
Vermont vs. the Patent Troll: Is State Action a Bridge Too Far?

*“Vermont quietly enacted a first-in-the-nation law to combat patent trolling It’s not clear whether Vermont has the legal authority to regulate patent activities, but even if not, its efforts foreshadow a coming legislative crackdown on patent trolls.”*¹

I. INTRODUCTION

Inventor Brandon Shalton was in the process of testing his invention, which would digitize phone messages and post them instantly to his church’s website, when he received a demand letter from Acacia Research Corporation.² The letter claimed that Shalton’s invention infringed an Acacia patent and demanded a license payment under the threat of litigation.³ Faced with the high cost and uncertainty of litigation, Mr. Shalton did what many small- and medium-sized inventors and businesses have chosen to do when faced with a broad and threatening patent-infringement demand letter: He abandoned his invention.⁴ The 2011 passage of the Leahy-Smith America Invents Act (AIA) represented the most significant patent reform in over half a century and an earnest attempt by Congress to foster innovation and patent rights while discouraging frivolous patent-infringement claims.⁵ Alas, only a few years removed from the passage of the AIA, there is already a growing consensus among industry insiders and those in Washington D.C. that more needs to be done to prevent bad-faith patent-infringement claims.⁶ This Note will explore

1. Eric Goldman, *Vermont Enacts the Nation’s First Anti-Patent Trolling Law*, FORBES (May 22, 2013), <http://www.forbes.com/sites/ericgoldman/2013/05/22/vermont-enacts-the-nations-first-anti-patent-trolling-law/>, archived at <http://perma.cc/PAU5-F7DZ>.

2. Tina M. Nguyen, Article, *Lowering the Fare: Reducing the Patent Troll’s Ability To Tax the Patent System*, 22 FED. CIR. B.J. 101, 108-09 (2012) (summarizing Shalton’s situation).

3. *Id.* (detailing Shalton’s dilemma).

4. *Id.* at 109 (discussing Shalton’s reasoning for abandoning invention).

5. See Goldman, *supra* note 1 (explaining America Invents Act and how patent trolls adapted harmful behaviors).

6. See *id.* (suggesting Congress believes more action necessary on patent trolls); see also Barack Obama, President, U.S., State of the Union Address (Jan. 28, 2014), available at www.whitehouse.gov/the-press-office/2014/01/28/president-barack-obamas-state-union-address, archived at <http://perma.cc/R57R-BDLX> (addressing need for additional patent reform). But see Laurie Self, *Federal Judges Voice Alarm at New Patent Legislation*, POLITICO (Nov. 4, 2013), <http://www.politico.com/sponsor-content/2013/11/federal-judges-voice-alarm-at-new-patent-legislation/>, archived at <http://perma.cc/SZ47-AHZ5> (noting one federal judge’s apprehension toward proposed legislation).

the growing trend of bad-faith patent-infringement assertions, commonly referred to as “patent trolling,” in the context of proposed and enacted state and federal responses to the systematic threat patent trolls pose to the innovation economy.⁷

In May 2013, Vermont became the first state to pass legislation targeting bad-faith Patent Assertion Entities (PAEs), also known as patent trolls.⁸ Vermont’s anti-patent trolling law, which is certain to face a federal preemption challenge on the basis that federal patent law trumps and negates any state patent law, uses careful language and nuance in an attempt to thread the needle of federal preemption.⁹ This Note will discuss the likely outcome of any legal challenge to Vermont’s authority to enact the anti-patent trolling statute.¹⁰

While Vermont’s law is the first state attempt to shield patent holders from extortion by PAEs, the federal government is also monitoring the effect of patent trolls and appears poised to act in the near future.¹¹ The Federal Trade Commission (FTC) and the Obama Administration appear—to veteran outside observers—amenable to wielding their considerable clout in an effort to tamp frivolous patent-infringement claims and demand letters.¹² Meanwhile, a unanimous Supreme Court recently issued a pair of rulings making it easier for victims of frivolous patent-infringement claims to receive attorney’s fees from

7. See Tony Dutra, *Goodlatte and Leahy Begin Patent Reform Round Two with Legislation Discussion Draft*, BLOOMBERG BNA (May 28, 2013), <http://www.bna.com/goodlatte-leahy-begin-n17179874240/>, archived at <http://perma.cc/3TVC-KBUF> (providing broad overview of patent trolling harms and comparing current antitrolling federal proposals); Timothy B. Lee, *How Vermont Could Save the Nation from Patent Trolls*, WASH. POST (Aug. 1, 2013), <http://www.washingtonpost.com/blogs/the-switch/wp/2013/08/01/how-vermont-could-save-the-nation-from-patent-trolls>, archived at <http://perma.cc/226P-GEMR> (discussing specific harms patent trolls pose to small- and medium-sized businesses).

8. See Peter Kunin, *Vermont Approves Legislation Prohibiting Bad Faith Patent Infringement Claims*, IP STONE (May 23, 2013), <http://www.theipstone.com/2013/05/23/vermont-approves-legislation-prohibiting-bad-faith-patent-infringement-claims/>, archived at <http://perma.cc/9DNQ-33S8> (discussing novel nature of state patent law).

9. See Goldman, *supra* note 1 (analyzing potential for Vermont law to survive federal preemption argument); Kunin, *supra* note 8 (discussing inevitable preemption battle and how Vermont law designed to survive). Many observers feel the law has succeeded in avoiding federal preemption. See T. Christian Landreth, Recent Development, *The Fight Against “Patent Trolls:” Will State Law Come to the Rescue?*, 15 N.C. J.L. & TECH. ON. 100, 120-21 (2014) (arguing Vermont law successfully avoids federal preemption); Duane Carver, *Vermont Takes a Leap: First State To Pass Law To Combat Patent Trolling*, BERKELEY TECH. L.J. (Oct. 29, 2013), <http://www.btlj.org/2013/10/29/vermont-takes-a-leap-first-state-to-pass-law-to-combat-patent-trolling/>, archived at <http://perma.cc/R9N8-V57Z> (summarizing Yale Law Professor Hrdy’s argument Act affects only “business practice[s],” not patents). But see Ryan Davis, *Vt.’s Historic Fight on ‘Patent Trolls’ May Fall Flat*, LAW 360 (May 29, 2013), <http://www.law360.com/articles/445503/vt-s-historic-fight-on-patent-trolls-may-fall-flat>, archived at <http://perma.cc/MC6L-2CFM> (noting limited potential impact of Vermont law).

10. See *infra* Part III.A.1 (analyzing likely outcome of federal preemption challenge).

11. See Dutra, *supra* note 7 (analyzing possible federal legislative proposals to address patent trolling).

12. See Thomas Carey & Robert Williams, *Patent Trolls in the Crosshairs: Vermont’s Aggressive Stance and the Emerging Federal Response*, SUNSTEIN (June 2013), <http://sunsteinlaw.com/patent-trolls-in-the-crosshairs-vermonts-aggressive-stance-and-the-emerging-federal-response/>, archived at <http://perma.cc/M4M6-MBQY> (discussing likelihood and form of possible federal response from DOJ and FTC).

their opponents.¹³ Additionally, in the last few months, at least three proposed bill drafts have been floated by members of Congress aimed at making it harder for PAEs to intimidate small- and medium-sized businesses with meritless patent-infringement assertions.¹⁴ This Note will analyze the differences between all these bills and the bills' likely effects on PAEs.¹⁵

First, this Note will discuss the history of patent law in the United States and familiarize the reader with the recent history of bad-faith patent assertions.¹⁶ Next, it will examine current federal and state remedies against patent trolls and discuss several congressional bills being considered to deal with the issue.¹⁷ Finally, it will discuss Vermont's anti-patent trolling statute with an acute focus on the question of federal preemption and an analysis of the possible outcomes of that law and a congressional response on the larger intellectual property market.¹⁸ This Note will conclude by applauding Vermont's attempt to deter patent trolling and recommending the passage of current pending federal legislation.¹⁹

II. HISTORY

A. *The Origins and Development of U.S. Patent Law*

1. *The Constitution and Thomas Jefferson (1787-1829)*

The United States Constitution gave Congress power over patents for the purpose of “promot[ing] the Progress of Science and useful Arts.”²⁰ Shortly after the ratification of the Constitution, Congress enacted the Patent Act of 1790, which laid down the foundation for American patent law.²¹ Then-

13. See *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756-58 (2014) (declaring new standard for fee shifting in patent-infringement cases). The Supreme Court threw out the Federal Circuit's standard for fee shifting, declaring it “unduly rigid,” and adopted a new standard, allowing fee shifting when a case “stands out from others with respect to the substantive strength of a party's litigating position . . . or the unreasonable manner in which the case was litigated.” See *id.* at 1755-56. In a companion case, the Court declared that the Federal Circuit may not overturn a fee-shifting decision by a district court absent a finding of abuse of discretion. See *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748-49 (2014) (deciding fee-shifting rulings not susceptible to Federal Circuit de novo review).

14. See Dutra, *supra* note 7 (reviewing current congressional legislative proposals).

15. See *infra* Part II.C.1 (detailing federal legislative proposals and possible consequences).

16. See *infra* Part II.A (reviewing history and negative impacts of patent trolling in U.S.).

17. See *infra* Part II.C (discussing available remedies and federal proposals).

18. See *infra* Part III (analyzing Vermont's statute and possible congressional anti-patent troll bill).

19. See *infra* Part IV (concluding more state action likely if federal government fails to act).

20. U.S. CONST. art. I, § 8, cl. 8 (declaring congressional power to grant limited monopolies to inventors).

The American patent system's origin traces back to the English system, in which the Crown would grant monopolies to inventors for a limited amount of time. See JEFFREY H. MATSUURA, *JEFFERSON VS. THE PATENT TROLLS* 83 (2008). Early in American history, each colony had its own patent system. See *id.* at 85. Patents and intellectual property were nationalized in the Constitution, thanks largely to the work of James Madison and Thomas Jefferson. See *id.*

21. See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146-49 (1989) (discussing history

Secretary of State Thomas Jefferson was a crucial figure in the passage of the subsequent Patent Act of 1793, which carried over many central principles of the earlier Act and added some of the most recognized tenets of modern patent law, including the public-use infringement defense.²²

Jefferson's view on patents emphasized the public good over private interests.²³ Perhaps the most illuminating Jefferson quotation on the subject is contained in an 1813 letter he wrote to Isaac McPherson, stating that "the exclusive right to invention [is] given not of natural right, but for the benefit of society."²⁴ This utilitarian perspective was embedded in the earliest foundations of American patent law, as Jefferson was an architect of our system of intellectual property rights.²⁵

Although history suggests Jefferson was primarily concerned with the free dissemination of ideas and inventions for the benefit of society, he also recognized the important incentive provided by the limited monopolies of patents.²⁶ The balance between the right of inventors to profit from their ingenuity and the right of the public to also benefit was a major theme in

and implications of first Patent Act). The Patent Act of 1790 gave patent holders a fourteen-year limited monopoly, provided the invention was "sufficiently useful and important." Act of Apr. 10, 1790, ch. 7, § 1, 1 Stat. 109, 110. The Act also established the "Commissioners for the promotion of Useful Arts," which had the exclusive power to grant patents. See *Bonito Boats Inc.*, 489 U.S. at 147. Thomas Jefferson, as Secretary of State, was one of the three commissioners. See *id.*

22. See Daniel J. McFeely, Comment, *An Argument for Restricting the Patent Rights of Those Who Misuse the U.S. Patent System To Earn Money Through Litigation*, 40 ARIZ. ST. L.J. 289, 300 (2008) (noting Jefferson's influence as Secretary of State in drafting Patent Act of 1793). The Patent Act of 1793 carried over the novelty idea from the earlier act and added an infringement defense based on prior public use. Act of Feb. 21, 1793, ch. 11, § 1, 6, 1 Stat. 318, 318-22, 322.

23. See Letter from Thomas Jefferson to Isaac McPherson (Aug. 13, 1813), in 13 THE WRITINGS OF THOMAS JEFFERSON 326, 334-35 (Albert Ellery Bergh ed., 1905); see also MATSUURA, *supra* note 20, at 74-75 (describing Jefferson's respect for inventors as grounded in ability to contribute to public good).

"He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me. That ideas should freely spread from one to another over the globe, for the moral and mutual instruction of man, and improvement of his condition, seems to have been peculiarly and benevolently designed by nature Inventions then cannot, in nature, be a subject of property. Society may give an exclusive right to the profits arising from them, as an encouragement to men to pursue ideas which may produce utility, but this may or may not be done, according to the will and convenience of the society"

Letter from Thomas Jefferson to Isaac McPherson, *supra*, at 334.

24. Letter from Thomas Jefferson to Isaac McPherson, *supra* note 23, at 335 (opining on policy behind granting limited monopolies to inventors).

25. See 1 DONALD S. CHISUM, CHISUM ON PATENTS OV-3 to OV-5 (2014) (reviewing concepts from Patent Act of 1793 still present in modern patent law); MATSUURA, *supra* note 20, at 88-89 (detailing Jefferson's role in establishing key criteria for patentable inventions).

26. See Letter from Thomas Jefferson to Benjamin Vaughan (June 27, 1790), in 16 THE PAPERS OF THOMAS JEFFERSON 578, 578-80 (Julian P. Boyd et al., eds., 2d prtg. 1990) (quoting Jefferson acknowledging patents have "given a spring to invention beyond my conception"); see also MATSUURA, *supra* note 20, at 97 (noting Jefferson's recognition of patents as incentive to inventors).

Pennock v. Dialogue, the first major patent case to reach the Supreme Court.²⁷ In that 1829 decision, the Court acknowledged that one objective of the Patent Act of 1793 was to incentivize and reward inventors, but the Court also emphasized that the primary goal of the act was to serve the public good through the advancement and distribution of knowledge and inventions.²⁸

2. Creation of the Patent Office and Shifting Supreme Court Attitudes (1836-1952)

The Patent Acts of 1836 and 1839 substantially reformed U.S. intellectual property law by creating a Patent Office tasked with ensuring that only those inventions that were sufficiently novel received patent protection.²⁹ In addition, the 1836 Act codified the *Pennock* doctrine by barring the patenting of any invention that had previously been “in public use or on sale.”³⁰ The legislature largely abstained from making patent law for the next century, allowing the judiciary to mold the law through its decisions.³¹

In the late-nineteenth and early-twentieth centuries, lower courts developed the “First-to-Invent” doctrine, making the United States the only nation to award patents based on time of invention and not time of filing.³² While lower courts developed practical law to assist in the day-to-day operations of the courts, the Supreme Court released a series of decisions suggesting a need to rein in the American patent system.³³ An improved economy corresponded

27. 27 U.S. (2 Pet.) 1 (1829).

28. See *id.* at 19 (declaring legislative intent behind Patent Act of 1793 focused on public good). The Court remarked that the best way to serve the primary objective of the act—to benefit society as a whole—would be to grant the public the right to the patented information “at as early a period as possible; having a due regard to the rights of the inventor.” *Id.* The main holding of the decision was directed at the idea of prior public use negating an inventor’s claim to a patent. See *id.* at 20.

29. See generally Act of Mar. 3, 1839, ch. 88, 5 Stat. 353; Act of July 4, 1836, ch. 357, 5 Stat. 117; CHISUM, *supra* note 25, at OV-5 to OV-6 (discussing impact of 1836 and 1839 Patent Acts). The legislature seemed motivated by a desire to limit the number of patents granted as well as ensure that only sufficiently innovative ideas were rewarded with patents. See S. REP. NO. 24-239 (1836) (describing “evils” of current patent system as emanating from lack of examination for novelty).

30. Act of July 4, 1836, ch. 357, § 6, 5 Stat. 117, 119 (codifying judicial doctrine forbidding patenting of inventions previously available to the public). The Patent Act of 1839 amended this provision by allowing for public use or sale up to two years prior to the patent application. See Act of Mar. 3, 1839, ch. 88, § 7, 5 Stat. 353, 354; CHISUM, *supra* note 25, at OV-6. This grace period was later reduced to one year. *Id.*

31. See CHISUM, *supra* note 25, at OV-8 to OV-9 (detailing relative calm on legislative front during series of important judicial doctrines on patent law).

32. See *id.* (outlining historical development of First-to-Invent doctrine). The fundamentals of the doctrine were established by a series of lower court decisions. See *Sydeman v. Thoma*, 32 App. D.C. 362, 372 (1909) (clarifying concept and indicators of reducing invention to practice); *Mason v. Hepburn*, 13 App. D.C. 86, 94 (1898) (holding inventor loses “First-to-Invent” status if abandoning, suppressing, or concealing invention); *Mergenthaler v. Scudder*, 11 App. D.C. 264, 276 (1897) (defining idea of invention conception).

33. See *Atl. Works v. Brady*, 107 U.S. 192, 200 (1883) (emphasizing patents do not reward “every shadow of a shade of an idea”). In *Atlantic Works*, the Court warned that granting patents for inventions, which were not a “substantial discovery or invention,” would discourage innovation and hurt businesses. See *id.* Soon after the *Atlantic Works* decision, the Supreme Court began holding patents invalid for “want of

with a noticeable softening of the Court's attitude towards the novelty requirement for patents.³⁴ In a clear departure from previous rulings requiring elevated levels of novelty and invention, the Court upheld patents for inventions that were not significantly different from previous technology.³⁵

3. *The Birth of Modern Patent Law and "Patent Trolls" (1980-2013)*

The patent system experienced increased publicity and scrutiny following a 1980 Supreme Court decision holding that genetically altered living microorganisms were patentable.³⁶ Two years after that decision, Congress created the Court of Appeals for the Federal Circuit and gave the newly formed court exclusive jurisdiction over cases involving U.S. patent law.³⁷ Today, the decisions of this court are profoundly important to the interpretation of American patent law and patent-related disputes in the International Trade Commission.³⁸

The most recent significant alteration to U.S. patent law came in the form of legislation—the 2011 AIA.³⁹ While the AIA left a good deal of American patent law intact, one major change written into the law was the abandonment of the historical and unique “First to Invent” system of awarding patents in favor of the more widely used “First to File” system.⁴⁰

invention.” See *McClain v. Ortmyer*, 141 U.S. 419, 425-29 (1891) (holding patent invalid for lack of invention); see also *Hollister v. Benedict & Burnham Mfg. Co.*, 113 U.S. 59, 70-72 (1885) (holding patent invalid because not innovative enough to regard as invention).

34. See CHISUM, *supra* note 25, at OV-9 (noting improved economy as partially responsible for Court's softened stance). Chisum also attributes the changing of attitudes to the passage of the Evarts Act, which created regional courts to deal with patent suits thereby releasing the Supreme Court from the onerous duty of reviewing all patent-infringement appeals. See *id.*; see also Act of Mar. 3, 1891, ch. 517, 26 Stat. 826.

35. *Washburn & Moen Mfg. Co. v. Beat 'Em All Barbed-Wire Co. (The Barbed Wire Patent)*, 143 U.S. 275, 283 (1892) (upholding barbed wire patent for slight variation over previous version). With the onset of the Great Depression, however, the Supreme Court's attitude towards patent law would swing back towards skepticism. See *Gen. Elec. Co. v. Wabash Appliance Corp.*, 304 U.S. 364, 368-70 (1938) (holding patent invalid and demanding narrowly-tailored applications).

36. See *Diamond v. Chakrabarty*, 447 U.S. 303, 315-17 (1980) (finding Congress did not intend to exclude genetically altered living microorganisms from patentable inventions). This decision would lead to a surge in patent applications, mostly from biotechnology companies. See CHISUM, *supra* note 25, at OV-14.

37. See Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (creating patent-focused Court of Appeals for Federal Circuit).

38. See CHISUM, *supra* note 25, at OV-14 to OV-15 (noting importance of court in American and international patent law). But see Steven Seidenberg, *Federal Circuit Gets Reined in over Patent Fees in Infringement Suits*, ABA J., July 1, 2014, at 19, 19-20, available at http://www.abajournal.com/magazine/article/federal_circuit_gets_reined_in_over_patent_fees_in_infringement_suits, archived at <http://perma.cc/CX4J-DDGF> (noting recent Supreme Court decisions reining in Federal Circuit).

39. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified in scattered sections of 15 U.S.C., 28 U.S.C., 35 U.S.C., 42 U.S.C., and 51 U.S.C.).

40. See CHISUM, *supra* note 25, § 2 (detailing major facets of patent law left essentially unaltered by act). But see Leahy-Smith America Invents Act § 3(b), 35 U.S.C. § 102 (2012) (codifying switch to “First-to-File” scheme). The Patent and Trademark Office has predicted that the switch from a “First-to-Invent” system to a “First-to-File” system will result in increased predictability and simplicity in the awarding of patents. See Examination Guidelines for Implementing the First Inventor to File Provisions of the Leahy-Smith America

While the AIA largely punted on the issue of patent trolls, it did include a section which called for the Comptroller General to conduct a study and produce a report on the impact of PAEs.⁴¹ The report, released in August 2013, noted that in 2011 there were more software-related patents granted in the U.S. than all other types of patents combined.⁴² The report concluded that, beginning in the late 1990s, technology companies began accumulating “patents for offensive or defensive purposes—that is, to use them to sue or countersue competitors in infringement lawsuits, rather than use them to recoup R&D costs.”⁴³ Downplaying the role of PAEs in abusive litigation, the report focused instead on the failings of current software patents as a major factor in the trend of frivolous patent claims.⁴⁴

B. Patent Trolls Through the Years

The term patent troll was introduced into the American lexicon by Peter Detkin, former counsel to Intel, in 2001.⁴⁵ Detkin’s definition of a patent troll—“somebody who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing”—is still applicable today.⁴⁶ The value of so-called patent trolls is a matter of substantial debate; proponents argue that PAEs encourage innovation and prevent small- to medium-sized entrepreneurs from being swallowed up by big businesses.⁴⁷ Patent troll critics contend that they contribute nothing to innovation and instead simply impose an unseen tax on inventions and businesses as a result of their overly litigious techniques.⁴⁸

Invents Act, 78 Fed. Reg. 11059, 11059 (Feb. 14, 2013) (analyzing consequences of change).

41. See Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 34(a), 125 Stat. 284, 340 (2011) (requiring Comptroller General produce report on effects of PAEs).

42. See U.S. GOV’T ACCOUNTABILITY OFFICE, GAO-13-465, INTELLECTUAL PROPERTY: ASSESSING FACTORS THAT AFFECT PATENT INFRINGEMENT LITIGATION COULD HELP IMPROVE PATENT QUALITY 12 (2013) (summarizing findings of study). The study emphasized that the number of patent suits, which had only “fluctuated slightly” from 2000 to 2010, increased dramatically by thirty-one percent in 2011. See *id.* at 14-15. According to the authors, this dramatic increase was largely the result of litigants’ desire to sue before passage of the America Invents Act. See *id.*

43. See *id.* at 13 (explaining factors leading to rise in patent-infringement suits).

44. See *id.* at 26 (citing stakeholder concern about software patent specificity). But see Tony Dutra, *Long Awaited GAO Report: Software Patent Quality Most Responsible for Litigation Abuse*, 86 BNA PAT. TRADEMARK & COPYRIGHT J. 888 (2013) (noting GAO report used contested definitions for “patent assertion entities” and “software-related patents”).

45. See Brenda Sandburg, *You May Not Have a Choice. Trolling for Dollars*, LAW.COM (July 30, 2001), <http://www.phonetel.com/pdfs/LWTrolls.pdf>, archived at <http://perma.cc/XPX8-JU9T> (discussing circumstances surrounding origin of term patent troll).

46. *Id.* (quoting Detkin).

47. See Gerard N. Magliocca, *Blackberries and Barnyards: Patent Trolls and the Perils of Innovation*, 82 NOTRE DAME L. REV. 1809, 1810-11 (2007) (summarizing arguments in favor of patent trolls). Proponents of PAEs argue that they provide a much needed secondary market for undercapitalized patents and level the playing field between small, individual inventors and big businesses. See *id.* at 1818-19.

48. See *id.* at 1819 (summarizing arguments against patent trolls). Opponents of PAEs characterize

1. Historical Patent Trolls

Alleged abuses of the U.S. patent system trace back to the birth of patent law in Jefferson's time.⁴⁹ Eli Whitney's experience with the nascent American patent system demonstrates that many of the perils of invention present in the U.S. today date back to the eighteenth century.⁵⁰ Whitney's cotton gin transformed the South by exponentially increasing the output of cotton, but Whitney himself was unable to make any significant financial gain from his invention despite strict compliance with all applicable patent law.⁵¹ In a strange twist of fate, Whitney was reduced to seeking payments for patent infringement after he was unable to meet demand for his cotton gin.⁵² Whitney represents perhaps the first patent troll, but unlike most modern patent trolls, Whitney had made an honest effort to utilize his patent prior to seeking infringement enforcement against others.⁵³

George Selden, a patent lawyer, was perhaps the earliest recognizable form of a modern-day patent troll.⁵⁴ Selden filed a broad patent for an automobile engine and then delayed the issuance of the patent until American automobile companies had developed the technology necessary for a workable gasoline engine.⁵⁵ Selden, without ever attempting to create or use his 'invention,' began successfully demanding licensing payments from American car makers.⁵⁶ One car maker, Ford, refused to play ball and a court battle ensued.⁵⁷ Ultimately, the court found that Selden did have a valid patent, but the court

patent trolls as blackmailing businesses and increasing the cost of new inventions. *See id.* at 1810.

49. *See* MATSUURA, *supra* note 20, at 101-06 (detailing controversy over breadth and enforcement of Oliver Evans's automated milling patent). Evans invented a process to automate milling, which he attempted to use to get royalty payments from other millers using similar processes, such as Thomas Jefferson. *See id.* at 102-04. Jefferson objected to Evans's offensive use of his patent and to the overly broad nature of the patent itself because he believed it covered technology and techniques that had been used for centuries. *See id.* at 104.

50. *See* Robert H. Resis, *History of the Patent Troll and Lessons Learned*, BANNER & WITCOFF, http://bannerwitcoff.com/_docs/library/articles/HistoryOfPatentTroll.pdf (last visited Dec. 20, 2014), *archived at* <http://perma.cc/K28H-BM8B> (explaining history and outcome of Whitney's cotton gin patent).

51. *See id.* (detailing effect of Whitney's invention and unfortunate outcome to Whitney). The U.S. was exporting 0.14 million pounds of cotton per year in 1792, one year prior to Whitney's invention. *Id.* By 1800, exports of U.S. cotton had exploded to 17 million pounds per year. *Id.* Despite the obvious import of his invention, Whitney ended up broke. *See id.* at 1-2.

52. *See id.* at 1 (explaining Whitney's inability to monetize his cotton gin). Whitney was unable to monetize his cotton gin for several reasons: it was too easily replicated, Whitney demanded more money than farmers thought was reasonable, and his Northern production facility was unable to meet the demand coming from the South. *See id.*

53. *See id.* (detailing Whitney's attempts to disseminate cotton gin).

54. *See* Resis, *supra* note 50, at 2 (describing Selden's strategy of extorting engine manufacturers).

55. *See id.* (recalling Selden's nefarious tactics). Selden's patent broadly declared that Selden had the sole right to manufacture and sell "road locomotive[s]" using "liquid hydrocarbon gas engine[s] of the compression type." *Id.* The patent went on to generally describe the components necessary for a car, including a steering wheel, gas tank, and wheels. *See id.*

56. *See id.* Selden set up a company, the Association of Licensed Automobile Manufacturers, to collect and hold licensing payments from the automobile manufacturers who agreed to pay rather than litigate. *See id.*

57. *See id.* (detailing circumstances leading up to litigation).

further found that the patent covered a different, less efficient type of engine than Ford's.⁵⁸ The court interpreted the scope of Selden's patent narrowly and concluded that Selden "had a conception of the object to be accomplished, [but] he went in the wrong direction."⁵⁹

2. Modern Patent Trolls

Acacia Research Corporation is in the business of acquiring patents, which the company believes will return large profits—not from the manufacture or sale of a product, but from infringement and past damages lawsuits.⁶⁰ Acacia's revenues come exclusively from licensing agreements and patent enforcement actions against companies and individuals.⁶¹ Before purchasing a patent from an inventor, Acacia evaluates the "use of the patented invention in the relevant marketplace" and determines the potential windfall of licensing agreements and infringement litigation.⁶² While Acacia contends that it provides inventors with "opportunities to unleash the untapped potential [of their] patents," critics argue that this type of "Trolling Buyer" does nothing to create or advance technology, but merely seeks to create revenue through vigorous enforcement of older or stagnant patents.⁶³

While Acacia is in the business of buying others' patents and then claiming infringement, many PAEs have actually created a new invention or

58. See *Columbia Motor Car Co. v. C. A. Duerr & Co.*, 184 F. 893, 908-16 (2d Cir. 1911) (denying relief based on finding of noninfringement). The court addressed Shelton's delay tactics and concluded that he complied with and took advantage of all legally allowed delays. See *id.* at 894-95. The court concluded that Selden had a valid permit for "Brayton"-type engines because his patent significantly improved on prior art by encasing the crank chamber. See *id.* at 907. Fortunately for Ford, the court concluded that Ford's engines were a more modern "Otto"-type and were thus not covered by Selden's patent. See *id.* at 915-16.

59. See *id.* at 916 (reasoning patent not expanded to encompass Ford's engine).

60. See Ashley Chuang, Note, *Fixing the Failures of Software Patent Protection: Detering Patent Trolling by Applying Industry-Specific Patentability Standards*, 16 S. CAL. INTERDISC. L.J. 215, 221-22 (2006) (noting Acacia's business practices).

61. See *id.* (noting Acacia "generates revenue solely from licensing and patent enforcement"). Acacia claims to have collected one billion dollars in licensing revenue through September 2014. See *About Us: Overview*, ACACIA RES. CORP., <http://acaciaresearch.com/about-us/> (last visited Dec. 20, 2014), archived at <http://perma.cc/H34U-HRN7>. The firm IPNav follows a similar strategy and has accumulated 10,000 patents, which it used to sue 1,638 companies in the last five years alone. See James K. Glassman, *Time to Fix the Patent System*, BNA. PAT. TRADEMARK & COPYRIGHT L. DAILY (Sept. 30, 2013).

62. See *How We Work: Patent Licensing Primer*, ACACIA RES. CORP., http://acaciaresearch.com/how-we-work/#patent_primer (last visited Dec. 20, 2014), archived at <http://perma.cc/5WLE-9G2V> (discussing process of evaluating economic potential of patents).

63. See *How We Work: Our Philosophy*, ACACIA RES. CORP., http://acaciaresearch.com/how-we-work/#our_philosophy (last visited Dec. 31, 2014), archived at <http://perma.cc/47HQ-W6SQ> (describing Acacia business model). But see Chuang, *supra* note 60, at 221-22 (arguing Acacia model detrimental to innovation). Other companies that buy patents but do not create products with these patents serve a valuable purpose by acting as an intermediary between the inventor and manufacturer. See EXEC. OFFICE OF THE PRESIDENT, PATENT ASSERTION AND U.S. INNOVATION 1 (2013), available at www.whitehouse.gov/sites/default/files/docs/patent_report.pdf, archived at <http://perma.cc/67UU-9M4S> (offering arguments in favor of PAEs).

technology.⁶⁴ These entities are only categorized as trolls if and when they use the patent to create revenue via licensing and litigation instead of manufacturing or constructively using them.⁶⁵ Ampex Corporation, for example, was founded in 1944 and enjoyed decades of growth in the audio/video industry thanks to its groundbreaking innovations.⁶⁶ Unfortunately, Ampex's business eventually declined as newer technology made the company's products less desirable.⁶⁷ In 2005, Ampex began a new strategy of demanding license payments from top technology companies for alleged infringement on Ampex's older patents; the strategy paid off quickly when Ampex negotiated a seventy-five million dollar settlement involving Sanyo, Canon, and Sony.⁶⁸

Many PAEs target small- to medium-sized businesses and inventors like Boston-area start-up LevelUp, which has already had to spend hundreds of thousands of dollars to defend against patent-infringement claims.⁶⁹ Recently, some patent trolls have begun targeting the end-users of technology by suing hotels or cafes using a particular technology, instead of the manufacturer of the disputed product.⁷⁰ Other patent trolls target the public coffers, like ArrivalStar S.A.⁷¹ ArrivalStar S.A. has filed over 250 lawsuits, several of these suits against public transit authorities, claiming to own the patent to vehicle arrival notification systems commonly used to make customers aware of when the next

64. See Chuang, *supra* note 60, at 223-24 (discussing so-called "Trolling Resurrector" as having previously invented and produced something).

65. See Jeremiah Chan & Matthew Fawcett, *Footsteps of the Patent Troll*, 10 INTELL. PROP. L. BULL. 1, 1-2 (2005) (discussing different forms of patent trolls).

66. See *Ampex History*, AMPEX, <http://www.ampex.com/1-history.html?start=30> (last visited Dec. 20, 2014), archived at <http://perma.cc/A5J8-H4U9> (outlining company history).

67. See Mathew Ingram, *Guarding Ideas or Just Patent Blackmail?*, GLOBE & MAIL (June 2, 2005), www.theglobeandmail.com/technology/guarding-ideas-or-just-patent-blackmail/article18229154/, archived at <http://perma.cc/C9V5-XMKV> (describing downturn of Ampex business).

68. See *id.* (discussing Ampex strategy and success). Ampex's stock price exploded from three dollars a share in October 2004 to over fifty-six dollars a share in February 2005 as a result of the new tactics. See *id.* Another example of this type of patent trolling is Jerome Lemelson, who, before his patents were declared invalid by a court, collected over one billion dollars through settlements with technology companies by claiming to have a patent on bar coding. See Sandburg, *supra* note 45 (discussing Lemelson's success).

69. See Press Release, Mass. Attorney Gen.'s Office, AG Coakley Discusses Patent Trolling During Tour of Boston Startup LevelUp (Nov. 6, 2013), available at <http://www.mass.gov/ago/news-and-updates/press-releases/2013/2013-11-06-patent-trolling.html>, archived at <http://perma.cc/D3LP-B87B> (quoting LevelUp founder). LevelUp CEO Seth Priebatsch speculated that, if not for the cost of patent trolls, LevelUp would have hired ten more employees. See *id.*

70. See Patrick Leahy & Mike Lee, *America's Patent Problem*, POLITICO (Sept. 15, 2013), <http://www.politico.com/story/2013/09/patrick-leahy-war-on-patent-trolls-96822.html>, archived at <http://perma.cc/9YRH-NGBU> (describing PAEs claiming patent on Wi-Fi technology and suing small hotels and coffee shops).

71. See Daniel Lipinski, *Trolling for a Public Trough: How Patent Assertion Entities Cost American Taxpayers*, WASH. LEGAL FOUND. (Sept. 27, 2013), www.wlf.org/upload/legalstudies/legalopinionletter/09-27-13Lipinski_LOL.pdf, archived at <http://perma.cc/E69X-E9RS> (describing how ArrivalStar S.A. targets public transit authorities with patent-infringement claims).

car or train will be arriving.⁷² Many of the threatened agencies opted to settle with ArrivalStar and pay licensing fees of between \$30,000 and \$100,000 rather than go to court.⁷³

C. Current State of Patent Troll Law in United States

The past few years have seen an explosion in lawsuits emanating from PAEs; in 2012, PAEs instigated more than 2,500 lawsuits, a dramatic increase when compared to the 731 lawsuits brought just two years earlier in 2010.⁷⁴ The effects of this surge in patent troll litigation on innovation and the economy are still disputed, but recent scholarly research suggests that these practices are inflicting a substantial, unseen “tax” on software and other products.⁷⁵ In addition, there is evidence to suggest that these PAE tactics have resulted in “considerable lost value to society” by discouraging innovation.⁷⁶ Unfortunately, the full effect of patent trolls was not known during the negotiations over the 2011 AIA, and as a result, it is largely toothless when it comes to controlling the problems created by PAEs.⁷⁷ In fact, President Obama has stated that the AIA went only “halfway to where [it] need[ed] to go” on patent trolls.⁷⁸

1. Federal Law Remedies and Congressional Proposals to Patent Laws

While the U.S. Constitution grants power over patents to the federal government, the Supreme Court and the Court of Appeals for the Federal Circuit have allowed states to enact legislation affecting patent holders and patent rights in limited circumstances.⁷⁹ In *Bonito Boats, Inc. v. Thunder Craft*

72. See *id.* (detailing ArrivalStar actions).

73. See *id.* (highlighting agency reaction to ArrivalStar claims). ArrivalStar was eventually challenged in court and, in a settlement, agreed to cease bringing infringement suits against public transit agencies. See *id.*

74. See EXEC. OFFICE OF THE PRESIDENT, *supra* note 63, at 4-5 (noting dramatic increase in PAE activity since 2005). The Presidential report—prepared by the Council of Economic Advisers, the National Economic Council, and the Office of Science & Technology Policy—also found that the majority of these types of patent assertions target small businesses and are “increasingly targeting end users of products.” See *id.* at 1.

75. See James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 CORNELL L. REV. 387, 422 (2014) (concluding 2011 NPE lawsuits’ direct cost as \$29 billion and characterizing as “significant tax on . . . innovation”); Glassman, *supra* note 61 (describing research and concluding patent trolls create twenty percent “patent tax” on research and development).

76. See EXEC. OFFICE OF THE PRESIDENT, *supra* note 63, at 1 (citing to study indicating PAEs’ financial awards much smaller than damage to defendant’s share value).

77. See *id.* at 3 (commenting on circumstances surrounding passage of America Invents Act).

78. See *id.* (quoting President Obama). The President went on to say the following on the issue of PAE litigation: “The folks that you’re talking about are a classic example; they don’t actually produce anything themselves. They’re just trying to essentially leverage and hijack somebody else’s idea and see if they can extort some money out of them.” Ali Sternburg, *Obama Acknowledges Patent Troll Problem*, PAT. PROGRESS (Feb. 14, 2013), www.patentprogress.org/2013/02/14/obama-acknowledges-patent-troll-problem-w-transcript/, archived at <http://perma.cc/BM93-F4PP>.

79. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 474 (1974) (holding Ohio’s law on trade secrets not preempted by federal patent law); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 232 (1964) (opining

Boats, Inc.,⁸⁰ the Court analyzed its own precedent and pointed out that as long as the “nature and degree of state protection [does] not conflict with” federal patent law, there is no federal preemption issue and the state is free to legislate.⁸¹ While the U.S. patent system has incorporated some flexibility to allow state action, the overwhelming bulk of patent assertion suits filed or threatened by patent trolls fall squarely under federal law.⁸²

Unfortunately for those inventors and businesses on the receiving end of these threats and lawsuits, federal patent law provides very little relief from the methods and tactics of modern day patent trolls.⁸³ Federal patent law does not, for example, expressly provide injunctive or financial relief to victims of patent trolling.⁸⁴ Further dampening the prospects of those considering fighting back against patent-troll demand letters is the requirement that a counteraction against a party making a patent assertion may only proceed if they can show that the efforts to assert the patent were made in “bad faith.”⁸⁵ Courts have not settled on a uniform definition of a “bad faith” patent assertion, further complicating this requirement.⁸⁶

As a result of the high bar required to pursue trolls under federal law, victims of trolling often try to convince courts that federal antitrust law is applicable.⁸⁷ The Supreme Court’s decision in *Eastern Railroad Presidents*

states may legislate to protect “trademarks, labels, or distinctive dress” of businesses); *Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470, 1473-77 (Fed. Cir. 1998) (holding state unfair competition law not preempted by federal patent laws).

80. 489 U.S. 141 (1989).

81. *See id.* at 155 (reviewing precedent requiring state law not “conflict with . . . encouragement or disclosure policies” of federal law).

82. *See Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1353-55 (Fed. Cir. 1999) (holding antitrust and state tort law preempted unless patent assertion made in bad faith).

83. *See* 6A DONALD CHISUM, CHISUM ON PATENTS § 19.06 (detailing limited defenses for “improper conduct by a patent owner”). Currently, federal law only recognizes the defenses of misuse, inequitable conduct, patent invalidity, laches, and estoppel for those accusing a patent holder of patent trolling. *See id.* In 2006, though, some Supreme Court justices expressed a willingness to deny patent trolls one of their most valued weapons—permanent injunctive relief. *See eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396-97 (2006) (Kennedy, J., concurring) (indicating willingness to reevaluate standard for issuance of permanent injunctions). There, the Court stopped short of holding that permanent injunctions should never be granted to patent trolls. *Id.* However, Justices Kennedy, Stevens, Souter, and Breyer specifically mentioned the trend of nonpracticing entities using patents as a “bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent” and argued that granting permanent injunctions to litigants using these tactics should be discouraged. *See id.*

84. *See* CHISUM, *supra* note 83, § 19.06 (pointing out lack of “affirmative remedies” for parties damaged by bad-faith patent enforcement).

85. *See* CHISUM, *supra* note 83, § 19.06 (describing available avenues and requirements for victims of bad-faith patent assertions).

86. *See Zenith Elecs. Corp.*, 182 F.3d at 1354 (declining to define “bad faith” and saying determination is “on a case by case basis”); *Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891, 897 (Fed. Cir. 1998) (noting bad-faith determination “may encompass subjective as well as objective considerations”).

87. *See Zenith Elecs. Corp.*, 182 F.3d at 1342 (noting plaintiff brought action under antitrust and state unfair competition law instead of patent law).

*Conference v. Noerr Motor Freight, Inc.*⁸⁸ significantly narrowed this alternative by declaring that soliciting government action, including the bringing of lawsuits, is a form of freedom of expression not subject to antitrust laws, even in circumstances where there is an anticompetitive impact to the lawsuit.⁸⁹ The only judicially-recognized path around this barrier requires the petitioner to show that the litigation is really a bad-faith “sham” intended to cover-up “what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor.”⁹⁰

In response to the lack of options for patent troll victims, there are at least three legislative proposals being circulated in Washington D.C. that attempt to address problems caused by patent trolls: the Patent Transparency and Improvements Act, the Innovation Act, and the Demand Letter Transparency Act.⁹¹ The most focused proposal is the Demand Letter Transparency Act, which deals solely with the popular patent troll practice of sending vague demand letters to inventors and end-users, threatening litigation unless licensing or royalty payments are made.⁹² The Demand Letter Transparency Act would place strict informational requirements on demand letters sent by any entity sending twenty or more such letters in a year.⁹³ The most innovative feature of the proposal is that any qualifying entity that sends a demand letter that does not meet the requirements would be forced to pay a fine to the Patent & Trademark Office (PTO) or have its patent voided.⁹⁴

The Innovation Act, passed in the House of Representatives on December 5, 2013, by a tally of 325-to-91, takes a comprehensive approach toward dealing with patent trolls.⁹⁵ The Innovation Act attempts to clamp down on the PAE

88. 365 U.S. 127 (1961).

89. *See id.* at 138-40 (holding railroad publicity campaign against truckers constitutionally protected form of expression despite affecting competition). This holding has since been expanded to include bringing litigation as a form of freedom of expression. *See* CHISUM, *supra* note 83, § 19.06 (discussing development of *Noerr-Pennington* doctrine).

90. *E. R.R. Presidents Conference*, 365 U.S. at 144; *see also* *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60-61 (1993) (declaring two-part test for sham litigation). To show that litigation is merely a sham for anticompetitive practices, a petitioner must show two things: first, that the suit is “objectively baseless” such that “no reasonable litigant could realistically expect success;” and secondly, that the objectively baseless suit is really “an attempt to interfere *directly* with the business relationships of a competitor.” *Prof'l Real Estate Investors, Inc.*, 508 U.S. at 60-61 (quoting *E. R.R. Presidents Conference*, 365 U.S. at 533).

91. Demand Letter Transparency Act of 2013, H.R. 3540, 113th Cong. (2013); Patent Transparency and Improvements Act of 2013, S. 1720, 113th Cong. (2013); Innovation Act, H.R. 3309, 113th Cong. (2013).

92. Tony Dutra, *House Bill Would Strip Patent Rights of Senders of Noncompliant Demand Letters*, 87 BNA PAT. TRADEMARK & COPYRIGHT J. 165 (2013) (describing demand letter practice and proposed legislation).

93. *See id.* (addressing specifics of proposal).

94. *See id.* (explaining codification of requirements and penalties for noncompliant senders of demand letters). The Act would also leave the noncompliant entity vulnerable to action by the Federal Trade Commission. *See id.*

95. *See* Diane Bartz, *House Passes Tech Backed Bill To Rein in 'Patent Trolls'*, REUTERS (Dec. 5, 2013), <http://www.reuters.com/article/2013/12/05/us-patents-congress-idusbre9b40y820131205>, archived at <http://per>

tactic of sending overly broad, unspecific demand letters by requiring higher specificity on how the alleged infringer has violated the plaintiff's patent.⁹⁶ Further, the Innovation Act would require the disclosure of any party who has a monetary interest in the litigation, preventing patent holders from setting up shell companies from which to launch nefarious infringement claims against others.⁹⁷ As the threat of costly discovery is often cited as a reason for settlements with patent trolls, the Innovation Act gives courts more leeway to delay discovery in patent-infringement cases.⁹⁸ Additionally, the Act requires that litigation fees and expenses be paid by the losing party if its claims were not reasonably justified under law.⁹⁹ Finally, the Innovation Act would allow technology manufacturers and vendors to join litigation brought by a patent troll against an end-user, like a hotel or restaurant, in an effort to discourage the prevalent tactic of litigating against smaller end-users instead of the well-heeled manufacturers.¹⁰⁰

The third proposal, the Patent Transparency and Improvements Act, would, like the Innovation Act, require disclosure of all entities with a financial interest in the outcome of the patent-infringement litigation.¹⁰¹ While the Patent Transparency and Improvements Act would allow manufacturers to take the place of end-users being sued by patent trolls, it has limiting requirements not found in the Innovation Act.¹⁰² In another deviation from the Innovation Act, the Patent Transparency and Innovation Act deals with PAE demand letters by authorizing the FTC to treat bad-faith demand letters, which are defined in line with the Innovation Act's definition, as deceptive and unfair trade practices in violation of the Federal Trade Commission Act.¹⁰³ Vermont Senator Patrick Leahy, the bill's author and sponsor, recently tabled his proposal and expressed concern that some aspects of the House-passed

ma.cc/589D-2UQ2 (noting passage). An earlier version of the Innovation Act included similar provisions on demand letters as the Demand Letter Transparency Act, and it appears possible those provisions will be incorporated into a final bill. See Tony Dutra, *Senate Subcommittee Considers FTC Registry, Enforcement for Patent Troll Demand Letters*, 87 BNA PAT. TRADEMARK & COPYRIGHT J. 110 (2013) (discussing differences between proposals).

96. See H.R. 3309 § 3(a) (requiring increased specificity).

97. See Innovation Act, H.R. 3309, 113th Cong. §§ 3(c), 4 (2013) (requiring disclosure of real parties in interest).

98. See *id.* § 3(d)(a) (setting forth requirements for limited discovery). The Act limits early discovery "to information necessary for the court to determine the meaning of the terms used in the patent claim." *Id.*

99. See *id.* § 3(b) (codifying loser-pays scheme).

100. See *id.* § 5 (providing end-users may opt out and joinder of manufacturer). This section is not without controversy as some believe the current form of the Act could force a manufacturer into litigation when an end-user modifies what was provided from the manufacturer. See Tony Dutra, *Goodlatte Reveals New Patent Revamp Bill Keeping Emphasis on Troll Litigation Abuse*, BNA DAILY REPORT FOR EXECUTIVES, Oct. 24, 2013, at A-10 (summarizing argument against customer-suit exception).

101. See Patent Transparency and Improvements Act of 2013, S. 1720, 113th Cong. § 3(b) (2013).

102. See *id.* § 4(b)(2) (requiring manufacturer involvement in litigation relating to patent before may join action against end-user).

103. See *id.* § 5(c)(2) (proposing FTC power over bad-faith demand letters).

Innovation Act might damage legitimate patent holders' rights.¹⁰⁴

Senator Leahy and Representative Bob Goodlatte, author of the Innovation Act, are reportedly communicating and discussing the two bills throughout the process, and observers anticipate that they will ultimately coalesce around a single, comprehensive bill to address patent trolling.¹⁰⁵ While there are a great deal of similarities between the two proposals, differences still remain.¹⁰⁶ As a result of all this action on Capitol Hill, both sides in the debate have begun lobbying efforts and it appears some form of anti-patent trolling legislation is all but certain to reach a full vote in the near future.¹⁰⁷

2. State Law Remedies and Vermont's Antitrolling Law

For a patent-infringement case to fall under state jurisdiction, the alleged infringer must show that the party bringing the infringement suit is doing so in bad faith; only then can a court apply state tort or unfair competition laws.¹⁰⁸ As discussed above, the definition of bad faith is still somewhat amorphous, but case law elaborates upon some specific circumstances, which—though often difficult to prove—would be considered ipso facto evidence of a bad-faith patent assertion.¹⁰⁹ For example, when an accused party can show that the alleging party “[knew] that the patent [was] invalid, unenforceable, or not

104. See Ariel Bogle, *Where Does Patent Reform Go from Here?*, SLATE (May 29, 2014), http://www.slate.com/blogs/future_tense/2014/05/29/leahy_patent_transparency_and_improvements_act_what_happens_now.html, archived at <http://perma.cc/K5B2-MTWY> (noting Leahy's concerns over Innovation Act).

105. See Dutra, *supra* note 100 (noting Goodlatte has been “consulting with . . . Leahy . . . during the drafting process”); Dutra, *supra* note 7 (discussing Goodlatte's release of discussion draft “circulated with the support” of Leahy).

106. See Andrew Ramonas, *Patent Troll Bills Moving Up in Senate and House*, CORP. COUNS. (Nov. 19, 2013), http://www.corpcounsel.com/id=1202628689137/patent-troll-bills-moving-up-in-senate-and-house?sl_return=20140812121035, archived at <http://perma.cc/VRD8-3L2M> (evaluating similarities and differences between House and Senate proposals). Both acts would require more transparency about the real parties in interest and heighten pleading requirements. See *id.* The Innovation Act, championed by Representative Goodlatte, includes a change to a “loser-pays” scheme while the Senate proposal currently does not. See *id.* Another difference is that Senator Leahy's proposal addresses demand letters by opening the door to FTC enforcement. See *id.*

107. See Jimm Phillips, *Progressive Policy Institute Urges Left's Support on PAE Legislation*, WASH. INTERNET DAILY (Oct. 2, 2013), <http://www.washingtoninternetdaily.com/article/view?s=9756&p=1&id=447112> (describing lobbying effort of liberal group in support of patent troll legislation); Michelle Quinn, *'Patent Trolls' Launch a Lobbying Defense in D.C.*, POLITICO (Oct. 1, 2013), www.politico.com/story/2013/10/patent-trolls-launch-a-lobbying-defense-in-dc-97592.html, archived at <http://perma.cc/C7P9-FLF8> (noting patent troll lobbying in response to work by FTC and Congress).

108. See *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1353-55 (Fed. Cir. 1999) (holding antitrust and state tort law unavailable unless patent assertion made in bad faith). Courts interpreted this standard as similar to the high-hurdle of proving objective recklessness. See Justin McCabe, *High Hurdle for State Laws To Curtail Patent Troll Activities*, GREEN MOUNTAIN IP (Apr. 30, 2013), <http://greenmountainip.com/high-hurdle-for-state-laws-to-curtail-patent-troll-activities/>, archived at <http://perma.cc/TJL8-AZ55> (noting courts equate standard with “objective recklessness,” making it “high burden for parties to meet”).

109. See *Zenith Elecs. Corp.*, 182 F.3d at 1354 (laying out circumstances of “clear case[s] of bad faith”).

infringed,” it is an obvious case of a bad-faith patent assertion, and the accused party may seek redress under applicable state or federal law.¹¹⁰ Additionally, the court in *Zenith Electronics Corp.* noted that statements describing a patent as incapable of being designed around a business competitor are “inherently suspect,” but it stopped short of categorizing such statements as being inherently in bad faith.¹¹¹

On May 22, 2013, Vermont amended its consumer protection statute and became the first state to officially sign anti-patent troll legislation into law.¹¹² The Vermont State Legislature passed the Bad Faith Assertions of Patent Infringements Act (Act) after several Vermont small businesses received vague demand letters threatening costly litigation unless the businesses agreed to pay a licensing fee.¹¹³ The Act seeks to change the calculations of patent trolls in Vermont by increasing the potential costs of sending out mass demand letters.¹¹⁴

The Act also aims to help Vermont businesses by clamping down on patent-troll demand letters and infringement suits.¹¹⁵ It lays out numerous factors a court may consider in determining whether a party has made a bad-faith patent-infringement assertion.¹¹⁶ The Act attempts to tackle patent-troll demand letters by allowing a court to consider whether the letter had the required information, requested an unreasonable license fee, or demanded payment in an unreasonably short period of time as factors in determining whether the demand letter was sent in bad faith.¹¹⁷ The law also permits judges to consider the status of the alleging party as an inventor and whether or not the party has made a “substantial investment in the use of the patent or in the production or sale of a product or item covered by the patent,” presumably in an effort to

110. See *id.* (declaring such actions as “clear case[s] of bad faith”).

111. See *id.* (suggesting such actions should face additional scrutiny). The court reasoned that such statements are suspect because with enough effort, it is unlikely that a patent could not be designed around and such statements would be very difficult to confirm. See *id.*

112. See John Herrick, *Shumlin Signs ‘Patent Troll’ Bill Aimed at Protecting Vermont Businesses Against False Claims*, VT. DIGGER (May 22, 2013), <http://www.vtdigger.org/2013/05/22/shumlin-signs-patent-troll-bill-aimed-at-protecting-vermont-businesses-against-false-claims/>, archived at <http://perma.cc/3A73-BVYS> (describing law as “nation’s first patent abuse protections bill”); see also Goldman, *supra* note 1 (acknowledging law as first of kind in U.S. and warning of federal preemption challenge).

113. See Act of May 22, 2013, 2013 Vt. Acts & Resolves 304 (amended by 2013 Vt. Acts & Resolves 316); Herrick, *supra* note 112 (noting targeting of Vermont small businesses).

114. See Herrick, *supra* note 112 (noting goal to increase costs to patent trolls).

115. See *id.* (noting Act seeks prevention of baseless patent-infringement claims); see also VT. STAT. ANN. tit. 9, § 4195 (West 2014) (declaring reduced harm of such practices as purpose of bill).

116. See tit. 9, § 4197 (declaring factors court may consider). The most common and effective patent troll strategies are broad demand letters threatening costly, uncertain litigation unless a license fee is paid. See Julie Samuels, *A Closer Look at Patent Troll Demand Letters: A Dangerous Problem that Must Be Fixed*, ELECTRONIC FRONTIER FOUND. (Nov. 5, 2013), <http://www EFF.ORG/deeplinks/2013/11/closer-look-patent-troll-demand-letters-dangerous-problem-must-be-fixed>, archived at <http://perma.cc/4HFC-2MQQ> (noting effectiveness of demand letters as low-risk strategy for patent trolls).

117. See tit. 9, § 4197 (listing factors evidencing bad-faith assertions).

weed out nonpracticing PAEs.¹¹⁸ If a defendant is able to establish a reasonable likelihood of a bad-faith assertion, then the asserting party is required to post a bond equal to a “good faith estimate of the [defendant’s] costs to litigate.”¹¹⁹

III. ANALYSIS

As the American economy moves further away from traditional manufacturing towards an economy based on technology and innovation, the importance of effective and clear regulation of patents and patent trolls represents a matter of national significance.¹²⁰ Even in this era of extreme partisanship, there is a consensus forming between Democrats and Republicans that something must be done to reign in the abusive practices of some PAEs.¹²¹ Unwilling to wait for a national response, Vermont has entered the fray with a unique law that attempts to thread the needle of federal patent-law preemption by exploiting a narrow exception created by the Court of Appeals for the Federal Circuit.¹²²

A. Vermont’s Patent Troll Law

1. Vermont’s Law Not Preempted in Cases of Noncompliant Demand Letters

The Vermont legislature carefully crafted the Act in an attempt to fit it within the *Zenith Electronics Corp.* exception, which allows state action for “baseless” patent-infringement claims.¹²³ In the Act’s “Legislative Findings

118. See *id.* § 4197(c)(4) (permitting consideration of alleging parties prior usage of patent).

119. See *id.* § 4198 (describing requirements and standard for posting bond). The law allows the target of a patent troll to bring action in superior court. See *id.* § 4199(b). The court may award remedies of “equitable relief; . . . damages; . . . costs and fees, including reasonable attorney’s fees; and . . . exemplary damages in an amount equal to \$50,000.00 or three times the total of damages, costs, and fees, whichever is greater.” *Id.*

120. See Barack Obama, President, U.S., State of the Union Address, *supra* note 6 (addressing need for patent reform early in address). The President, after stressing the need for innovation and technology to keep America competitive in the global economy, urged Congress to “pass a patent reform bill that allows our businesses to stay focused on innovation, not costly, needless litigation.” *Id.*

121. See Glassman, *supra* note 61, at 1 (noting growing bipartisan consensus around need for patent reform); Leahy & Lee, *supra* note 70 (noting coordination “from both sides of the aisle” on patent reform bill); Seidenberg, *supra* note 38, at 19 (noting consensus in Supreme Court regarding patent trolls).

122. See *supra* Part II.C.2 (discussing permissible zone of state action in patent cases).

123. See *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1355 (Fed. Cir. 1999) (holding patent holder actions under federal jurisdiction unless actions in “bad faith”); see also *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1375 (Fed. Cir. 2004) (holding must prove claims “objectively baseless” to show bad faith). The Vermont law explicitly acknowledges this precedent. See VT. STAT. ANN. tit. 9, § 4195(a)(3) (West 2014) (noting federal government’s exclusive jurisdiction over patents). The Act, in pertinent part, states that “[t]he General Assembly does not wish to interfere with the good faith enforcement of patents or good faith patent litigation. The General Assembly also recognizes that Vermont is preempted from passing any law that conflicts with federal patent law.” *Id.* After briefly discussing the cost and burden on Vermont’s small business community of patent litigation, the Act claims that “Vermont wishes to help its businesses avoid these costs by encouraging the most efficient resolution of patent-infringement claims without conflicting with

and Statement of Purpose” section, the legislature wrote that the “narrowly focused act” was designed to “protect Vermont businesses from abusive and bad-faith assertions of patent infringement . . . while at the same time respecting federal law and being careful to not interfere with legitimate patent enforcement actions.”¹²⁴ The trick for the Act was to proscribe a method for determining when a patent-infringement claim was “baseless” without evaluating the merits of the claimed patent.¹²⁵ In an effort to fulfill its stated goal, the Act attempts to apply consumer protection law to the methods of patent trolls and to avoid an evaluation of the underlying patents by focusing on one of the patent trolls’ favorite and most effective weapons: demand letters.¹²⁶ By avoiding the evaluation of patents completely, and instead simply laying out a number of factors courts may consider when deciding whether a demand letter to an alleged patent infringer was sent in bad faith, the Act successfully dodges intrusion upon Congress’s exclusive jurisdiction.¹²⁷

federal law.” *Id.* § 4195(a)(4).

124. *See* tit. 9, § 4195(b).

125. *See supra* Part II.C.1 (outlining extent of federal jurisdiction over patent issues).

126. *See* tit. 9, § 4197(b)-(c)(4) (suggesting factors courts may consider when judging whether demand letter sent in bad faith). The Act specifically allows courts to consider the following factors when deciding whether a person has sent a patent-infringement demand letter in bad faith:

- (1) The demand letter does not contain the following information:
 - (A) the patent number;
 - (B) the name and address of the patent owner or owners and assignee or assignees, if any; and
 - (C) factual allegations concerning the specific areas in which the target’s products, services, and technology infringe the patent or are covered by the claims in the patent.
- (2) Prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target’s products, services, and technology, or such an analysis was done but does not identify specific areas in which the products, services, and technology are covered by the claims in the patent.
- (3) The demand letter lacks the information described in subdivision (1) of this subsection, the target requests the information, and the person fails to provide the information within a reasonable period of time.
- (4) The demand letter demands payment of a license fee or response within an unreasonably short period of time.
- (5) The person offers to license the patent for an amount that is not based on a reasonable estimate of the value of the license.
- (6) The claim or assertion of patent infringement is meritless, and the person knew, or should have known, that the claim or assertion is meritless.
- (7) The claim or assertion of patent infringement is deceptive.
- (8) The person or its subsidiaries or affiliates have previously filed or threatened to file one or more lawsuits based on the same or similar claim of patent infringement and:
 - (A) those threats or lawsuits lacked the information described in subdivision (1) of this subsection; or
 - (B) the person attempted to enforce the claim of patent infringement in litigation and a court found the claim to be meritless.
- (9) any other factor the court finds relevant.

Id. § 4197(b).

127. *See* Landreth, *supra* note 9, at 120-21 (arguing Vermont law successfully avoids federal preemption);

2. Vermont's Law Preempted in Large Majority of Patent-Infringement Claims

While Vermont's unique law may help discourage the use of extremely vague demand letters, the law—at best—requires abusive PAEs to do only a modicum of research prior to sending a demand letter in order to overcome a charge of being objectively baseless.¹²⁸ The law does not assert, and precedent would not support, a state court examining the validity of a disputed patent, and the Act is merely a restatement of a long standing legal precedent giving victims of bad-faith patent assertions the right to pursue state remedies against their accusers.¹²⁹ Unfortunately, the most common and efficient method of proving that a claim meets the objectively baseless standard—by a showing that the patent is clearly invalid or has not been infringed—is still unavailable in state courts because state courts are largely unable to evaluate the merits of a disputed patent.¹³⁰ As a result of these inherent weaknesses, even in the most favorable light, the Act is impotent in the great bulk of patent-trolling cases.¹³¹

3. Vermont's Law Creates an In-State Advantage and May Spur Similar Legislation in Other States

While the Act is largely a restatement of an already existing legal precedent, it does contribute some potentially meaningful remedies and deterrents to Vermont's consumer protection laws, which may benefit inventors and businesses in the state.¹³² By giving recipients of frivolous demand letters additional damages, the Act allows victims of a bad-faith demand letter to recover actual damages, attorney's fees, and the greater of three times the actual damages or \$50,000 from patent trolls.¹³³ Vermont's law will at least

Carver, *supra* note 9 (summarizing Yale Law resident fellow Hrdy's argument Act affects only "business practice[s]" and not patents).

128. See McCabe, *supra* note 108 (noting potential ways PAEs may sidestep law).

129. See *supra* Part II.C.2 (discussing history and use of state remedies in cases involving patents). Although the precedent has been around for some time, it has failed to effectively curb patent troll abuses. See EXEC. OFFICE OF THE PRESIDENT, *supra* note 63, at 4-5 (noting dramatic increase in PAE activity since 2005).

130. See Landreth, *supra* note 9, at 126-27 (discussing unavailability of "best way to prove a bad faith patent claim" in state court). For example, the Vermont law does not, and could not, help an accused infringer even if the patent asserted is clearly invalid or not infringed as long as the accuser's demand letter meets the minimum requirements laid out in the Act. See *id.*

131. See Davis, *supra* note 9 (noting limited potential impact of Vermont law). Carlos Perez-Albuerno, of Boston law firm Choate Hall & Stewart, believes the law will "only be effective against a small subset of patent trolls." *Id.*

132. See *supra* Part II.C.2 (discussing history and use of state remedies in cases involving patents); see also VT. STAT. ANN. tit. 9, § 4198 (West 2014) (stating requirements for accuser posting bond equal to estimate of target's litigation costs). Upon a showing of "reasonable likelihood" that the accuser has made a bad-faith patent assertion, the court requires the accuser to post a bond equal to the likely cost to the target of litigating the claim, up to \$250,000.00. See tit. 9, § 4198. As discussed previously, the court cannot examine the underlying patent in determining whether there is a "reasonable likelihood" of a bad-faith patent assertion and must instead base its finding on the conduct of the PAEs. See *supra* Part III.A.2 (discussing limitations of state court powers under Act and precedent).

133. See tit. 9, § 4199 (codifying damages available to victims of bad-faith patent assertions).

alter the cost-benefit calculations of patent trolls in Vermont.¹³⁴ Additionally, by requiring PAEs to include specifics on how, allegedly, the recipient has infringed on the sender's patent, the Act will, at a minimum, provide Vermont businesses with the bare information needed to reasonably evaluate each negotiation or litigation option.¹³⁵ The combination of higher specificity requirements for demand letters and additional damages available to recipients of nonconforming demand letters will provide Vermont and its businesses with a competitive edge.¹³⁶

B. Federal Proposals To Slay Patent Trolls Will Raise Risks for Troll Business Model

The House of Representatives passed the Innovation Act on December 5, 2013, with strong bipartisan support.¹³⁷ Meanwhile, the Senate, led by Senator Leahy, is holding hearings and crafting a bill that could pass both houses and garner the President's signature.¹³⁸ While the ultimate form of the bill is unknown, there are provisions that have been widely accepted by both parties throughout the process, such as: requiring more specificity in patent-infringement complaints, "loser pays" fee shifting, limiting early discovery, requiring disclosure of all parties in interest, and the so-called "customer exception," which allows an end-user being sued by a PAE to remove themselves from the litigation and joinder of the manufacturer of the disputed good in their place.¹³⁹ While the Innovation Act gives only sparse treatment to

134. See Nguyen, *supra* note 2, at 114-15 (discussing incentives and risks to patent troll strategies); Chan & Fawcett, *supra* note 65, at 3 (outlining basic business model of patent trolls); Lee, *supra* note 7 (noting low cost strategy of demand letters because so few recipients willing to litigate). Given that the patent trolls' most efficient weapon is gaining licensing payments via demand letters, the increased scrutiny on demand letters in Vermont may encourage would-be trolls to look elsewhere for low-hanging fruit. See Samuels, *supra* note 116 (noting effectiveness of demand letters as low-risk strategy for patent trolls).

135. See tit. 9, § 4197(b)(1)(C) (requiring "factual allegations" on "specific areas" where target has allegedly infringed sender's patent). By requiring basic information in the demand letter, the Act helps businesses better assess the validity of the sender's claims without having to engage in discovery, which can be prohibitively expensive in patent cases. See Samuels, *supra* note 116 (observing cost to discover "simple information can easily cost . . . tens of thousands of dollars").

136. See McCabe, *supra* note 108 (remarking "deterrence factor alone" may depress patent trolling in Vermont); *supra* note 130 (discussing Act's likely effect on patent trolls' use of demand letters). Just how much of a competitive advantage the Act will be for Vermont businesses is hard to predict as the full effects of bad-faith demand letters are unknown due to these letters' private nature. See Samuels, *supra* note 116 (attributing unknown effects to lack of public record and subsequent nondisclosure agreements).

137. See *supra* note 95 (observing 325-91 vote in favor of passage). *But see* Self, *supra* note 6 (noting one federal judge's apprehension toward proposed legislation). U.S. Appeals Court for the Federal Circuit Judge Kathleen O'Malley's objection seems to be based on a fear of congressional intrusion into the judiciary more than apprehension over any specific provision of the proposed legislation. See *id.*

138. See Dutra, *supra* note 100 (noting Goodlatte has been "consulting with . . . Leahy . . . during the drafting process"); see also Ramonas, *supra* note 106 (outlining similarities and differences between Senate and House bills).

139. See Innovation Act, H.R. 3309, 113th Cong. § 3(a)(1) (2013) (setting forth enhanced pleading requirements for patent-infringement actions); H.R. 3309 § 3 (declaring losing party pays fees and expenses of

demand letter abuse, it is believed that the issue will be dealt with via legislation authorizing the FTC to monitor and regulate demand letters under consumer protection laws—similar to what was done in Vermont.¹⁴⁰ The combination of raising costs to patent trolls via “loser pays” fee shifting and lowering costs to accused infringers with limited early discovery and more specific pleading requirements would shift the playing field away from abusers and make current patent trolling practices less financially viable.¹⁴¹

IV. CONCLUSION

Patent trolls place an unseen tax on innovation, the lifeblood of the U.S. economy. As the tactics and targets of patent trolls have become increasingly audacious, the cry from businesses for effective regulation has reached a fever pitch. Reacting to outrage coming from the business and charity community in Vermont, the legislature acted to protect against one of the patent troll’s most common and effective weapons—demand letters. This first-of-its-kind legislation will survive federal preemption only if it is very carefully and selectively enforced to ensure that Vermont state courts only evaluate the business practices of entities sending demand letters and not the patent at issue. Even granting this inherent Constitutional impediment, the Act represents a powerful “Thou Shall Not Pass” signal to any potential patent trolls in the Green Mountain State. This signal will discourage trolling activity in Vermont and encourage patent trolls to target low-hanging fruit in other states that have yet to express the same level of concern and willingness to act.

While anecdotal accounts of PAEs bleeding charities and small businesses of much needed funds has outraged ordinary citizens, the push for patent trolling legislation—at least at the federal level—has come largely from big

winning party’s litigation cost). Only if a court finds that the losing party’s position was reasonably justified or in “special circumstances” would the prevailing party not be entitled to recompense. *See* § 3(b)(1); *see also* H.R. 3309 § 3(d)(1) (declaring early discovery limited to information court requires to understand patent claim). Under the current discovery scheme, accused infringers are required to produce more during discovery than the accuser. *See* Nguyen, *supra* note 2, at 114 (noting disparity in discovery burden); *see also* H.R. 3309 § 4 (listing enhanced disclosure requirements for patent-infringement complaints). This section of the bill is designed to prevent large entities from creating “shell companies” to sue market competitors. *See* Dutra, *supra* note 100 (discussing motivation behind “real party in interest transparency” provisions); *see also* H.R. 3309 § 5 (allowing qualifying customers to exempt selves from infringement suits). *But see* Dutra, *supra* note 100 (noting concern amongst industry over customer-suit exception provision). The main concern from stakeholders appears to be that the exception, as currently worded, would force the manufacturer into lawsuits where the customer altered the product provided by the manufacturer. *See id.*

140. *See* H.R. 3309 § 7 (delineating responsibility to PTO). The bill directs the PTO to use “existing resources . . . [to] develop educational resources for small businesses to address concerns arising from patent infringement” and create a website listing all patent-infringement actions and the patents in dispute. *See id.* The bill has faced criticism as a result of its inadequate treatment of demand letters. *See* Dutra, *supra* note 95 (noting “positive reaction” to proposal giving FTC enforcement and monitoring role over demand letters); Samuels, *supra* note 116 (opining Innovation Act “not perfect” because does not address demand letters).

141. *See supra* notes 132-33 (detailing patent troll business model).

business. Taking this into account, any federal response must be careful not to trample the rights of individual patent holders to enforce their valid patents against others in the market. The provisions being discussed for inclusion in a bipartisan bill by Senator Leahy and Representative Goodlatte would achieve many worthwhile goals. In particular, the “loser pays” fee shifting would dramatically change the underlying economics of the current patent trolling business model by increasing the risk to the party making the infringement accusation.

Unfortunately, there is currently very little being discussed for inclusion that would discourage the sending of broad and vague demand letters. Requiring the FTC to monitor and create a database of patent-infringement demand letters may help alleviate the problem, but the effectiveness of this “demand letter registry” is largely unknown. If the federal government is unable or unwilling to regulate patent trolls, more states will act to protect their citizens and businesses. State action has the potential to create competitive advantages in states willing to act, as Vermont has, to attract innovation businesses.

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