



Stopping Abusive Patent Litigants,

Small businesses are under assault from lawsuit-wielding patent trolls, and Congress is gearing up to stop them. But there are risks in the legislation being proposed. Here's how to stop abusive litigants without undermining innovation or the Federal Rules of Civil Procedure.

BY CHERYL MILONE

Not Innovation

Judicial Tools That Do No Harm

The conventional wisdom in media and government circles today is that non-practicing entities (NPEs)—patent owners that do not make or sell products—are so-called “patent trolls” who are destroying the innovation-promoting benefits of the patent system. This was certainly the White House message on June 4 when it issued executive orders and legislative proposals targeting patent owners who, in the words of President Barack Obama, “don’t actually produce anything themselves.”

Clearly, some NPEs do need to be sanctioned—specifically the species of NPE who manipulate the litigation process with poor-quality patents to extort nuisance settlements from businesses unable or unwilling to pay the cost of standing up to them in court. But many NPEs such as startups, universities, and technology licensing firms in key sectors like next-generation semiconductors, contribute a great deal to the U.S. economy, even if they don’t have the wherewithal to commercialize their own inventions.

That said, there is no denying that abusive patent litigants have become a growing problem for industry and the courts in recent years. These patent-owning entities send demand letters to thousands of businesses each year, even retail businesses such as coffee shops and hotels, claiming the businesses are infringing their patents simply by using a copy machine or offering Wi-Fi access to customers. They demand settlements of a few thousand to a few tens of thousands of dollars or the business will face an infringement suit likely to cost millions of dollars to defend. This despite the fact that few abusive patent

litigants actually intend to go to trial and have their shaky claims adjudicated on the merits.

These suits are known as strike suits—i.e., suits filed to extort nuisance settlements that cost less than litigation—and are actually nothing new in American courts. Every year “ambulance chasers” file similar suits in the personal injury field as well as do abusive litigants in the product liability and shareholder rights arenas. In fact, personal injury and product liability suits probably outnumber patent infringement suits 10 to 1 in any given year.

Frivolous patent suits, however, seem to generate far more public outrage than those in other arenas of law. Perhaps that’s due to the enormous cost burdens of defending against a frivolous patent assertion. It’s also likely caused by the (accurate) perception that these abusive litigants are corrupting a venerated and vital social compact to promote innovation and progress by granting inventors the exclusive right to profit from their inventions for a limited time.

Driven by the tides of such outrage, a flood of legislative and regulatory proposals have inundated Congress and the executive branch of late. At least six bills await House and Senate review, and the White House has issued an equal number of executive orders. The Federal Trade Commission, Department of Justice, and other regulatory bodies have also gotten involved with various antitroll investigations and proposed actions of their own.

Regrettably, most of the measures advocated share three critical flaws that, if adopted, could undermine the innovation benefits of the patent system and even cripple future generations of startups, which are the principal source of new job creation in the United States:

1. They equate all NPEs with patent trolls, thereby targeting for sanction the *identity* and business model of a whole class of startups and NPE technology developers rather than the abusive *behavior* of certain litigants.
2. They fail to address what most experienced practitioners

regard as the biggest problem in the patent system today: the poor quality of many issued patents.

3. They are blunt-edged legislative and regulatory instruments that can often have serious unintended consequences—think of the 10-year collapse of initial public offerings (IPOs) by startups following passage of the Sarbanes-Oxley accounting law aimed at big businesses in 2002—and are likely to prove much less effective than the more targeted judicial tools that already exist for sanctioning abusive litigants.

A Troll Is As a Troll Does

Regarding the first flaw in some proposed measures—equating all NPEs with abusive patent troll litigants—any attempt to curb the patent or litigation rights of startups, universities, and new technology licensors simply because they don't make products in this age of outsourced manufacturing could end up harming the U.S. economy. NPE technology developers like Dolby in sound systems, Tessera Technologies in semiconductor interconnect design, and Rambus in chips and advanced LED lighting help the United States maintain leadership of vital technology sectors.

Author and communications consultant David Kline, who co-authored the seminal book on corporate patent strategy *Rembrandts in the Attic* from Harvard Business Press, shares this view and is currently at work on the first intellectual property textbook and online course for general (nonlaw) college students. In fact, says Kline, nonpracticing entities were actually the secret to America's rapid early industrialization and global economic success.

As he said in an Article One Partners webinar on the evolution of NPEs on June 5, "The American Founding Fathers deliberately and quite consciously created non-practicing entities in order to expand the pool of inventors in our then-backward economy to include ordinary citizens without the wealth or resources to commercialize their own inventions."

The founders had studied the British patent system, where patent fees averaged 11 times the per capita income of the average citizen and patent holders were required to practice their patents. They saw that these high fees and working requirements had restricted innovation activity to a few hundred members of the elite who owned the factories (or the capital) needed to manufacture products. These policies also skewed invention toward incumbent capital-intensive industries rather than the disruptive new industries that often spark great economic advances.

"So the American founders designed three key innovations into the first U.S. patent law in 1790," Kline explained. First, they set patent fees to a level any ordinary citizen could afford—less than 5 percent of the rate in Britain. Second, they decided against imposing working requirements on patentees. And third, as economic historians Naomi R. Lamoreaux of Yale and the late Kenneth L. Sokoloff of UCLA reported, the founders designed the patent law expressly to facilitate the licensing and sale of patent rights, thereby creating the world's first patent licensing industry and market for new technology.¹

The results were dramatic, Kline noted. "Britain at the time had only a few hundred inventors, virtually all of them from the wealthy elites. But in America, invention quickly became a new career path for many thousands of poor but technically creative inventors like Thomas Edison who could earn income by licensing their discoveries." Kline then cited figures showing that the U.S. per capita

patenting rate soared to triple that of the United Kingdom's by the Civil War and quadruple by 1885.² As early as the mid-19th century, America was patenting five times as many inventions as Britain each year, even though our populations were roughly equal in size.

All told, Kline pointed out, an astonishing two-thirds of all the so-called "great inventors" of the 19th century industrial revolution in America, including Thomas Edison, were NPEs who licensed some or all of their patents to others to be commercialized.³

This division of labor between those who specialized in invention and the enterprises that focused on commercialization resulted in exactly what Adam Smith always predicted: superior results in innovation and economic growth, as evidenced by America's rapid and unrivaled economic success and the broad-based prosperity of its citizens.

The benefits of that specialization and division of labor remain visible today, embodied in the thousands of university and startup NPE patents commercialized by firms large and small each year—and by the U.S. positive annual balance of trade in intellectual property licensing.

To be sure, Kline readily acknowledges the emergence of patent trolls in recent years, but he insists that these bad actors should be identified by—and sanctioned for—their extortionist *behavior*, not their *identity* as NPEs.

"Americans especially should remember the dangers of mistaking identity for behavior," Kline argues. "McCarthyism in the 1950s emerged as a response to a genuine threat from Soviet penetration agents. Where it went off the rails was in targeting people's political *identity* as liberals and leftists, rather than the illegal *behavior* of those who spied for a foreign power."

Legislative reforms that conflate these two very different types of nonpracticing entity—those who invent versus those who merely file strike suits—could put U.S. innovation at risk and perhaps even hamstring the next generation of startups.

Nor will they solve the real problem in the U.S. patent system today: the poor quality of many patents. This is the second great flaw of many of the proposed antitroll reforms.

The Real Problem Is Patent Quality

This view may surprise those who have assumed that my crowd-sourced patent research firm Article One Partners helps businesses invalidate NPE patents. In fact, what we really do is help companies invalidate *bad* patents regardless of the identity or business model of their owners, and establish the quality (i.e., prove the novelty and non-obviousness) of good patents. Our 28,000 patent researchers in 160 nations uncover the prior art evidence that firms need to defeat a meritless infringement suit or improve the quality of their own patent portfolios.

Prior art, of course, is the Achilles' heel of any patent because it is valid only if the invention it covers is novel and non-obvious. The better the search for prior art—any previous patent, technical paper, or public knowledge or use of an invention that predates the patent for that invention—the greater the certainty of patent validity or invalidity. The process is therefore meritorious: any patent that can survive a rigorous global prior art search by definition deserves to do so, establishing its legitimacy as a valid patent asset.

To be sure, prior art is not the only factor governing patent quality. Claim construction is also critical, and a number of influential observers of the patent system, like retired Chief Judge Paul R.

Michel of the U.S. Court of Appeals for the Federal Circuit, believe that examiners at the U.S. Patent and Trademark Office (USPTO) need better training in claim construction law.

What we can say for sure about the quality of issued patents is that up to half of all patent claims litigated in court or reexamined by the USPTO during its previous *Inter partes Reexam* process have been ruled invalid. If one includes patents whose claims have been narrowed as well as cancelled entirely during these re-exams—and it is the claims that define the limits of a patent's value and an infringer's liability—then 89 percent of all patents previously reviewed by the USPTO were judged either partly or wholly invalid.⁴

And one of the biggest causes of this patent quality problem is the five-fold increase in patent applications that has taken place over the past 30 years without a corresponding increase in USPTO funding, resources, and capabilities. More U.S. patents have been

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issued since 1980 than were granted during the entire first 190 years of the U.S. patent system.

As a result, overworked patent office examiners have only an hour or two to research the prior art for an application, and their search tools and databases are often limited. This fact alone dictates that there will be a significant number of patents issued that ought not to be, and some applicants take advantage of this to game the system.

“But the problem is not simply prior art, nor even budgets that haven't kept pace with application growth,” argues Judge Michel. “Thirty years ago, the examiner corps was older and far more experienced. Many of them went to law school at night, paid for by the patent office—a program, by the way, that the patent office unwisely dropped a decade ago. And while David Kappos made enormous strides in modernizing the patent office, examiner training is still not what it needs to be. Few examiners, for example, even consider applications in light of Section 112's requirement for claim definiteness, enablement, and that the claims be no broader than the written description. This, just as much as inadequate review of the prior art for novelty and non-obviousness, is responsible for many of the poor-quality patents issued.”

To be sure, many of these poor-quality patents go to NPEs, especially the “patent troll” variety that seek nuisance settlements. But are NPE patents as a whole of any lower quality than operating company patents?

According to one recent study by George Mason University

researcher Shawn Miller, the answer may be yes. Miller found that roughly 28 percent of *all* issued patents may be invalid due to prior art, but that the invalidity rate can rise as high as 61 percent for NPE patents.⁵

Another study by Villanova University School of Law professor Michael Risch, however, suggests the answer is no. Risch found that NPE patent quality was not appreciably lower than that of other litigated patents, although it appears that patent trolls rarely win judgments against defendants who can afford to fight them in court.⁶

One entrepreneur with multiple startups under his belt disputes the claim that startup or NPE patents are of lesser quality—at least the patents of NPEs who invent rather than simply engage in trollish litigation. Just the opposite is true, he says.

“A small company's patents have to be bulletproof and capable of surviving litigation, otherwise no big company will ever take a license,” insists Edward Balassanian, founder of a startup that failed before it could produce a product but that did patent the “pinch, swipe, and zoom” touchscreen interface several years before Apple embraced it on the iPhone. While Balassanian has nothing but praise for Apple and its high-quality innovation, he did note that “some big companies rely on quantity rather than quality—the sheer weight of hundreds or even thousands of patents—to deal with rivals in litigation or in cross-licensing negotiations.”

Indeed, it's clear that the major operating companies must shoulder part of the blame for the patent quality problem in the United States. A mere 100 large companies, after all, own one-third of all U.S. patents—and only 311 companies own half—so by definition, they are going to own a sizable piece of the quality problem.⁷

What's more, it is hardly a secret that many big operating companies perform only a perfunctory prior art search before submitting their patent applications. This is done not only for cost reasons, but also because U.S. law does not strictly require applicants to rigorously search the prior art, only to disclose what they already know. Multiply this minimalist prior art research across thousands of applications per year per firm in some cases, and one can get a sense of the large firm contribution to America's patent quality problem.

In the words of editor Joff Wild of *Intellectual Asset Management* magazine, the leading journal for corporate patent executives, “Many patent quality issues could be solved if you put the head of patents of each of these big companies in a room with USPTO management and kept them there until they came up with a plan to improve the quality of their patent applications.”

Apportioning blame for the patent quality crisis is made all the more difficult by the fact that many operating companies run their own internal NPE units or intellectual property holding companies that buy, sell, and litigate patents never used in their products. Thus, the boundary between “practicing” and “nonpracticing” patent entities has become increasingly blurry.⁸

In any event, only a handful of the various legislative proposals and executive actions even address the patent quality problem. Of the eight major provisions of the bill being drafted by House Judiciary Committee Chairman Bob Goodlatte (R-Va.), only one addresses quality—requiring the USPTO to tighten claim interpretation in their post-issuance post grant review and *inter partes* review proceedings. But even that provision, if implemented, would do nothing to boost patent quality at issuance; it would possibly help only to clean up some of the mess afterward.

As for Sen. Chuck Schumer's (D-N.Y.) bill (S.866), the Patent Quality Improvement Act of 2013, it would expand the post-grant review of financial business methods patents to additional classes of business method patents, and suffers from the same "closing the barn door after the horse has bolted" limitations as the Goodlatte bill.

Meanwhile, only one of President Obama's five June 4 executive orders addresses patent quality. It requires the USPTO to expand the training of examiners in detecting and rejecting overbroad functional claims in patent applications.

Strangely, not one of these measures calls for full funding of the patent office. So how is the USPTO's overworked examiner corps supposed to cope with the aforementioned five-fold increase in patent applications, more than a million of which are still backlogged awaiting final review? Congress can complain all it wants about poor-quality patents, but until it stops diverting patent office user fees to other general treasury uses, progress is unlikely to be made.

This point was highlighted rather strongly in an editorial in *Bloomberg Business Week* on June 11. Calling the White House measures "piecemeal changes," the editors insisted that "the quickest path to a more efficient patent system is to modernize the patent office itself."

Surprisingly, neither do any of the proposed measures address the responsibility of applicants themselves to improve patent quality. This is so blatant an omission that the same *Bloomberg* editorial urged "Congress [to] switch the burden of proof so that applicants instead of examiners must search so-called prior art to see if a patent has already been awarded."

In sum, the measures as a whole fail to address the systemic problem of patent quality in the United States. But their greatest flaw may be that they risk fundamentally altering a patent and legal system that for two centuries has been central to U.S. success, despite the fact that far less risky and arguably more effective judicial measures already exist to sanction abusive litigants.

There Goes the "American Rule"

The Saving High-Tech Innovators from Egregious Legal Disputes (SHIELD) Act now proposed in Congress, for example, would create a "loser pays" patent litigation system, along the lines of the old British colonial system—but only for one class of litigants (i.e., certain NPEs). However, the esteemed professor Arthur R. Miller of the New York University School of Law strongly opposed this at a House Judiciary Committee hearing on abusive patent litigation last March 14.⁹

Testified Professor Miller: "The Federal Rules of Civil Procedure are intended to support a central principle: the procedural system of the federal courts should be premised on equality of treatment of all parties and claims in the civil adjudication process. The simple but ambitious notion was that the legal rights of citizens should be enforced by neutral courts, without advantaging one class of litigants over another. This idea was a baseline democratic tenet of the 1930s and then of postwar America with regard to such matters as civil rights, the distribution of social and political power, marketplace status, and equality of opportunity."

But in addition to abandoning the principle of equality of treatment in the courts, the SHIELD Act would also reject for the first time in our history a fundamental pillar of American democratic jurisprudence—known, not incidentally, as the "American Rule" —

which is that all citizens have a right to have their claims adjudicated on their merits, not on their ability to pay.

"The American Rule," Miller noted, "reflects the Founders' rejection of the British 'loser pays' system. [Yet] one of the most unusual aspects of the SHIELD Act is that it is designed to discourage a broad category of patent holders from pursuing litigation by significantly increasing the risk they bear. More importantly, the Act has only a one-way provision—not every 'loser' pays under the bill; only the patent owner pays."

In summing up his testimony, Professor Miller observed that the legislation would "disadvantage an entire class of litigants based on their *identity* in order to address a familiar problem better managed on a case by case basis."

And in point of fact, abusive litigation is a problem familiar to judges. As Chief Judge Randall R. Radar of the U.S. Court of Appeals for the Federal Circuit noted in a *New York Times* editorial on the same day the White House issued its executive orders, judges are hardly lacking in the tools needed to sanction and reduce these kinds of strike suits.

"Lost in the debate," Chief Judge Radar wrote, "is that judges already have the authority to curtail these practices: they can make trolls pay for abusive litigation." Specifically, he said, "Section 285 of the Patent Act, as well as Rule 11 of the Federal Rules of Civil Procedure, give judges the authority they need to shift the cost burden of litigation abuse from the defendant to the troll. But remarkably, judges don't do so very often: by our count, fees were shifted under Section 285 in only 20 out of nearly 3,000 patent cases filed in 2011."

Two weeks later, however, District Judge Lucy Koh of the U.S. Federal District Court for the Northern District of California took issue with that argument during a panel discussion with Chief Judge Radar. According to *Law.com*, Judge Koh pointed out that attor-

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neys' fees can only be awarded in "exceptional cases," which is, she noted, "a really high bar."

As Gene Quinn, a patent attorney and author of the widely read *IP Watchdog* blog, noted: "Judge Koh [is] right to recognize that attorneys' fees are rarely awarded pursuant to 35 USC 285, [but] Chief Judge Radar is equally right to recognize that it doesn't have to be that way."

Doesn't it? One highly regarded veteran patent litigator who asked to remain anonymous puts it this way: "It is not easy for a district court judge to stop what trolls rely upon—namely, the use of litigation expense and leverage to extract settlements. The only way the district court can try to do that is to reach the merits of the claims ASAP and then award attorney's fees if the case is meritless. But even that takes time and a significant expense—often more

than it would cost to settle, with no assurance of the outcome. Trial court judges do have a great deal of discretion and power, but they cannot rule on the merits without some basis for it, and that takes money from the defendant(s) to accomplish.”

But retired Federal Circuit Chief Judge Michel counters that “Judges most certainly can limit the broad scope of discovery until after an ASAP claim construction hearing. This is especially true where defendants can introduce evidence of abuse, such as demand letters from asserters seeking less than the cost of litigation, when requesting a fast-track to a claim construction hearing. Then the merits can be determined by the judge.”

The veteran litigator conceded that “Yes, the possibility does exist for an early claim construction hearing, but it is more possibility than reality. Very few judges want that. They would rather see the cases end with a settlement, even if coerced by the systemic costs, than to have to actually make a hard decision based on limited information in cases that scare them anyway because of the technological complexities and a Federal Circuit seen by some as quick to reverse them.”

For his part, Judge Michel doesn’t disagree entirely with the litigator’s point of view. “I think he is partly right and partly wrong,” says Judge Michel. “What I mean is, the situation varies from district to district, and even from judge to judge within a district. But that said, his view is a fair reading of how things have *usually* been until recently. This helps to explain why we’ve seen such little use of Rule 11, Section 285, or early claims construction hearings.”

But Judge Michel is convinced that the mood of district judges, and of the Federal Circuit itself, is changing—and changing very rapidly.

“Since 2011, judges from 14 districts—that’s 15 percent of all the districts—have joined the Patent Pilot Program,¹⁰ which provides education, training, and support for judges who want to specialize in patent cases,” Judge Michel explains. “We put on a seminar co-sponsored by the Federal Judicial Center and the University of Akron School of Law in Charleston on April 23–24, and 31 judges volunteered to come listen to presentations from 12 senior litigators about how to better manage patent infringement trials and deal more effectively with abusive litigants.

“Now bear in mind,” adds Judge Michel, “that 88 judges signed up to attend, but we only had funding for 31 judges. So that tells you something about the interest among judges in finding better ways of dealing with the troll problem. And I have to say, it seemed to me that most of the judges in attendance were extremely receptive to greater use of Rule 11 and Section 285, as well as to limiting discovery and getting to an early claims construction hearing where frivolous claims can be identified and sanctions imposed where they are appropriate.”

What’s more, he adds, “judges know that even settleable cases can’t settle until after claim construction has set the parameters of protection and clarified the respective risks of proving infringement versus suffering invalidation. Smart judges know that and see Markman hearings [on claim construction] as a modest investment of court time that will improve the odds that the case will never need to be tried—or that bad actors are sanctioned. The key here is to isolate the single most dispositive issue in any patent case—whether it’s claim construction or validity—and move as quickly as possible to resolve it on the merits.”

As for the Federal Circuit’s propensity to reverse district judges

on claim construction, “It’s reversing much less often now,” Judge Michel insists. “And it will likely soon change its standard of review of claim construction rulings to increase the deference to the trial judge’s ruling. District judges have long suggested this, and I believe it’s going to happen.”

How effective will these measures be? It’s difficult to tell at this point, given that in some busy metropolitan districts a judge may be swamped with 600 to 900 cases on his or her docket and in the midst of writing four or five summary judgments while dealing with 40-plus cases in their early stages at any one time. So how easy will it be for judges to find the time to study the case enough to use these tools to quickly and cost-effectively ruled against on the merits?

Probably not as often as we’d all like—at least not until Congress breaks through its paralyzing gridlock and fills the more than 80 federal judgeships that remain vacant.

Even with these constraints, however, the judicial measures outlined above could have a potent effect. They may not stop all patent troll activity. But if even the 15 percent of judicial districts participating in the Patent Pilot Program see a meaningful uptick in the number of abusive litigants sanctioned (or at least quickly and cost-effectively ruled against on the merits), then it will likely make strike suits a far less rewarding, and much riskier, business for patent trolls.

Plus it has the great “do no harm” virtue of not tampering, perhaps dangerously, with the fundamental pillars of the patent system and the democratic rule of law in the United States.

Getting Some Perspective on the Issues

One of the problems with today’s debate over patent trolls is that all too often it is driven by anecdote rather than by fact and careful analysis and also evinces a troubling lack of historical perspective. Critics of the patent system, for example, claim that the United States is undergoing an “unprecedented surge” of “runaway” patent litigation, but in fact the rate today is actually less than half of what it was in the golden age of American innovation during the 19th century industrial revolution. Back then, the patent litigation rate reached 3.6 percent—and averaged 1.65 percent—whereas today’s litigation rate is only 1.57 percent.¹¹

Critics also point to the plethora of smartphone patent suits and argue that this fact alone suggests that something is terribly wrong with the patent system. But even a cursory look at history shows that the most competitive new technologies have always been the most litigious. In Thomas Edison’s time, the inventors of electrical discoveries were four times more likely than other inventors to be involved in patent litigation, and they accounted for an astonishing 41 percent of all patent suits filed during that period.¹² Today’s smartphone suits, on the other hand, probably account for only 1 or 2 percent of all patent suits filed in recent years.

The truth is that the existence of patent wars actually shows that the system is functioning properly to settle the disputed validity and ownership of patent rights to new technologies so that these can be commercialized into new products, new services, and new medical treatments. Most every major industrial breakthrough of the past 150 years—from the invention of the sewing machine, telephone, automobile, radio, aircraft, medical stent, and even the disposable diaper to the development of semiconductors and Internet e-commerce—witnessed exactly the same surge in patenting and patent

litigation that we see in today's smartphone arena.¹³

So let's cool down some of the heated rhetoric over the patent wars and focus instead on what really matters: sanctioning abusive litigants and improving the quality of U.S. patents.

Raise the Standard of Care in Prior Art Searching

Several recent developments have now begun to put pressure on patent applicants to raise their standard of care in prior art searching. One of these is the America Invents Act (AIA) of 2011, a number of new provisions of which went into effect on March 16 of this year. Besides allowing new kinds of prior art to be used in determining patentability—these include unpublished patent applications, foreign patents, and inventions publicly disclosed in any language anywhere in the world—the AIA also created new ways to use that art to block the issuance of a patent or invalidate one after it is granted. These include a new post-grant review program for financial business methods patents and a beefed up *inter partes* review.

What's more, new AIA estoppel rules will prevent any grounds for invalidity that were "raised or reasonably could have been raised" in an *inter partes* review from later being used to challenge the validity of that patent in federal court or before the International Trade Commission (ITC)—the latter an increasingly important venue for patent infringement action. This means that a party challenging a patent had better get the best prior art evidence of invalidity their first time at bat because it may not get a second chance.

Also likely to increase corporate interest in boosting patent quality are high-profile cases where a diligent prior art search has meant the difference between a multimillion-dollar patent judgment and a no-cost settlement. When Dutch electronics giant Philips was threatened with a patent lawsuit last year, for example, its Intellectual Property Chief Ruud Peters told *Business Week*, "Because of [the prior art], we could completely eradicate the assertion against us."¹⁴

But the most famous argument for improved patent quality was offered by BlackBerry maker Research in Motion (RIM), which paid \$612 million to patent holder NTP in 2006 to settle an infringement case. But would RIM have paid this fortune had it known that three years later the USPTO would invalidate most of NTP's patent claims after the discovery of prior art—a research paper in a university library in Norway—that predated the patents?¹⁵

And finally, in today's knowledge economy, good patents are often vital to a company's success—a fact that makes *pro forma* prior art searching an increasingly risky proposition. This is illustrated by the malpractice suit filed last March by tax software developer PTP Oneclick against patent law firm Katten Muchin Rosenman in Illinois court. According to the publication *Law360*, the software developer claimed the law firm botched a patent prior art search and failed to discover the existence of competing software with similar functionality. This led to the patent office's denial of PTP Oneclick's application for a patent on its software.

"A reasonably well-qualified attorney would have known that the failure to properly perform the [prior art] novelty search could result in the patent application being rejected," the complaint said. Based on the law firm's assurances that it had diligently researched the prior art, the software company said it had wasted \$5 million readying the new product for launch.

Another prior art malpractice case was *Magnetek v. Kirkland and Ellis LLP*, where an appellate court reversed a lower court

decision dismissing a malpractice suit against a law firm that the plaintiff claimed had "deviated from the applicable standard of care by failing to investigate and discover the prior art and misconduct which had not been disclosed" by a patent holder who had sued the plaintiff for infringement. The case was settled last year.

Although it is difficult to generalize from these two cases, they do spotlight the explosive rise of patent malpractice actions in the United States. *Law.com* reported on Jan. 23, 2013, that, "As the volume of patent litigation has increased over the last decade, so has the incidence of patent malpractice suits. According to the

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American Bar Association, patent malpractice suits have risen steadily from 685 in 2007 to 873 in 2011, an increase of more than 30 percent."

Since 2004, the increase in patent malpractice cases has been a whopping 66 percent!

The U.S. Supreme Court decision in *Gunn v. Minton* allowing patent malpractice suits to be heard in U.S. state courts may only add to those pressures by opening new venues for action.

For our part, Article One Partners (AOP) is undertaking several new initiatives to help clients improve the quality of their patents. We have expanded our work with corporate clients beyond our original litigation-focused patent research into new services such as vetting patents for licensing campaigns, mergers and acquisitions, and assisting in the patent prosecution process.

We are also working closely with the newly formed Intellectual Property Exchange International (IPXI), the world's first financial exchange that facilitates non-exclusive licensing and trading of intellectual property rights with market-based pricing and standardized terms. By performing quality assessments of patents and patent portfolios submitted to IPXI, AOP's global community of researchers helps IPXI ensure the quality and value of its offerings.

In addition, our new lower-cost *FlashSource* and *ExpertSource* services enable small businesses to gain access to the collective wisdom of AOP's global patent research community. Small businesses are now the target of more than half of all patent troll assertions, and we anticipate that these services will enable more of them to invalidate the poor-quality patents asserted against them instead of having to settle for less than the cost of litigation.

We are also expanding prior art training programs for Iraq and Afghanistan war veterans so that they can become part of a global community of patent researchers employed to prove the validity or invalidity of patents.

Finally, we are embarking on an ambitious effort to data mine

the many hundreds of prior art studies we have done for clients over the years to create a predictive system and method that patent examiners can use to group incoming patent applications according to their likely quality. The indices employed in our algorithms will include not only some of the well-understood attributes of quality in an application such as the technology class, number of claims, and claim elements, but also indices we have determined from our own considerable experience to be predictive of likely quality. These include the number of prior art references found, the percentage of them that are nonpatent and non-English, the number of backward citations to the subject application, and the velocity of the prior art search itself.

The results of our patent-pending method and system for predicting the likely quality of a patent application can then be flagged so that the USPTO can speed higher-quality applications for review and devote more concentrated attention to applications that both experience and our own algorithms suggest will likely be of lower quality. Our hope and belief is that this system will encourage applicants to compete among themselves to enhance the quality metrics in their own applications, rather than default to the perfunctory approach we so often see today.

To be sure, as I noted earlier, prior art is not the only factor in patent quality. If all those now decrying the decline in patent quality really mean what they say, then they will support full funding for the patent office at the level appropriate for America's premiere innovation agency, and they will urge Congress to stop diverting applicant user fees for its own uses. This will enable the USPTO to hire more examiners, give them the modern search tools they need, and train them better in the nuances of claim construction and prior art case law.

Good patents deserve legal protection because they promote innovation and create economic value. Bad patents, on the other hand, undermine the innovation benefits of the system and increase its social costs, regardless of the identity or business model of those who own them.

That's why legislative and regulatory proposals that target legitimate NPEs along with the patent trolls may only harm U.S. innovation in the end and may even hamstring the next generation of startups. They will certainly do little or nothing to improve the quality of issued patents in the United States.

A far better approach is for judges to wisely employ the tools they already have to rein in abusive litigants and make gaming the patent system a risky and unprofitable venture. At the same time, all patent applicants—large and small, practicing and nonpracticing alike—should take concrete steps to improve the quality of their own patents.

With the cost of patent litigation and the size of patent verdicts skyrocketing—not to mention the fact that patents and other intellectual assets now account for an astonishing 80 percent of public company market values—it is clearly in everyone's best interest (including the public's) that they do so.¹⁶ ©

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nized as the 2009 Startup of the Year by Business Insider magazine. And in 2010, Milone was chosen as one of America's 50 most innovative CEOs to join President Obama in the White House Forum on Modernizing Government. She is also an inventor and patent holder.



Endnotes

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¹⁰For more on the Patent Pilot Program, see www.uscourts.gov/news/newsview/11-06-07/District_Courts_Selected_for_Patent_Pilot_Program.aspx.

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