claim and thus failed to satisfy the Rule 11 requirements.¹⁹⁸ The court ordered Eon-Net to pay over \$600,000 in Rule 11 sanctions plus all legal costs. This order followed the court's declaration that this was an exceptional case pursuant to 35 U.S.C. § 285.¹⁹⁹ These financial sanctions roughly equated with the cost of litigation if the parties had reached the summary judgment stage in the district court.

¹⁹¹ See *Antonious v. Spaulding & Evenflo Cos.*, 275 F.3d 1066, 1074 (Fed. Cir. 2002).

¹⁹² FED. R. CIV. P. 11(b)(2).

¹⁹³ *Phonometrics, Inc. v. Econ. Inns of Am.*, 349 F.3d 1356, 1362–63 (Fed. Cir. 2003).

¹⁹⁴ See *id.* at 1363 ("However sincere Phonometrics and Mr. Sutton may be in their belief that the construction of the limitation at issue stated in *Northern Telecom*, and reiterated and followed '[u]nder principles of stare decisis' in *Choice Hotels* and by the district court in case after case brought by Phonometrics, is incorrect, their position is simply without legal merit.").

¹⁹⁵ *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1326 (Fed. Cir. 2011).

¹⁹⁶ *Id.* Eon-Net's previous settlement offers were based on sales by the defendant. For example, "\$25,000 for sales less than \$3,000,000; \$50,000 for sales between \$3,000,000 and \$20,000,000; and \$75,000 for sales between \$20,000,000 and \$100,000,000." *Id.* at 1327.

¹⁹⁷ *Id.* at 1328–29.

¹⁹⁸ *Id.*

¹⁹⁹ *Id.* at 1320.

¶91 The plaintiff in *Eon-Net* tried to examine the defendant's website, which allegedly infringed Eon-Net's patent on a document-processing system. The court noted that a proper pre-filing investigation "requires counsel to perform an objective evaluation of the claim terms when reading those terms on the accused device."²⁰⁰ The district court found that Eon-Net brought a baseless claim in bad faith because its claim construction was unwarranted by the written description. Furthermore, the court noted that Eon-Net showed "indicia of extortion" by bringing multiple claims demanding quick settlements at prices below the cost of defending the litigations.²⁰¹ Regardless of how well the claim construction read on the accused website, because Eon-Net did not perform an objective evaluation of the claim, it failed to satisfy the Rule 11 requirements.²⁰² On appeal, the Federal Circuit explained that the defendant did not infringe any claim at issue based on the patent disclosure, despite the plaintiff's attempt to contradict its own patent disclosure.²⁰³

¶92 The Federal Circuit explicitly acknowledged both the patent system's tendency of imposing high costs on accused infringers regardless of their liability, and how easily NPE's can manipulate the system because they are immune to counterclaims.²⁰⁴ Eon-Net might lose some "licensing revenue should its patents be found invalid or if a court narrowly construed the patents," but it would not "face any business risk resulting from the loss of patent protection over a product or process."²⁰⁵ And concerning public relations, Eon-Net would have little to lose while accused infringers faced the possibility of being viewed as patent infringers by the public.²⁰⁶ Furthermore, defendants were required to answer complaints and comply with other court proceedings, including discovery, without any assurance of recovering litigation costs due to the American Rule.

¶93 Notwithstanding the court's recognition of Eon-Net's status as a patent troll, the precedent created by *Eon-Net* falls short of Rule 11's potential to prevent frivolous and unfounded pleadings. Because the court relied on the filing of a Rule 11 motion after the defendant had incurred significant litigation expenses (such as discovery costs), the application of Rule 11 sanctions in this manner does little to dissuade patent trolling generally. As discussed *supra* Part I, patent-trolling behavior pressures defendants to settle before filing the infringement lawsuit because of both the uncertainty of reimbursement for litigation costs and the threat of an injunction against ongoing business. In addition, a Rule 11 motion is subject to Rule 11 sanctions, which adds extra costs to filing Rule 11 motions. In sum, the delayed application of Rule 11 sanctions does little to combat patent trolling because financially prudent and litigation-wary defendants are nevertheless still compelled to agree either to a license fee or settlement payoff.

¶94 And although courts may openly acknowledge the legal asymmetries in patent-troll litigation, Rule 11 sanctions must nevertheless be imposed based on objective criteria. For instance, the Eastern District of Texas similarly acknowledged the suitability of Rule 11 sanctions for exploitative patent trolling in *Raylon, LLC v. Complus Data Innovations*,

²⁰⁰ *Id.* at 1329.

²⁰¹ *Id.* at 1326.

²⁰² *Id.* at 1329.

²⁰³ *Id.* at 1323.

²⁰⁴ *Id.* at 1327.

²⁰⁵ *Id.* at 1327–28.

²⁰⁶ *Id.* at 1327.

where a patent owner of technology for a handheld, police-ticketing device sued multiple defendants for patent infringement. After the cases were consolidated,²⁰⁷ the defendants moved for Rule 11 sanctions, as well as attorneys' fees and legal costs for being an exceptional case.²⁰⁸ The district court considered whether the arguments for damages were not credible and if the lawsuit had been "brought only to coerce a nuisance value settlement."²⁰⁹ The district court's Rule 11 inquiry involved analyzing "Raylon's damages model and early settlements to determine whether it brought its suits in good faith or merely to obtain nuisance value settlements."²¹⁰ The court opined that "in some situations, a plaintiff asserting a large damages model while making very low offers in the case may indicate that the plaintiff realizes its case is very weak or even frivolous," and that the amount of damages may be "indicative of the good faith nature with which the case is brought."²¹¹ The district court concluded that Raylon's subjective intent in bringing the suit was not in bad faith and denied Rule 11 sanctions.²¹²

¶95 On appeal, the Federal Circuit disagreed with the district court's Rule 11 analysis.²¹³ The Federal Circuit reiterated that the standard for Rule 11 is an objective one, meaning the subjective intent of the patent infringement claimant in bringing the lawsuit is irrelevant.²¹⁴ Under Fifth Circuit precedent, "the standard under which an attorney is measured is an objective, not subjective standard of reasonableness under the circumstances."²¹⁵ However, the Federal Circuit still found Raylon's proposed claim construction to be frivolous because its argument about the pivotally mounted display being adjustable from the viewer's perspective instead of relative to the device housing was such that "no reasonable litigant could reasonably expect success on the merits," and thus warranted Rule 11 sanctions.²¹⁶

IV. PROPOSAL FOR A NEW RULE 11 INQUIRY FOR PATENT INFRINGEMENT CLAIMANTS

¶96 Unfortunately, the current passive application of Rule 11 falls short of its potential to shield commercially active businesses from patent trolling. The main problem with the current application of Rule 11 is that defendants must proceed well into litigation, expending time and money, just to get to a potentially favorable Rule 11 motion ruling. In addition, regardless of how the litigation turns out, the PAE may repeatedly go after other defendants, again aiming for either settlements or license fees.

¶97 However, existing civil procedure can help combat the patent-trolling problem based on this Article's proposed application of Rule 11, which uses a predefined, suspect-classification model to identify certain parties that assert patents in bad faith.

²⁰⁷ Raylon, LLC v. Complus Data Innovations, Inc., 700 F.3d 1361, 1365 (Fed. Cir. 2012).

²⁰⁸ *Id.* at 1365, 1370.

²⁰⁹ *Id.* at 1368.

²¹⁰ *Id.* at 1367–68.

²¹¹ *Id.* at 1368.

²¹² *Id.* at 1372.

²¹³ *Id.* at 1371.

²¹⁴ *Id.* at 1373.

²¹⁵ *Id.* at 1367 (quoting *Whitehead v. Food Max of Miss., Inc.*, 332 F.3d 796, 803 (5th Cir. 2003)).

²¹⁶ *Id.* at 1370. Raylon argued for a claim construction that included a "display being capable of being moved or pivoted relative to the viewer's perspective" without any support for this in the patent and contrary statements made during prosecution. *Id.* at 1368.

A. Applying Rule 11 *Sua Sponte*: Using a Suspect Class to Combat Patent Trolling

¶198 As an equity rule, Rule 11 sanctions can be applied *sua sponte*, which gives the court discretion as to the imposition of sanctions.²¹⁷ This equity-driven approach has significant advantages, such as flexibility and the potential for immediate implementation, as opposed to legislative or administrative action. First, courts can apply this model flexibly because no set criteria define what constitutes judicially sanctionable conduct.²¹⁸ This flexibility is especially advantageous because patent trolls can adjust their strategies quickly to new statutes and regulations. Second, it does not require new legislation or agency rulemaking because the legislative history and underlying policies of Rule 11 endorse the federal judiciary's inherent equity power.

¶199 Furthermore, a *sua sponte* approach moves the inquiry to an earlier stage, which protects the commercially active defendant from expending unnecessary legal costs just to get a chance to move for Rule 11 sanctions. The *sua sponte* approach can also delay the proceedings before the defendant is even required to file an answer, further lessening the accumulation of legal costs for the defendant. By aggressively implementing *sua sponte* Rule 11 motions, courts can frontload a more stringent pleading burden on suspect patent infringement claimants. In order to satisfy the reasonable inquiry requirements of Rule 11, the PAE must persuade the court that its own claim construction reads on the accused apparatus or method. Unless there is a showing of both legitimate factual and legal grounds supporting the infringement, the defendant would not have to meet any burden of proof until the court denies the Rule 11 motion.

¶100 In addition, courts may use Rule 11 sanctions to create preclusive-type effects or injunctions. For instance, a court could temporarily ban the PAE from filing generic patent infringement complaints against other defendants unless the PAE can improve the grounds for its complaint by performing the sufficient pre-litigation investigation required to pass Rule 11 muster.

¶101 This proposed application of Rule 11 requires courts to proactively detect complaints filed as a part of a patent-trolling strategy. By defining a suspect class that is predisposed to patent trolling, courts will be able to selectively apply increased scrutiny for patent infringement assertions. Stated broadly, courts should first look to the PAE's complaint to determine whether this heightened scrutiny should apply. Then, when a court identifies the PAE as a member of the suspect class, it should move *sua sponte* for a Rule 11 hearing. In this hearing, the claimant is required to prove that the legal complaint is 1) based on an independent and reasonable claim construction, and 2) supported by sufficient facts that lead to a conclusion of infringement, or by an appropriate reason not to include such facts.

B. Suspect-Class Factors Indicative of Bad-Faith Patent Assertion

¶102 There are many characteristics and behaviors indicative of patent trolling, as mentioned in Part I. In order to create an easy-to-apply test, quantitatively measurable

²¹⁷ FED. R. CIV. P. 11 advisory committee's note (amended 1993) (“[T]he power of the court to act on its own initiative is retained.”).

²¹⁸ *See, e.g.*, *Chambers v. NASCO, Inc.*, 501 U.S. 32, 50 (1991) (“[I]f in the informed discretion of the court, neither the statute nor the Rules are up to the task, the court may safely rely on its inherent power [to impose sanctions].”).

characteristics are preferable, relieving the court from having to conduct significant in depth inquiry, while also providing a mechanism to avoid both undue delay and unnecessary diversion of court resources.

¶103 A suspect class of patent infringement claimants can be defined by certain indicia of patent trolling. Some easily determinable characteristics indicative of a predisposition to patent trolling are: 1) the litigant was not in privity of employment with the named inventor, including through subsidiaries, affiliates, or its business predecessor or successor (leaving merely a relationship through contract originating from the transfer of intellectual property); 2) the litigant does not make available any commercial products or services in relation to the patent; and 3) the litigant's lines of business for the past three years share no commonality with the subject matter of the patent. If two or more of the mentioned characteristics apply, the entity's patent infringement complaint should be subject to increased scrutiny.

¶104 These objective characteristics help a court discern whether the entity intends to use the patented technology for the public good, or in the alternative, is relying on patents solely as a predatory financial scheme or exploitive core-business model. In contrast, entities offering products or services are presumed to be less likely to engage in bad-faith patent assertion and are thus held to the traditional level of scrutiny.

¶105 Although looking directly at the conduct of the PAE most accurately identifies patent trolling, a predisposed suspect-class approach is preferable. Discussed *supra* Part I, some entities that are not patent trolls engage in patent-trolling-like conduct, and similarly, some NPE's have legitimate patent infringement claims. The proposed suspect-class approach triggers the specialized scrutiny even if the PAE is not a patent troll and helps courts evaluate a claimant's good faith on a claim-by-claim basis. Similarly, a NPE with a legitimate assertion of patent infringement should easily pass the *sua sponte* Rule 11 inquiry.

¶106 As discussed previously, a patent holder may choose to send cease-and-desist letters in bad faith where the letters offer licensing deals just below the cost of litigation to coerce payoffs. Further, this payoff often occurs even though the patent is either invalid or not infringed. While bargain-licensing deals for worthless patents indicate typical patent-trolling behavior, to determine whether a patent is valid and infringed, and that the licensing fees are reasonable, the litigation must proceed beyond the Markman hearing stage.

¶107 But the proposed *sua sponte* model ameliorates this issue by frontloading the claimant's burden of proof. For example, during a Rule 11 motion hearing, courts inquire into previous litigations brought by the party with regard to the same patent.²¹⁹ If any of these previous litigations proceeded to the Markman hearing stage, courts are able to compare the claim construction in question to the precedential one. However, Rule 11 explicitly allows "a nonfrivolous argument for extending, modifying, or reversing existing law or for establishing new law." While this provides leeway for a complaint based on a frivolous construction, the purpose of the proposed *sua sponte* approach is to frontload the plaintiff's burden of proof rather than to decide Markman hearing matters beforehand.

²¹⁹ See *Phonometrics, Inc. v. Econ. Inns of Am.*, 349 F.3d 1356, 1358 (Fed. Cir. 2003).

C. *Examples of Applying the Proposed Suspect-Class and Rule 11 Scrutiny Analysis*

¶108 Because there are many characteristics and behaviors indicative of patent trolling, it helps to understand this proposed implementation of Rule 11 through hypotheticals. Also, it is important to keep in mind that Rule 11 scrutiny should be applied indiscriminately to all NPEs, including those not often considered to be patent trolls—universities, individual inventors, and startup businesses.

1. Increased Rule 11 Scrutiny Should Trigger for the Garden-Variety Patent Troll

¶109 This proposed application of Rule 11 should trigger scrutiny for Rule 11 sanctions for any entity that fits the canonical features of a patent troll. If at least two of the three predispositions of patent trolling apply, then the court should move *sua sponte* for a Rule 11 inquiry. However, even a true patent troll actively intending to extort a defendant and exploit a patent can pass muster if its claim asserts objectively reasonable infringement. This allows NPEs to assert their legal rights without imposing additional burdens, and causes only a slight deviation in procedure.

2. Increased Rule 11 Scrutiny Should Trigger for All NPEs, but May Be Easily Satisfied by Some

¶110 Heightened Rule 11 scrutiny should apply for any NPE not affiliated with the inventive entity that produced the patented technology because at least two of the three predispositions to patent trolling would be present. Increased scrutiny would not apply to university claimants if the university invented the patented technology and developed technologies related to the patented subject matter. Again, just as for bona fide patent trolls, if an NPE can pass the proposed heightened Rule 11 scrutiny, legitimate claims should avoid Rule 11 sanctions with little effort.

¶111 Imposing higher scrutiny unfortunately might slightly hinder some legitimate claims. Take for instance a hypothetical, newly formed group of inventors that make a breakthrough that could affect an entire industry. The group of inventors immediately acquires a patent for this revolutionary product. But before the group can commercialize the product, a well-funded business begins selling a suspiciously identical product. Because the inventive group lacks funding, it is unable to commercialize the product. In addition, the competitor's prior litigious behavior and vast amount of financial and legal resources make outside investors wary of funding the commercialization of the invention and/or the patent litigation required to exclude others. Here, the inventor group's only option is to bring an action against the patent infringers and satisfy the reasonable inquiry requirements. If the patent infringement claimant succeeds in the first lawsuit, other established companies would theoretically refrain from infringing. Consequently, even for this situation, the increased scrutiny approach would allow the NPE with a legitimate claim of infringement to experience only a slight delay in compensation for the invention.

¶112 Importantly, this approach should trigger scrutiny for all identifiable types of patent-trolling behavior, regardless of the entity's status, including universities. However, while there is no specific exception for nonprofit institutions, universities should avoid Rule 11 sanctions with little effort. As long as the university invented the patented technology and researched related technologies, or in the alternative, its pre-litigation

investigation is objectively reasonable as required by Rule 11, the university will avoid sanctions. Thus, this approach helps courts distinguish between actual patent trolling and legitimate patent infringement lawsuits brought by universities, individual inventors, and startup companies.

3. Increased Rule 11 Scrutiny Should Trigger for Commercially Active Entities Engaging in Patent Trolling

¶113 This proposed application of Rule 11 should trigger scrutiny for patent-trolling behavior equally for all claimants, regardless of the type of entity. Even commercially active entities might attempt to assert patent claims wholly outside the scope of any of the technologies present in their products or only tangentially related to their business. In other words, a non-NPE can engage in patent trolling. The proposed indicia of bad-faith patent assertion should classify these patent infringement claimants as NPEs for the patent claims at issue, which covers technologies outside the scope of the claimant's current products. Then, if one of the other two remaining factors applies, the court should move *sua sponte* for a higher Rule 11 scrutiny. In this way, if the patent infringement claimant invented the technology itself or has some affiliation with the inventive entity more than merely being an assignee in a chain of title for the patent, then the tangential or unrelated claims can pass muster.

¶114 This aspect of the proposal is important because large, cash-laden corporations acting as patent trolls might soon cause the most damage. In the past, the idea of mutually assured destruction might have mitigated this threat. For example, the possibility of two successful commercial entities wasting millions of dollars suing and countersuing each other for patent infringement of unpracticed patents with indiscernible value deterred companies from engaging in such conduct.²²⁰ But in principle, there is nothing in patent law, except competition/antitrust law, that prevents the most commercially successful companies from buying patents just to extort income from others, or worse, attempting to gain future competitive advantages by destroying smaller companies, which thus thwarts the development of new markets. As long as the aforementioned legal asymmetries are present and so easily manipulated, patent trolling by these “noncompeting but commercially active” entities does just as much harm to judicial efficiency and the integrity of patent system as NPE-type patent trolling.²²¹

4. Increased Rule 11 Scrutiny Should Trigger for Patent Aggregators, but May Be Easily Satisfied by Some

¶115 By definition, patent aggregators are NPEs, but they might license various patent rights to numerous commercially active entities. Although there is nothing particularly unique about aggregators in this discussion, the intent of the entity asserting patent rights is important. Instead of a deleterious, bullying tactic, an aggregator's claim might simply be the result of a defensive assertion aimed at protecting its licensee's patent rights. Importantly, the proposed analysis focuses on the legitimacy of the claim. Thus,

²²⁰ See BRIAN KAHIN & DOMINIQUE FORAY, *ADVANCING KNOWLEDGE AND THE KNOWLEDGE ECONOMY* 4 (Brian Kahin & Dominique Foray eds., 2006).

²²¹ See RPX CORP. REPORT, *supra* note 1, at 7.

aggregators will get no special treatment. However, courts should consider the claimant's licensing activity and any potential injury to commercially active licensees.

¶116 In addition, aggregators might use patent pools to create industry standards. This type of behavior is economically beneficial for the public and should not create net negative effects when those patents are asserted. Under these circumstances, even if no one is yet actively practicing the patented technology, courts should not obstruct a claimant from asserting a patent claim. Again, the proposed analysis focuses on the legitimacy of the claim of patent infringement.

5. Increased Rule 11 Scrutiny Should Be Triggered by Patent Privateering, but May Be Easily Satisfied by Some

¶117 Patent privateers originate very differently from typical patent trolls because the original patent owner invested research into the invention with plans to practice the technology. Then, for legal convenience, the original patent owner transfers those rights to a closely related entity to monetize the intellectual property in order to recoup its investment. However, despite the entity's history, there is nothing stopping the privateering entity from becoming a patent troll. Again, as long as the aforementioned legal asymmetries are present and used to manipulate the patent system, the proposed application of Rule 11 should sanction these entities for dubious claims of patent infringement. In the future, a more nuanced analysis for the lack-of-affiliation factor indicative of a predisposition to patent trolling in the proposed inquiry might be necessary.

D. How Courts Could Consider Sua Sponte Rule 11 Motions for Patent Infringement Claims

¶118 This Article proposes that whenever a court encounters a patent infringement claim or counterclaim, it should always apply the proposed Rule 11 scrutiny based on whether a claimant is a member of a suspect class. The evaluation could work like this:

- (1) When a party files a patent infringement complaint, the court would note the named inventor(s) and conduct a quick search of the public patent Assignments on the Web and/or Patent Application Information Retrieval system (PAIR), both provided by the USPTO, to find the first named assignee and any chain of title. Because the first assignee is often an entity involved in some relationship with the inventive entity, the first named assignee is presumptively not a patent troll. If the first assignee is a patent troll, then some reward has passed directly to the inventive entity.
- (2) Next, the court should consider the commercial activities of the claimant by performing a simple background search, such as by using Google, if possible, to reveal what type of commercial operation, if any, the claimant is conducting.

¶119 If the claimant 1) makes no products even tangentially related to the patented technology, and 2) is not the first assignee, then a presumption of a predisposition for patent trolling should trigger heightened Rule 11 scrutiny. However, if there has been

more than one assignment due to a merger or acquisition, and the claimant makes no products, courts should delay applying heightened scrutiny for a reasonable amount of time, measured by the amount of time a reasonable company needs to develop a similar product.

¶120 If it is determined that the claimant is a member of the suspect class, then the court should move *sua sponte* for a Rule 11 hearing. Courts could use the order below as a template.

ORDER

On _____, _____ filed a patent infringement claim against _____ with the Court with regard to the U.S. Patent(s) No. _____. This Court subsequently read the public records of the United State Patent and Trademark Office with regard to said Patent(s) revealing the first named inventor, _____, and the recorded assignments of _____. As such, the Court has concern that this lawsuit might not be grounded upon a reasonable inquiry as required by Rule 11 of the Federal Rules of Civil Procedure.

¶121 This order would stay litigation until the claimant responds, thereby giving the accused a temporary reprieve from having to defend against the claim until the claimant passes Rule 11 scrutiny. This scrutiny requires that the claimant amend its complaint to include 1) a plausible claim construction for each patent claim allegedly infringed, 2) the name of the attorney who independently and professionally construed the claim(s), and 3) sufficient facts leading to the infringement conclusion or an appropriate reason not to include such facts. Importantly, the order need not indicate why the court triggered the increased Rule 11 scrutiny, and the claimant may not respond to the order by arguing why it should not be categorized as a suspect-class member. Instead, arguments may be presented as to the indicia of patent trolling.

¶122 Because Rule 11 applies to every complaint filed by anyone, Rule 11 requirements must be present in all filed complaints. Although the claimant bears a much lower burden under the notice-pleading rule, the rule only applies to pleading requirements, not to pre-litigation investigation. Thus, while leaving out details of factual and/or legal support in complaints is permissible, being unable to immediately provide support in response to a Rule 11 motion is sanctionable. Although courts might be reluctant to act *sua sponte* because of both the atypical, proactive judicial effort associated with such action and the potential embarrassment of reversal on appeal, if courts can act promptly and accurately by identifying patent trolling suspect-class members, these concerns might fade.

E. A Parallel Sua Sponte Rule 11 Motion Approach Based on Improper Purpose: Inquiry into Past Conduct

¶123 Sanctioning parties for using litigation for an improper purpose is an alternative to Rule 11 sanctions for failure to perform a reasonable inquiry before filing the patent infringement claim. Courts' analyses for imposing Rule 11 sanctions in patent

infringement cases have focused exclusively on the soundness of infringement claims, thereby neglecting the improper-purpose clause. Nonetheless, similar to the pre-filing inquiry, district courts can immediately implement the improper-purpose clause approach.

¶124 Federal courts can dismiss any complaint that shows improper purpose pursuant to Rule 11.²²² Courts may rightfully disfavor plaintiffs who use harassing tactics during Rule 11 motion hearings, as the reasonable inquiry is not based solely on the claimant's investigative conduct, but also on circumstances that indicate bad faith.²²³ A finding of improper purpose is very fact-specific, and thus courts should make their findings on a case-by-case basis. In fact, courts may rely on a wealth of precedent when determining whether certain conduct is improper under the circumstances.²²⁴

¶125 Anytime a court thinks it has encountered a patent-trolling PAE, it should move *sua sponte* for increased Rule 11 scrutiny based either on the reasonableness of the pre-filing inquiry or the suspicion of an improper purpose. Rule 11 gives the court the power to subpoena. Thus, the court can require claimants to present past cease-and-desist letters and past patent infringement complaints filed regarding the patent in the lawsuit. This may or may not give courts reason to suspect that the plaintiff is engaging in harassing tactics. However, it at least provides patent trolls reason to hesitate before filing a complaint against numerous entities.

F. Goals of the Proposed Sua Sponte Applications of Rule 11 for Bad-Faith Patent Infringement Claims

¶126 By determining the reasonableness of a pre-filing investigation prior to the answer stage, a court can inhibit a patent troll's ability to threaten innocent businesses with the possibility of a temporary injunction during litigation. This would significantly disrupt the patent troll's business model, delaying or eliminating the forecast of large legal expenditures and the possibility of negative public perception resulting from the infringement accusation.

¶127 While a court cannot substantively discriminate against an entity without statutory mandate, it may procedurally subject an entity to higher scrutiny under the same substantive legal standard. Whereas the economic consequences of frivolous patent litigations are in dispute, the shotgun approach and manipulative licensing offers indisputably burden courts by overly encumbering court dockets. Both practices exhaust judicial resources and discourage companies from seeking justice by financially compelling them to give up without a legal fight. Therefore, by deterring entities from threatening the filing of infringement complaints and extracting unwarranted licensing

²²² See *NASCO, Inc.*, 501 U.S. at 43–44 (noting court's inherent power to police itself).

²²³ See, e.g., *Judin v. United States*, 110 F.3d 780, 784 (Fed. Cir. 1997).

²²⁴ See, e.g., *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1302 (Fed. Cir. 2004) (discussing that a simple reading of the product label satisfied the Rule 11 inquiry because the plaintiff believed in good faith that inclusion of any minuscule amount of the chemical in the product would infringe the patent); *View Eng'g Inc. v. Robotic Vision Sys., Inc.*, 208 F.3d 981, 986 (Fed. Cir. 2000) (holding that the sanction should be granted because, for the counterclaim, a court order for adequate pre-filing investigation was available); *Hoffmann-La Roche Inc. v. Invamed Inc.*, 213 F.3d 1359, 1361 (Fed. Cir. 2000) (discussing how reverse engineering to analyze the product was known to be impossible in order to determine whether it infringes a process claim); *Cambridge Prods. Ltd. v. Penn Nutrients Inc.*, 962 F.2d 1048, 1051 (Fed. Cir. 1992) (stating that for a process claim, factual inquiry is somewhat relieved).

fees, a court can impose justice without substantively discriminating against certain parties, such as commercially active entities.

¶128 Further, courts should not apply the increased scrutiny discriminatorily against any specific type of business, including well known PAEs and NPEs. Rather, the criteria for imposing increased scrutiny should focus on suppressing the type of conduct that wastes judicial resources.

¶129 This higher scrutiny based on a suspect-classification model allows a court to initiate a *sua sponte* motion at an earlier time, thus shifting the burden of proof to the patent infringement claimant prior to when the accused infringer must file an answer. In actual practice, however, courts have rarely initiated *sua sponte* motions. Thus, currently, a realistic litigant must initiate a Rule 11 inquiry by filing a motion for Rule 11 sanctions, and then must explain why sanctions are justified. This burden of proof makes not only the imposition of sanctions difficult, but also gives patent trolls leverage by postponing the sanctions to later phases of litigation. Therefore, a court-initiated motion is preferable in solving the patent-troll problem because it allows courts to screen for abusive pleadings prior to when the accused defendant has to take any action to defend against the lawsuit.

¶130 In addition, because the reasonable inquiry requirements of Rule 11 must be satisfied at the time the plaintiff files the complaint, a *sua sponte* Rule 11 motion can precede the answer to the complaint, and accordingly, halt the proceeding before the defendant is compelled to act and forced to incur legal expenses. In this way, Rule 11 sanctions can be used to pre-screen a variety of claimants before progressing into the post-complaint stages of patent litigation where legal costs can quickly accrue for accused infringers.

V. RULE 11 PROPOSAL TO POLICE PATENT TROLLING: TYING IT ALL TOGETHER

¶131 The goal of the proposed *sua sponte* Rule 11 motion is not to eliminate unlikely-to-succeed claims that otherwise may be filtered out via motions to dismiss or summary judgments. Rather, in an attempt to deter patent trolling, the proposal time shifts judicial scrutiny, which prevents defendants from having to incur the legal costs associated with baseless claims of patent infringement. Under Rule 11, the independent interpretation of a patent claim must be objectively reasonable. And as a matter of law, a frivolous claim based on an untenable claim construction would not survive the first reasonable inquiry requirement step. Thus, a court would dismiss the claim without prejudice regardless.²²⁵

¶132 A court can also require the claimant to show that the proposed claim construction reads on the infringing apparatus or method. If the claimant has not conducted any investigation followed by an infringement analysis, the court may dismiss or stay the case until the claimant satisfies the reasonable inquiry requirements under Rule 11. Ordinarily, PAEs need not meet this burden until after a Markman hearing, by which time the defendants must have already expended significant legal costs in producing and supporting their own claim constructions and appearing before the court.

²²⁵ FED. R. CIV. P. 11(b).

¶133 Furthermore, because contingency-fee lawyers, who prefer quick settlements, direct many patent-trolling lawsuits,²²⁶ an ex parte Rule 11 hearing at the onset of litigation should further deter patent trolling. In other words, fewer incentives for patent-trolling lawyers lead to fewer patent trolls in practice.

¶134 However, courts should be cautious not to overly burden claimants' access to discovery because some infringement claims inevitably need to resort to factual investigation. For example, even a dyed-in-the-wool patent troll may properly cease their factual inquiry if obtaining the infringing apparatus or its equivalent is unfairly burdensome. Under these circumstances, usually dealing with complex technology or some other reasonable difficulty, courts should use discretion and allow at least limited discovery. Simply stated, some lawsuits brought by bona fide patent trolls may have legitimate infringement claims that courts should not deny based merely on the asserting entity's otherwise predatory business model.

VI. CONCLUSION

¶135 While nuisance lawsuits are not new, the substantial economic drag created by patent trolling makes these lawsuits particularly damaging in an increasingly technological society. The patent-trolling problem can generally be defined as the practice of attempting to monetize low quality, excessively broad patents solely via patent infringement litigation or threats thereof. Unfortunately, all of this comes at the expense of innovative entities active in commerce, consumers, and society as a whole.

¶136 Patent trolling distorts the underlying purpose of the patent system. The most lucrative patents for patent trolling are not aligned with the most publically beneficial disclosures of technology. Rather, patent trolls select patents that maximize their rent-seeking behavior. Because patents chosen for patent trolling are often unreasonably broad or vague, relate to business methods, or represent proxies for wealthy and/or volume infringers, the potential benefits of patent trolling are out of balance with technological advancement, which creates an inherent conflict with the patent system's constitutional mandate. In other words, patent trolling's deleterious impact outweighs any benefits of liquidity and remuneration to individual inventors, universities, and startups. In fact, the continued success of patent trolls further incents the acquisition of vague and overbroad patent claims.

¶137 This Article delineates criteria to help courts identify certain entities that are predisposed to bad-faith patent trolling. Courts are encouraged to impose higher scrutiny at an earlier stage of litigation whenever a "suspect class" asserts a patent claim in an effort to screen out bad-faith actors before legal costs start piling up on accused infringers. Requiring some suspect infringement claimants to show that their claim constructions and infringement analyses reasonably read on the infringed apparatuses or methods before entering the Markman hearing stage would not create any new burdens for parties; the burden on the claimant is only time shifted, not increased. Frontloading the plaintiff's burden should significantly deter patent trolling and protect some accused infringers from frivolous claims by members of the suspect class.

²²⁶ See Lisa Shuchman, *One Year in, a Look at New Ways to Challenge Patents*, CORP. COUNSEL (Oct. 11, 2013), <http://www.law.com/corporatecounsel/PubArticleCC.jsp?id=1202623095271&slreturn=20131130212107>.

¶138 A new rule may sometimes inconvenience those it is designed to help. Litigation is often prohibitively expensive for NPEs, some of which are individual inventors or small startups with limited resources. Having to satisfy the higher scrutiny proposed in this Article might sometimes require additional effort for NPEs asserting patent rights in good faith. Introducing a loser-pays, fee-shifting system, however, would greatly burden all good-faith NPEs wishing to assert their patent rights with the potentially catastrophic risk of not only losing the lawsuit, but also having to pay the opposition's costs. In addition, Rule 11 sanctions are available notwithstanding the absence of an identifiable non-prevailing party, such as when parties settle litigation out of court.

¶139 Society already provides patent holders the legal right to collect "toll" fees for which patent trolls take advantage. One could argue that this time-honored legal arrangement indicates a societal belief that such fees are an essential part of the patent system. Similarly, changing the rules, especially those concerning longstanding ownership rights, may cause many to fear that more harm than good will result from such a change. After all, it is intrinsically unfair to punish someone who relied on clear legal rights when deciding to expend resources and adopt a legally sanctioned business model, including models that never practice patents, provide services, or sell products.

¶140 The patent system rests on the idea that a patent is presumptively valid and enforceable in order to promote progress and technological innovation. But when a patent troll enforces or threatens to enforce a patent, its focus is on exploiting the realities of patent litigation to obtain a quick payoff. Still, this might not be economically wasteful rent seeking because an inventor, at some point, did in fact put forth the effort to create the patented invention. While the government grants patent rights for the public good, society and the law cannot categorically ban patent trolling simply because the patented technology benefits society. After all, when societal demand is high for a certain product, the temptation to infringe that product's patent naturally corresponds.²²⁷ Otherwise, for example, if patents rights were easily extinguished, investment for research and development of many pharmaceutical drugs would likely never occur. Similarly, many of the various legislative proposals mentioned *supra* Part II might unintentionally weaken the enforcement of non-frivolous patent infringement claims and/or diminish remuneration to individual inventors, failed startup companies, and universities that might have otherwise promoted the original inventive activities and necessary risk taking.

¶141 What can society do about the patent-trolling problem? No one would support destroying a useful bridge to stop trolls from robbing travelers that cross the bridge. Similarly, and more realistically, courts should not support extortionary conduct by denying defendants an easier way to escape untenable patent infringement claims. A patent purchaser may commercialize the technology, engage in patent trolling, or turn around and sell it. Only the choice to engage in patent trolling should trigger further scrutiny into the claimant's intent, and as explained in this Article, courts should apply this scrutiny regardless of an entity's status or commercial attributes.

¶142 This Article posits that an increased and systemic use of *sua sponte* Rule 11 motions could punish patent trolls for bringing exploitative lawsuits and thus deter patent-trolling behavior in general. The drafters of Rule 11 provided built-in judicial discretion for *sua sponte* motions that allows for a flexible rule based on equitable

²²⁷ See *supra* notes 62–73 and accompanying text.

factors, as opposed to a compulsory sanction for those ambiguously defined as patent trolls. The flexible nuances of judicial discretion allow for an approach that is better equipped to handle unique patent-trolling behavior, the evolving exploitation of legal inefficiencies, and most importantly, the difficulty in defining a patent troll in statutory language, which could easily be gamed.²²⁸ Instead of merely categorizing entities by commercial characteristics or NPE status, justifiable sanctions will inevitably result if courts use objective indicia as a readily discernible proxy for an NPE's subjective intent behind filing a claim.

¶143 Admittedly, this approach might prompt courts to subject good-faith claimants to Rule 11 hearings. Alternatively, the increased prevalence of Rule 11 sanctions might discourage some claimants from filing meritorious complaints due to the uncertainty of whether they have met the Rule 11 requirements. Ultimately, though, this approach can provide equitable results if courts proactively initiate Rule 11 hearings because extended litigation costs far more than increased scrutiny. This cost differential affects not only parties to the litigation, but society as a whole.

¶144 Patent trolls impede technological development and commercialization just as mythical trolls hinder travel and increase its cost. If it would cost more to remove the trolls from under the bridge, as opposed to simply paying the troll-toll fees, no one would individually choose to remove the trolls. Patent trolls demand license fees that are too small to justify expending even preliminary litigation costs to prove the illegitimacy of the claim. Thus, currently, defendants have little incentive to fight the troll and drive it away from the bridge. Hopefully, though, the judiciary can exercise its inherent powers and join the melee to easily shield defendants from incurring legal costs until the patent infringement claimant can pass scrutiny.

¶145 More broadly, the very existence of a quick and cheap “off-ramp” prior to the answer stage during patent litigation can significantly deter patent trolling.²²⁹ Rule 11 provides a safe harbor for defendants to escape patent infringement lawsuits at the earliest time possible, avoiding legal expenses by obtaining a complaint dismissal. “If a troll knows he can no longer trap a defendant in expensive and lengthy litigation, his interest in the suit will diminish substantially,” and the amount of the payoff that can reasonably be demanded will decrease.²³⁰

¶146 Ultimately, former Chief Judge Rader said it best:

The onslaught of litigation brought by “patent trolls” . . . has slowed the development of new products, increased costs for businesses and consumers, and clogged our judicial system.

. . . .

²²⁸ See *Hearing on H.R. 3309 Before the H. Comm. on the Judiciary*, 113th Cong. (2013) (testimony of David Kappos, Former Director, U.S. Patent and Trademark Office), available at http://judiciary.house.gov/_files/hearings/113th/10292013/Kappos%20Testimony.pdf (“[C]onsideration should be given to reducing prescription to a minimum, and tasking the judiciary with the detailed work needed to turn broad legislative guidance into properly calibrated court procedure.”).

²²⁹ See Charles E. Schumer, *A Strategy for Combating Patent Trolls*, WALL ST. J. (June 12, 2013), <http://online.wsj.com/news/articles/SB10001424127887323844804578531021238656366>.

²³⁰ *Id.*

Lost in the debate, however, is that judges already have the authority to curtail these practices: they can make trolls pay for abusive litigation.

....

Judges know the routine all too well, and the law gives them the authority to stop it. We urge them to do so.²³¹

²³¹ Rader Op-Ed., *supra* note 2.

