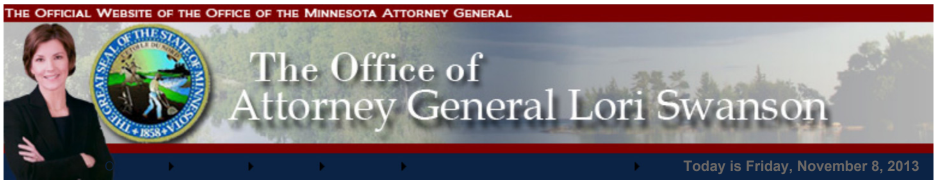

More about
Attorney General
Lori Swanson

Consumer Links

- AG Home
- Advice To Businesses
- Advice To Students
- Car Shop
- Conciliation Court
- Consumer Advice
- Fraud
- Health
- Housing
- Privacy and Identity
- Theft
- Senior Center
- Utilities and Telephone
- Veteran and Service Members (PDF)

Minnesota Attorney General's Office

1400 Bremer Tower
445 Minnesota Street
St. Paul, MN 55101

(651) 296-3353
(800) 657-3787

M - F 8 am - 5 pm

TTY:(651) 297-7206
TTY:(800) 366-4812

Press Release Tuesday, August 20, 2013

ATTORNEY GENERAL LORI SWANSON ANNOUNCES FIRST-IN-THE-NATION ORDER TO STOP DELAWARE COMPANY FROM "PATENT TROLLING" IN MINNESOTA

Minnesota Attorney General Lori Swanson today announced that MPHJ Technology Investments, LLC, which targeted thousands of businesses for using basic office equipment to scan documents to e-mail, will cease "patent trolling" in the State of Minnesota under a settlement with the company.

Under the Assurance of Discontinuance, which is believed to be the first settlement of its kind in the nation between an Attorney General and patent troll, MPHJ Technology must cease its patent enforcement campaign in the State of Minnesota and cannot resume such business activities in Minnesota without the permission of the Attorney General. The settlement also prevents MPHJ Technology from assigning its patents to anyone who does not agree to be bound by these terms.

"Patent trolls shake down small businesses to pay 'license fees' they may not owe to avoid threats of costly litigation," said Attorney General Swanson.

The Attorney General's Office began to investigate MPHJ Technology for violations of state consumer protection laws last spring, after receiving complaints from several Minnesota small businesses that were targeted by the company. MPHJ Technology, through its affiliates and law firm, sent a series of increasingly threatening letters to small businesses that alleged infringement of its patents for using basic office equipment to scan documents to e-mail. The letters pressed businesses to pay a fee of $1,000 to $1,200 per employee for a license in order to avoid litigation. Many of the letters promised litigation -- and some even included a draft lawsuit to be filed in federal court -- if the business did not respond or purchase a license.

Patent trolling is a growing problem and was the topic of a Presidential news conference on June 7, 2013. (See attached). Patent trolls purport to buy patents without intending to develop or make a product and often buy patents of dubious value. Patent trolls then target small businesses with aggressive threats of litigation, often creating shell companies that make it difficult for the business to even know who is threatening to sue them. While patent trolls take many forms, the most egregious target small businesses that lack the resources to defend themselves against bogus infringement claims. It can cost hundreds of thousands of dollars to defend a patent infringement claim in court. In light of these costs, some businesses may choose to purchase a license rather than risk potentially unaffordable litigation, even when they did not infringe on a patent. Some patent trolls do little or no research to determine whether the alleged infringer actually infringes its patents before making demands, which means some businesses may end up paying for a license even though they don't infringe on a patent. One study from Boston University estimated the cost of patent trolling in 2011 at $29 billion.

"While this settlement and court order may affect one patent troller, the practice of 'patent trolling' will continue until Congress enacts laws to prohibit such activity," said Attorney General Swanson.

MPHJ and its attorneys are currently involved in enforcement actions brought by the States of Vermont and Nebraska. (See attached). Minnesota is believed to be the first State where a "patent troller" has agreed to stop targeting businesses in the State. Attorney General Swanson noted that the company ceased activity in Minnesota when she initiated the investigation this past Spring and that MPHJ warranted that no Minnesota companies had yet paid it any licensing fees as part of its Minnesota "trolling" campaign.

People may report complaints against patent trolls to the Minnesota Attorney General's Office by calling (651) 296-3353 or (800) 657-3787. Individuals may also download a Complaint Form by clicking here, and mail the completed for to the Attorney General's Office at: 1400 Bremer Tower, 445 Minnesota Street, St. Paul, MN 55101-2131.

-30-

STATE OF NEBRASKA

Office of the Attorney General

2115 STATE CAPITOL BUILDING
LINCOLN, NE 68509-8920
(402) 471-2682
TDD (402) 471-2682
FAX (402) 471-3297 or (402) 471-4725

JON BRUNING
ATTORNEY GENERAL

DAVID D. COOKSON
CHIEF DEPUTY ATTORNEY GENERAL

July 18, 2013

<u>VIA CERTIFIED UNITED STATES MAIL</u>

Farney Daniels LLP
Attn: M. Brett Johnson, Partner
800 South Austin Avenue, Suite 200
Georgetown, TX 78626-5845

Re: **Possible Unfair/Deceptive Patent Enforcement Efforts Within the State of Nebraska**

Dear Mr. Johnson:

It has come to the attention of this office that your firm has issued demand letters upon several entities based in or with a substantial presence in the State of Nebraska alleging the infringement of certain patents. It is our further understanding your firm or the entities on whose behalf your firm has made such allegations are non-practicing entities with regard to the vast majority of the patents in question, and that several of your infringement assertions are unsubstantiated and contain false, misleading, or deceptive statements. If the latter is true, it could constitute a violation of the Nebraska Consumer Protection Act, NEB. REV. STAT. § 59-1601 *et seq.* (Reissue 2010, Supp. 2012), and the Uniform Deceptive Trade Practices Act, NEB. REV. STAT. § 87-301 *et seq.* (Reissue 2008, Supp. 2010).

The protection of Nebraska consumers and businesses from baseless harassment, particularly that which bears the potential for costly and destructive litigation, is a top priority of this office. We view as especially egregious threats which serve to advance no valid legal purpose or the legitimate protection of productive intellectual property but, rather, seek only to extract quick settlements from those otherwise committed to building their businesses and providing positive value to society. We will use every means at our disposal to prevent such conduct and deter its future occurrence.

It is notable that this is not the first time your firm or an entity on whose behalf your firm ostensibly represents has been the subject of an investigation by this office. Accordingly, we are concerned that Farney Daniels has exhibited a pattern and practice within Nebraska of deceptively alleging patent infringement and subsequent litigation.

Unfair or deceptive acts or practices in the conduct of any trade or commerce are unlawful. *See* NEB. REV. STAT. § 59-1602 and NEB. REV. STAT. §§ 87-302 and 87-303.01.

Violations of §§ 59-1602, 87-302, or 87-303.01 can subject an offender to civil penalties of up to $2,000 (two thousand dollars) *per violation. See* §§ 59-1614 and 87-303.11. The Office of the Attorney General is empowered to bring an action in the name of the state to restrain and prevent violations of the Consumer Protection Act and the Uniform Deceptive Trade Practices Act. *See* §§ 59-1608 and 87-303.05.

This office is currently investigating whether your firm's activities within the State of Nebraska constituted violations of NEB. REV. STAT. §§ 59-1602, 87-302, and 87-303.01. Pursuant to §§ 59-1611 and 87-303.03, we hereby demand that you respond to the Civil Investigative Demand enclosed herein by **August 19, 2013.**

The possible violations specified in this letter are serious and require your immediate and unconditional cooperation. Given the significant ramifications posed to Nebraska consumers and businesses by your potentially unlawful conduct, **I hereby demand that you immediately cease and desist the initiation of any and all new patent infringement enforcement efforts within the State of Nebraska pending the outcome of this office's investigation pursuant to § 87-303.03(1)(b).**

Sincerely,

JON BRUNING
Attorney General of Nebraska

David D. Cookson
Chief Deputy Attorney General

Enclosure

IN THE MATTER OF: FARNEY DANIELS LLP or FARNEY DANIELS PC, Respondent.	CIVIL INVESTIGATIVE DEMAND

DIRECTED TO: Farney Daniels LLP
Attn: M. Brett Johnson, Partner
800 South Austin Avenue, Suite 200
Georgetown, TX 78626-5845

PLEASE TAKE NOTICE: The Attorney General of the State of Nebraska ("Attorney General") has initiated an investigation into the business practices conducted by Farney Daniels LLP or Farney Daniels PC ("Respondent"). The Attorney General's investigation is being conducted pursuant to the Consumer Protection Act, NEB. REV. STAT. § 59-1601 *et seq.* (Reissue 2010, Supp. 2012) and the Uniform Deceptive Trade Practices Act, NEB. REV. STAT. § 87-301 *et seq.* (Reissue 2008, Supp. 2012).

NOW, THEREFORE, the Attorney General requires and demands that Respondent produce the information and documentary material requested in Exhibit A below, subject to the Definitions set forth in Exhibit B below, pursuant to the authority granted in NEB. REV. STAT. §§ 59-1611 and 87-303.03. The Attorney General further requires that Respondent mail or deliver the responsive material no later than **August 19, 2013** to the Office of the Attorney General, Attn: David A. Lopez, Assistant Attorney General, 2115 State Capitol, Lincoln, Nebraska 68509-8920.

This Civil Investigative Demand is relevant to the investigation of unfair or deceptive acts or practices in the conduct of patent infringement enforcement by Respondent within the State of Nebraska and for possible violations of NEB. REV. STAT. §§ 59-1602, 87-302, and 87-303.01. Failure to respond to this Civil Investigative Demand may subject you to sanctions as set forth in NEB. REV. STAT. §§ 59-1611 and 87-304.

ISSUED THIS 18th day of July, 2013.

By: JON BRUNING, NE #20351
Attorney General of Nebraska

By: ______________________
David A. Lopez, NE #24947
Assistant Attorney General
2115 State Capitol
Lincoln, Nebraska 68509-8920
Phone: (402) 471-2682
Dave.Lopez@nebraska.gov

EXHIBIT A

DEMAND FOR INFORMATION FOR THE RELEVANT TIME PERIOD

1. A listing of every patent, identified by its United States Patent Number or Application Number, for which your firm has ever asserted or alleged infringement against any individual or entity within the State of Nebraska either on your firm's behalf or on behalf of any client, including all such assertions or allegations conveyed in written or verbal form to a person or entity within the State of Nebraska since January 1, 2010.

2. A listing of every client, identified by name, on whose behalf your firm has ever made an assertion or allegation as described in Request #1 within the State of Nebraska since January 1, 2010.

3. A listing of every individual or entity within the State of Nebraska against whom you have ever asserted or alleged patent infringement and the nature of such assertions or allegations either on your firm's behalf or on behalf of any other entity since January 1, 2010.

4. Copies of any and all written (paper or electronic) communications which comprise Request #1 of Exhibit A.

5. All records, reports, memoranda, papers, communications, tabulations, maps, charts, photographs, mechanical transcriptions, or other tangible documents of recordings which support the basis of any assertion or allegation of patent infringement as described in Request #1 of Exhibit A.

EXHIBIT B

DEFINITIONS

The RELEVANT TIME PERIOD for which documents and information are requested is January 1, 2010 through the present, unless otherwise specified.

As used here, RESPONDENT, YOU, and YOUR refer to Farney Daniels PC or Farney Daniels LLP, its owners, partners, associates, affiliates, subsidiaries, directors, officers, agents, contractors, employees, and volunteers.

The terms RELATES and RELATES TO mean to be relevant in any way to the subject matter in question including, without limitation, all information that directly or indirectly contains, records, reflects, summarized, evaluates, refers to, indicates, comments upon, or discusses the subject matter. The terms also include documents or information that states the background of, was the basis for, records, evaluates, comments upon, or was referred to, relied upon, utilized, generated, transmitted, or received in arriving at any conclusion, opinion, estimate, position, decision, belief, or assertion concerning the subject matter.

The term IDENTIFY, when used with respect to a person or entity, means information sufficient to ascertain the name, address, telephone number, and, if not a natural person, the contact person of the entity or facility to be identified, as well as the relationship of that person or entity to you. The term IDENTIFY, when used with respect to a fact or event, means information sufficient to ascertain the fact or event with reasonable particularity, and to identify each person believed to have knowledge of the fact or event and each document that relates to the fact or event.

The terms ENTITY and ENTITIES includes natural persons, corporations, firms, associations, partnerships, joint ventures, any form of business entity, and governmental agencies, departments, units, or subdivisions thereof.

The terms EMPLOY, EMPLOYED, VOLUNTEER(S), and EMPLOYEE(S) relate to any and all individuals whom you control or direct the means and methods of accomplishing the result of the individual's work, regardless of whether or not the individual is employed full-time or part-time, is paid a salary or on commission, is unpaid or is called an employee, agent, or independent contractor, staff or volunteer.

CERTIFICATE OF SERVICE

The undersigned certifies that on the 18th day of July, 2013, the foregoing Civil Investigative Demand, including Exhibits A and B, was mailed by certified United States mail, postage prepaid and return receipt requested, to the following address:

Farney Daniels LLP
Attn: M. Brett Johnson, Partner
800 South Austin Avenue, Suite 200
Georgetown, TX 78626-5845

David A. Lopez

No. 44. An act relating to amending consumer protection provisions for propane refunds, unsolicited demands for payment, bad faith assertions of patent infringement and failure to comply with civil investigations.

(H.299)

It is hereby enacted by the General Assembly of the State of Vermont:

Sec. 1. 9 V.S.A. § 2461b is amended to read:

§ 2461b. REGULATION OF PROPANE

* * *

(e) When terminating service to a consumer, a seller shall comply with the following requirements.

* * *

(2) <u>Subject to subdivision (h)(5) of this section:</u>

(A) Within 20 days of the date when the seller disconnects propane service or is notified by the consumer in writing that service has been disconnected, whichever is earlier, the seller shall refund to the consumer the amount paid by the consumer for any propane remaining in the storage tank, less any payments due the seller from the consumer.

(B) If the quantity of propane remaining in the storage tank cannot be determined with certainty, the seller shall, within the 20 days described in subdivision (2)(A) of this subsection, refund to the consumer the amount paid by the consumer for 80 percent of the seller's best reasonable estimate of the quantity of propane remaining in the tank, less any payments due from the consumer. The seller shall refund the remainder of the amount due as soon as the quantity of propane left in the tank can be determined with certainty, but no later than 14 days after the removal of the tank or restocking of the tank at the time of reconnection.

* * *

(4) If the seller fails to mail or deliver a refund to the consumer in accordance with this subsection, the seller shall within one business day make a penalty payment to the consumer, in addition to the refund, of:

(A) $250.00 on the first day after the refund was due~~,~~; and

(B) $75.00 per day for each day thereafter until the refund and penalty payment have been mailed or delivered, provided that the total amount that accrues under this subdivision (B) shall not exceed 10 times the amount of the refund.

* * *

(h)(1) A seller who has a duty to remove a propane storage tank from a consumer’s premises shall remove the tank within 20 days or, in the case of an underground storage tank, within 30 days of the earliest of the following dates:

(A) the date on which the consumer requests termination of service;

(B) the date the seller disconnects propane service; or

(C) the date on which the seller is notified by the consumer in writing that service has been disconnected.

(2) Notwithstanding the provisions of subdivision (1) of this subsection, if a consumer requests that a tank be removed on a specific day, the seller shall

remove the tank no more than 10 days after the date requested, or within the period required by subdivision (1) of this subsection, whichever is later.

(3) A seller who fails to remove a propane storage tank in accordance with this subsection shall make a penalty payment to the consumer of:

(A) $250.00 on the first day after the tank should have been removed; and

(B) $75.00 per day for each day thereafter until the tank has been removed and the penalty payments have been mailed or delivered, provided that the total amount that accrues under this subdivision (B) shall not exceed $2,000.00.

(4)(A) Notwithstanding subdivision (3) of this subsection, no penalty shall be due for the time a seller is unable to remove a tank due to weather or other conditions not caused by the seller that bar access to the tank, if the seller provides within five days of the latest date the tank was otherwise required to be removed:

(i) a written explanation for the delay;

(ii) what reasonable steps the consumer must take to provide access to the tank; and

(iii) a telephone number, a mailing address, and an e-mail address the consumer can use to notify the seller that the steps have been taken.

(B) The seller shall have 20 days from the date he or she receives the notice from the consumer required in subdivision (4)(A)(iii) of this subsection to remove the tank.

(5) A consumer who prevents access to a propane storage tank, such that a seller is unable to timely remove the tank from the property or determine the amount of propane remaining in the tank in compliance with this section, shall not be entitled to a refund for propane remaining in the storage tank pursuant to subsection (e) of this section until the consumer takes the reasonable steps identified by the seller that are necessary to allow access to the tank and provides notice to the seller that he or she has taken those steps, in compliance with the process established in subdivision (4) of this subsection.

Sec. 2. IMPLEMENTATION

The penalties created in 9 V.S.A. § 2461b(h)(3) shall not accrue prior to July 20, 2013.

Sec. 3. 9 V.S.A. § 2461e is amended to read:

§ 2461e. REQUIREMENTS FOR GUARANTEED PRICE PLANS AND PREPAID CONTRACTS

(a)(1) Contract and solicitation requirements. A contract for the retail sale of home heating oil, kerosene, or liquefied petroleum gas that offers a guaranteed price plan, including a fixed price contract, a prepaid contract, a cost-plus contract, and any other similar terms, shall be in writing, and the terms and conditions of such price plans shall be disclosed. Such disclosure shall be in plain language and shall immediately follow the language concerning the price or service that could be affected and shall be printed in no less than 12-point boldface type of uniform font. A solicitation for the retail sale of home heating oil or liquefied petroleum gas that offers a guaranteed price plan that could become a contract upon a response from a consumer, including a fixed price contract, a prepaid contract, a cost-plus contract, and any other similar terms, shall be in writing, and the terms and conditions of such offer shall be disclosed in plain language.

* * *

Sec. 4. 9 V.S.A. chapter 135 is amended to read:

CHAPTER 135. UNSOLICITED MERCHANDISE; SOLICITATION IN THE GUISE OF A BILL, INVOICE, OR STATEMENT OF ACCOUNT

* * *

§ 4402. SOLICITATION IN THE GUISE OF A BILL, INVOICE, OR STATEMENT OF ACCOUNT

(a) In this section:

(1)(A) “Solicitation” means a document that reasonably could be considered a bill, invoice, or statement of account due, but is in fact an offer to sell goods or services to a consumer that were not requested by the consumer.

(B) “Solicitation” does not include an offer to renew an existing agreement for the purchase of goods or services, provided that the offer specifies the date on which the existing agreement expires.

(2) For purposes of subdivision (1)(A) of this subsection, factors to determine whether a document "reasonably could be considered to be a bill, invoice, or statement of account due" may include:

(A) The document is described as a "bill," "invoice," "statement," "final notice," or similar title.

(B) The document uses the term "remit" or "pay" with respect to a dollar amount, or similar wording.

(C) The document purports to impose a kind of late fee or similar penalty for nonpayment.

(D) The document refers to a dollar figure as an "amount due," "amount owing," or similar wording.

(b) It is an unfair and deceptive act and practice in commerce in violation of section 2453 of this title for a person to send to a consumer through any medium a solicitation in violation of the requirements of this section.

(c)(1) A solicitation shall bear on its face the following disclaimer in conspicuous boldface capital letters of a color prominently contrasting with the background against which it appears, including all other print on the face of the solicitation, and that are at least as large, bold, and conspicuous as any other print on the face of the solicitation but not smaller than 30-point type: "THIS IS NOT A BILL. THIS IS A SOLICITATION FOR THE SALE OF GOODS OR SERVICES. YOU ARE UNDER NO OBLIGATION TO PAY THE AMOUNT STATED UNLESS YOU ACCEPT THIS OFFER."

(2) For purposes of subdivision (1) of this subsection, "color prominently contrasting" excludes any color, or any intensity of an otherwise included color, that does not permit legible reproduction by ordinary office photocopying equipment used under normal operating conditions and which is not at least as vivid as any other color on the face of the solicitation.

(d)(1) The disclaimer required in subsection (c) of this section shall be displayed conspicuously apart from other print on the page immediately below each portion of the solicitation that reasonably could be construed to specify a monetary amount due and payable by the recipient.

(2) The disclaimer required in subsection (c) of this section shall not be preceded, followed, or surrounded by words, symbols, or other matter that reduces its conspicuousness or that introduces or modifies the required text, such as "Legal Notice Required By Law" or similar wording.

(3) The disclaimer required in subsection (c) of this section shall not, by folding or any other means, be made unintelligible or less prominent than any other information on the face of the solicitation.

(4) If a solicitation consists of more than one page, or if any page is designed to be separated into portions, the disclaimer required in subsection (c) of this section shall be displayed in its entirety on the face of each page or portion of a page that reasonably could be considered a bill, invoice, or statement of account due as required in this subsection.

Sec. 5. 9 V.S.A. § 2460 is amended to read:

§ 2460. CIVIL INVESTIGATION

(a)(1) The ~~attorney general~~ Attorney General or a state's attorney whenever he or she has reason to believe any person to be or to have been in violation of section 2453 of this title, or of any rule or regulation made pursuant to section 2453 of this title, may examine or cause to be examined by any agent or representative designated by him or her for that purpose, any books, records, papers, memoranda, and physical objects of whatever nature bearing upon each alleged violation, and may demand written responses under oath to questions bearing upon each alleged violation.

(2) The ~~attorney general~~ Attorney General or a state's attorney may require the attendance of such person or of any other person having knowledge in the premises in the county where ~~such~~ the person resides or has a place of business or in Washington County if ~~such~~ the person is a nonresident or has no place of business within the ~~state~~ State, and may take testimony and require proof material for his or her information, and may administer oaths or take acknowledgment in respect of any book, record, paper, or memorandum.

(3) The ~~attorney general~~ Attorney General or a state's attorney shall serve notice of the time, place, and cause of ~~such~~ the examination or attendance, or notice of the cause of the demand for written responses, at least ten days prior to the date of ~~such~~ the examination, personally or by certified

mail, upon ~~such~~ the person at his or her principal place of business, or, if ~~such~~ the place is not known, to his or her last known address.

(4) Any book, record, paper, memorandum, or other information produced by any person pursuant to this section shall not, unless otherwise ordered by a court of this ~~state~~ State for good cause shown, be disclosed to any person other than the authorized agent or representative of the ~~attorney general~~ Attorney General or a state's attorney or another law enforcement officer engaged in legitimate law enforcement activities, unless with the consent of the person producing the same.

(5) This subsection ~~(a)~~ shall not be applicable to any criminal investigation or prosecution brought under the laws of this or any state.

(b)(1) A person upon whom a notice is served pursuant to the provisions of this section shall comply with the terms thereof unless otherwise provided by the order of a court of this ~~state~~ State.

(2) Any person who, with intent to avoid, evade, or prevent compliance, in whole or in part, with any civil investigation under this section, removes from any place, conceals, withholds, or destroys, mutilates, alters, or by any other means falsifies any documentary material in the possession, custody, or control of any person subject of any such notice, or mistakes or conceals any information, shall be ~~fined~~ subject to a civil penalty of not more than ~~$5,000.00~~ $25,000.00 and to recovery by the Attorney General's or state's attorney's

office the reasonable value of its services and expenses in enforcing compliance with this section.

(c)(1) Whenever any person fails to comply with any notice served upon him or her under this section or whenever satisfactory copying or reproduction of ~~any such~~ material pursuant to this section cannot be done and ~~such~~ the person refuses to surrender ~~such~~ the material, the ~~attorney general~~ Attorney General or a state's attorney may file, in the ~~superior court~~ Superior Court in which ~~such~~ the person resides or has his or her principal place of business, or in Washington ~~county~~ County if ~~such~~ the person is a nonresident or has no principal place of business in this ~~state~~ State, and serve upon ~~such~~ the person, a petition for an order of ~~such~~ the court for the enforcement of this section.

(2) Whenever ~~any~~ a petition is filed under this section, ~~such~~ the court shall have jurisdiction to hear and determine the matter ~~so~~ presented, and to enter ~~such order or~~ one or more orders as may be required to carry into effect the provisions of this section.

(3) ~~Any disobedience of any~~ A person who violates an order entered under this section by ~~any~~ a court shall be punished ~~as a~~ for contempt ~~thereof~~ of court and shall be subject to a civil penalty of not more than $25,000.00 and to recovery by the Attorney General's or state's attorney's office of the reasonable value of its services and expenses in enforcing compliance with this section.

Sec. 6. 9 V.S.A. chapter 120 is added to read:

CHAPTER 120. BAD FAITH ASSERTIONS

OF PATENT INFRINGEMENT

§ 4195. LEGISLATIVE FINDINGS AND STATEMENT OF PURPOSE

(a) The General Assembly finds that:

(1) Vermont is striving to build an entrepreneurial and knowledge based economy. Attracting and nurturing small and medium sized internet technology ("IT") and other knowledge based companies is an important part of this effort and will be beneficial to Vermont's future.

(2) Patents are essential to encouraging innovation, especially in the IT and knowledge based fields. The protections afforded by the federal patent system create an incentive to invest in research and innovation, which spurs economic growth. Patent holders have every right to enforce their patents when they are infringed, and patent enforcement litigation is necessary to protect intellectual property.

(3) The 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.

(4) Patent litigation can be technical, complex, and expensive. The expense of patent litigation, which may cost hundreds of thousands of dollars or more, can be a significant burden on small and medium sized companies.

Vermont wishes to help its businesses avoid these costs by encouraging the most efficient resolution of patent infringement claims without conflicting with federal law.

(5) In order for Vermont companies to be able to respond promptly and efficiently to patent infringement assertions against them, it is necessary that they receive specific information regarding how their product, service, or technology may have infringed the patent at issue. Receiving such information at an early stage will facilitate the resolution of claims and lessen the burden of potential litigation on Vermont companies.

(6) Abusive patent litigation, and especially the assertion of bad faith infringement claims, can harm Vermont companies. A business that receives a letter asserting such claims faces the threat of expensive and protracted litigation and may feel that it has no choice but to settle and to pay a licensing fee, even if the claim is meritless. This is especially so for small and medium sized companies and nonprofits that lack the resources to investigate and defend themselves against infringement claims.

(7) Not only do bad faith patent infringement claims impose a significant burden on individual Vermont businesses, they also undermine Vermont's efforts to attract and nurture small and medium sized IT and other knowledge based companies. Funds used to avoid the threat of bad faith litigation are no longer available to invest, produce new products, expand, or hire new workers, thereby harming Vermont's economy.

(b) Through this narrowly focused act, the General Assembly seeks to facilitate the efficient and prompt resolution of patent infringement claims, protect Vermont businesses from abusive and bad faith assertions of patent infringement, and build Vermont's economy, while at the same time respecting federal law and being careful to not interfere with legitimate patent enforcement actions.

§ 4196. DEFINITIONS

In this chapter:

(1) "Demand letter" means a letter, e-mail, or other communication asserting or claiming that the target has engaged in patent infringement.

(2) "Target" means a Vermont person:

(A) who has received a demand letter or against whom an assertion or allegation of patent infringement has been made;

(B) who has been threatened with litigation or against whom a lawsuit has been filed alleging patent infringement; or

(C) whose customers have received a demand letter asserting that the person's product, service, or technology has infringed a patent.

§ 4197. BAD FAITH ASSERTIONS OF PATENT INFRINGEMENT

(a) A person shall not make a bad faith assertion of patent infringement.

(b) A court may consider the following factors as evidence that a person has made a bad faith assertion of patent infringement:

(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.

(c) A court may consider the following factors as evidence that a person has not made a bad faith assertion of patent infringement:

(1) The demand letter contains the information described in subdivision (b)(1) of this section.

(2) Where the demand letter lacks the information described in subdivision (b)(1) of this section and the target requests the information, the person provides the information within a reasonable period of time.

(3) The person engages in a good faith effort to establish that the target has infringed the patent and to negotiate an appropriate remedy.

(4) The person makes a substantial investment in the use of the patent or in the production or sale of a product or item covered by the patent.

(5) The person is:

(A) the inventor or joint inventor of the patent or, in the case of a patent filed by and awarded to an assignee of the original inventor or joint inventor, is the original assignee; or

(B) an institution of higher education or a technology transfer organization owned or affiliated with an institution of higher education.

(6) The person has:

(A) demonstrated good faith business practices in previous efforts to enforce the patent, or a substantially similar patent; or

(B) successfully enforced the patent, or a substantially similar patent, through litigation.

(7) Any other factor the court finds relevant.

§ 4198. BOND

Upon motion by a target and a finding by the court that a target has established a reasonable likelihood that a person has made a bad faith assertion of patent infringement in violation of this chapter, the court shall require the person to post a bond in an amount equal to a good faith estimate of the target's costs to litigate the claim and amounts reasonably likely to be recovered under § 4199(b) of this chapter, conditioned upon payment of any amounts finally determined to be due to the target. A hearing shall be held if either party so requests. A bond ordered pursuant to this section shall not exceed $250,000.00. The court may waive the bond requirement if it finds the person has available assets equal to the amount of the proposed bond or for other good cause shown.

§ 4199. ENFORCEMENT; REMEDIES; DAMAGES

(a) The Attorney General shall have the same authority under this chapter to make rules, conduct civil investigations, bring civil actions, and enter into assurances of discontinuance as provided under chapter 63 of this title. In an action brought by the Attorney General under this chapter the court may award or impose any relief available under chapter 63 of this title.

(b) A target of conduct involving assertions of patent infringement, or a person aggrieved by a violation of this chapter or by a violation of rules adopted under this chapter, may bring an action in Superior Court. A court may award the following remedies to a plaintiff who prevails in an action brought pursuant to this subsection:

(1) equitable relief;

(2) damages;

(3) costs and fees, including reasonable attorney's fees; and

(4) exemplary damages in an amount equal to $50,000.00 or three times the total of damages, costs, and fees, whichever is greater.

(c) This chapter shall not be construed to limit rights and remedies available to the State of Vermont or to any person under any other law and shall not alter or restrict the Attorney General's authority under chapter 63 of this title with regard to conduct involving assertions of patent infringement.

Sec. 7. EFFECTIVE DATE

This act shall take effect on July 1, 2013.

Date the Governor signed the bill: May 22, 2013 a

Attorney General Jon Bruning

NEWS RELEASE

FOR IMMEDIATE RELEASE
July 18, 2013

Contact: Anita Scheuler
402.471.3811
Anita.Scheuler@nebraska.gov

Attorney General Bruning Investigating "Patent Trolls"

LINCOLN – Today Attorney General Jon Bruning initiated an investigation into whether patent infringement enforcement efforts by Texas law firm Farney Daniels LLP violate Nebraska law. Specifically, if such efforts amount to unfair or deceptive practices, they may violate the Nebraska Consumer Protection Act and the Uniform Deceptive Trade Practices Act.

Farney Daniels LLP has sent multiple letters to Nebraska businesses on behalf of patent trolls threatening lawsuits over patent infringement. This litigation is costly and destructive to Nebraska consumers and businesses.

"Patent trolls" are companies that buy groups of patents without intending to develop or market a product. They threaten target companies with lawsuits alleging infringement of the patents they have purchased. Businesses that have used, developed, or sold established technologies are often caught off-guard by such threats.

"'Patent trolls' make egregious threats with little or no valid legal purpose to gain fast money," said Bruning. "It is a top priority of our office to protect Nebraska consumers and businesses from this sort of baseless harassment."

The Attorney General's Office is empowered to bring an action in the name of the state against any person to restrain and prevent violations of the Consumer Protection Act and the Uniform Deceptive Trade Practices Act and seek civil penalties against offenders, where appropriate.

A copy of the Cease and Desist Order and Civil Investigative Demand sent to Farney Daniels LLP will be available shortly at www.ago.ne.gov.

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The White House

Office of the Press Secretary

For Immediate Release June 04, 2013

FACT SHEET: White House Task Force on High-Tech Patent Issues

LEGISLATIVE PRIORITIES & EXECUTIVE ACTIONS

Today the White House announced major steps to improve incentives for future innovation in high tech patents, a key driver of economic growth and good paying American jobs. The White House issued five executive actions and seven legislative recommendations designed to protect innovators from frivolous litigation and ensure the highest-quality patents in our system. Additionally, the National Economic Council and the Council of Economic Advisers released a report, Patent Assertion and U.S. Innovation, detailing the challenges posed and necessity for bold legislative action.

In 2011, the President signed the Leahy-Smith America Invents Act (AIA), a landmark piece of legislation designed to help make our patent system more efficient and reliable. As technology evolves more rapidly than ever, we must ensure our patent system keeps pace. As President Obama said in February, "our efforts at patent reform only went about halfway to where we need to go. What we need to do is pull together additional stakeholders and see if we can build some additional consensus on smarter patent laws."

The AIA put in place new mechanisms for post-grant review of patents and other reforms to boost patent quality. Meanwhile, court decisions clarifying the scope of patentability and guidelines implementing these decisions diminish the opportunity to game the patent and litigation systems. Nevertheless, innovators continue to face challenges from Patent Assertion Entities (PAEs), companies that, in the President's words "don't actually produce anything themselves," and instead develop a business model "to essentially leverage and hijack somebody else's idea and see if they can extort some money out of them." These entities are commonly known as "patent trolls." Likewise, the so-called "Smartphone Patent Wars" have ballooned in recent years and today, several major companies spend more on patent litigation and defensive acquisition than on research and development.

Stopping this drain on the American economy will require swift legislative action, and we are encouraged by the attention the issue is receiving in recent weeks. We stand ready to work with Congress on these issues crucial to our economy, American jobs, and innovation. While no single law or policy can address all these issues, much can and should be done to increase clarity and level the playing field for innovators.

LEGISLATIVE RECOMMENDATIONS

In that spirit, the Administration recommends that Congress pursue at least seven legislative measures that would have immediate effect on some major problems innovators face. These measures would:

1. **Require patentees and applicants to disclose the "Real Party-in-Interest**," by requiring that any party sending demand letters, filing an infringement suit or seeking PTO review of a patent to file updated ownership information, and enabling the PTO or district courts to impose sanctions for non-compliance.

2. **Permit more discretion in awarding fees to prevailing parties in patent cases**, providing district courts with more discretion to award attorney's fees under 35 USC 285 as a sanction for abusive court filings (similar to the legal standard that applies in copyright infringement cases).

3. **Expand the PTO's transitional program** for covered business method patents to include a broader category of computer-enabled patents and permit a wider range of challengers to petition for review of issued patents before the Patent Trial and Appeals Board (PTAB).

4. **Protect off-the-shelf use by consumers and businesses** by providing them with better legal protection against liability for a product being used off-the-shelf and solely for its intended use. Also, stay judicial proceedings against such consumers when an infringement suit has also been brought against a vendor, retailer, or manufacturer.

5. **Change the ITC standard for obtaining an injunction** to better align it with the traditional four-factor test in *eBay Inc. v. MercExchange*, to enhance consistency in the standards applied at the ITC and district courts.

6. **Use demand letter transparency to help curb abusive suits,** incentivizing public filing of demand letters in a way that makes them accessible and searchable to the public.

7. **Ensure the ITC has adequate flexibility in hiring** qualified Administrative Law Judges.

EXECUTIVE ACTIONS

Today the Administration is also announcing a number of steps it is taking to help bring about greater transparency to the patent system and level the playing field for innovators. Those steps include:

1. **Making "Real Party-in-Interest" the New Default.** Patent trolls often set up shell companies to hide their activities and enable their abusive litigation and extraction of settlements. This tactic prevents those facing litigation from knowing the full extent of the patents that their adversaries hold when negotiating settlements, or even knowing connections between multiple trolls. The PTO will begin a rulemaking process to require patent applicants and owners to regularly update ownership information when they are involved in proceedings before the PTO, specifically designating the "ultimate parent entity" in control of the patent or application.

2. **Tightening Functional Claiming.** The AIA made important improvements to the examination process and overall patent quality, but stakeholders remain concerned about patents with overly broad claims — particularly in the context of software. The PTO will provide new targeted training to its examiners on scrutiny of functional claims and will, over the next six months develop strategies to improve claim clarity, such as by use of glossaries in patent specifications to assist examiners in the software field.

3. **Empowering Downstream Users.** Patent trolls are increasingly targeting Main Street retailers, consumers and other end-users of products containing patented technology — for instance, for using point-of-sale software or a particular business method. End-users should not be subject to lawsuits for simply using a product as intended, and need an easier way to know their rights before entering into costly litigation or settlement. The PTO will publish new education and outreach materials, including an accessible, plain-English web site offering answers to common questions by those facing demands from a possible troll.

4. **Expanding Dedicated Outreach and Study.** Challenges to U.S. innovation using tools available in the patent space are particularly dynamic, and require both dedicated attention and meaningful data. Engagement with stakeholders — including patent holders, research institutions, consumer advocates, public interest groups, and the general public — is also an important part of our work moving forward. Roundtables and workshops that the PTO, DOJ, and FTC have held in 2012 have offered invaluable input to this process. We are announcing an expansion of our outreach efforts, including six months of high-profile events across the country to develop new ideas and consensus around updates to patent policies and laws. We are also announcing an expansion of the PTO Edison Scholars Program, which will bring distinguished academic experts to the PTO to develop — and make available to the public — more robust data and research on the issues bearing on abusive litigation.

5. **Strengthen Enforcement Process of Exclusion Orders.** Once the U.S. International Trade Commission (ITC) finds a violation of Section 337 and issues an exclusion order barring the importation of infringing goods, Customs and Border Protection (CBP) and the ITC are responsible for determining whether imported articles fall within the scope of the exclusion order. Implementing these orders present unique challenges given these shared responsibilities and the complexity of making this determination, particularly in cases in which a technologically sophisticated product such as a smartphone has been successfully redesigned to not fall within the scope of the exclusion order. To address this concern, the U.S. Intellectual Property Enforcement Coordinator will launch an interagency review of existing procedures that CBP and the ITC use to evaluate the scope of exclusion orders and work to ensure the process and standards utilized during exclusion order enforcement activities are transparent, effective, and efficient.

AMERICAN UNIVERSITY WASHINGTON COLLEGE OF LAW

PROGRAM ON INFORMATION JUSTICE AND INTELLECTUAL PROPERTY

PATENT + POLICY FORUM 2013
NOVEMBER 8, 2013

BRIEFING PAPER NO. 1

CURRENT PROPOSALS TO AMEND U.S. PATENT LAW

Program on Information Justice and Intellectual Property (PIJIP)
American University Washington College of Law
4801 Massachusetts Avenue, NW, Washington, DC 20016
www.pijip.org

Contact:
Jorge L. Contreras: contreras@wcl.american.edu
J. Jonas Anderson:janderson@wcl.american.edu
Ryan Schneer: rs8192@american.edu

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INTRODUCTION

Patent law, once a sleepy backwater of the legal world, has emerged in the last five years as one of the most controversial and heavily-debated subjects on the national scene. Patent law has become a focus of all three branches of government, as litigation spreads through the judicial system and an increasing number of cases reach the Supreme Court, prompting responses by both the executive and legislative branches. In 2011, Congress enacted the American Invents Act (AIA), the broadest set of amendments to the Patent Act in more than a half-century. But the AIA only fueled the debate, and a half dozen new legislative proposals are now wending their way through Congress. Executive agencies well beyond the Patent and Trademark Office (PTO) have also taken an abiding interest in patent law. The Department of Justice (DOJ) and Federal Trade Commission (FTC) have been actively policing potentially anticompetitive behavior associated with patent enforcement, the International Trade Commission (ITC) has found itself at the epicenter of the Smartphone Wars, and even the Executive Office of the President has issued various pronouncements on patent law.

The debate has, to-date, centered on three related but distinct phenomena: the rise of patent assertion entities (PAEs), the scope and quantity of patents covering software and business methods, and the enforcement of patents covering industry standards and subject to commitments of fair, reasonable and non-discriminatory (FRAND) licensing. Most of the legislative and executive proposals for patent law amendment address one or more of these three areas.

In this Forum, we will explore the proposals to amend U.S. patent law that are currently on the table and analyze their potential effects on litigation, the economy and innovation.

This Briefing Paper is intended to set the stage for discussion and to provide background information on various legislative and administrative proposals that have been made this year. The materials summarized here are complex and voluminous. We do not aspire in this short document to offer a comprehensive description of each proposal, nor an in-depth analysis of any specific item. Rather, we hope that this document will inform the general public about the issues at hand in a balanced and, hopefully, accurate manner. We apologize in advance for any errors or inaccuracies, and welcome the discussion that we hope to engender.

Jorge L. Contreras
Associate Professor of Law
American University Washington College of Law

CONTENTS

I. PROPOSALS FOR AMENDMENT

A brief history of each of the proposals to amend the patent law is set forth below:

A. H.R. 3309: The Innovation Act

The Innovation Act is a bill introduced by Representative Bob Goodlatte (R–VA), Chairman of the House Judiciary Committee. The bill was introduced on October 23, 2014 and was co-sponsored at introduction by Representatives Spencer Bachus (R–AL), Jason Chaffetz, (R–UT), Howard Coble (R–NC), Peter DeFazio (D–OR), Anna Eshoo (D–CA), Blake Farenthold (R–TX), George Holding (R–NC), Zoe Lofgren (D–CA), Tom Marino (R–PA), and Lamar Smith (R–TX). The bill is currently in the House Judiciary Committee. The proposed Innovation Act synthesizes a variety of amendments to the U.S. Patent Act — several of which had been proposed in isolation in prior bills—into one comprehensive legislative proposal. It includes provisions relating to disclosure of real parties in interest, discovery and joinder, stays in suits against end user customers, fee shifting, and the Patent and Trademark Office's (PTO) interpretation of the Covered Business Method (CBM) Review Program. The bill also seeks to correct a number of technical defects in the America Invents Act, including modifications to jurisdictional and procedural provisions pertaining to the Patent Trial and Appeal Board (PTAB) and the Court of Appeals for the Federal Circuit (CAFC).

B. S. 1612: The Patent Litigation Integrity Act

The Patent Litigation Integrity Act was introduced by Senator Orrin Hatch (R–UT) in the Senate Judiciary Committee on October 30, 2013. The stated purpose of the Act is to lower economic incentives for bringing frivolous patent suits through rules regarding fee-shifting.

C. H.R. 845: The Saving High-Tech Innovators From Egregious Legal Disputes Act (The SHIELD Act)

The SHIELD Act was introduced by Representatives Peter DeFazio (D–OR) and Jason Chaffetz (R-UT) on August 1, 2012. A second draft was introduced on February 27, 2013. The SHIELD Act focuses on fee shifting in patent litigation. It was co-sponsored by Representatives Kerry Bentivolio (R–MI), Tim Walberg (R–MI), and Peter Welch (D–VT).

D. S. 866: The Patent Quality Improvement Act

The Patent Quality Improvement Act was drafted by Senator Charles Schumer (D–NY). The purpose of this bill is to expand Covered Business Method Review at the PTO. It was introduced into the Senate Judiciary Committee on May 6, 2013.

E. H.R. 2766: Stopping the Offensive Use of Patents Act (STOP Act)

The STOP Act was introduced by Representative Darryl Issa (R–CA) and Judy Chu (D–CA) and is co-sponsored by Representative Jared Hoffman (D–CA). The purpose of this bill is to expand Covered Business Method Review at the PTO, and the text tracks that of the Patent Quality Improvement Act (S.866). It was introduced into the House Judiciary Committee on July 22, 2013.

F. H.R. 2024: The End Anonymous Patents Act

The End Anonymous Patents Act was introduced by Representative Theodore Deutch (D–FL). The purpose of this bill is to add greater transparency to the patent system by requiring parties to report patent transfers and real party in interest information at the time of transfer. It was introduced into the House Judiciary Committee on May 16, 2013.

G. S. 1013: The Patent Abuse Reduction Act

The Patent Abuse Reduction Act was drafted by Senator John Cornyn (R–TX). The purpose of this bill is to make procedural changes to several aspects of patent litigation. It requires a heightened pleading standard, disclosure of real party in interest and joinder of additional parties; limited discovery prior to claim construction; discovery cost sharing; and a new fee shifting standard. Many of the changes that this bill proposes have been incorporated into the Innovation Act. The Act is co-sponsored by Senator Charles Grassley (R–IA). It was introduced into the Senate Judiciary Committee on May 22, 2013.

H. H.R. 2639: Patent Litigation and Innovation Act

The Patent Litigation and Innovation Act was drafted by Representative Hakeem Jeffries (D–NY) and is co-sponsored by Representative Blake Farenthold (R–TX). It was introduced into the House Judiciary Committee on July 10, 2013.

I. White House Fact Sheet – Legislative Priorities & Executive Actions, June 4, 2013

On June 4, 2013, the White House released a document outlining seven recommended legislative actions intended to "increase clarity and level the playing field for innovators" by revising the patent system. These legislative recommendations were accompanied by five suggested executive actions intended to help achieve the same goals. The Fact Sheet was accompanied by a study on Patent Assertion and U.S. Innovation.

II. IMPACT ON PATENT ASSERTION ENTITIES (PAES)

One issue that has attracted significant attention both from policymakers and the popular media has been the effect that patent assertion entities (PAEs) have on the patent landscape. These entities, which generally acquire patents for the purpose of asserting them to obtain monetary settlements, are also referred to as patent monetization entities and "patent trolls". PAEs are members of a broader class of patent holders known as "non-practicing entities" (NPEs), which do not manufacture or sell products or offer services covered by the patents they hold. Numerous commentators argue that patent assertions by PAEs are a drain on the economy and divert resources from innovation to litigation. Others respond that PAEs provide necessary liquidity to the patent market and enable inventors without significant resources to capitalize on their innovations. The following proposals have been made to modify the course of patent litigation in order to address perceived problems with PAE litigation, though none of the proposals explicitly define PAEs or any other category of patent holder.

H.R. 3309: The Innovation Act

The Innovation Act contains several provisions aimed at addressing litigation-related issues. It synthesizes many of the proposals contained in the other bills discussed below.

1. Real Party in Interest

These provisions require that parties asserting patents disclose to the court, the defendant and the PTO all entities having a financial interest in the asserted patents, as well as the asserting party's ultimate parent company and any entity having enforcement rights over the patents. These provisions are intended to make publicly known the otherwise unclear relationships among PAE shell companies and their financial backers. The bill also imposes an ongoing duty of disclosure to the PTO if changes to previously disclosed information occur.

2. Discovery

These provisions are intended to make the discovery process for patent litigation more efficient. The bill seeks to limit discovery prior to *Markman* hearings to those materials relevant to claim construction and includes provisions allowing judges to make additional rules to stage discovery as they see fit. The bill would also require the Judicial Conference to develop further discovery rules to limit document production to "core documentary evidence", including items relating to the technical and financial details of a product. Parties would be required to pay their own document production costs, and parties requesting more distantly-related materials would also have to pay the opposing party's production costs.

3. Joinder

These provisions address the issues that arise when patent holders assign patents to newly-formed, thinly-capitalized entities for litigation purposes, while retaining a substantial financial interest in the outcome of the litigation. Under existing federal joinder rules, such patent holders, who do not have a current ownership interest in the patents being asserted, cannot be joined by a defendant in the suit. The bill would change procedural joinder requirements to allow defendants to join any "interested party" to the case. It goes on to define "interested party" as any assignee, entity with a right to sublicense, or entity with a "direct financial interest" in the asserted patent. The bill also outlines a few exceptions. The joinder provision would not apply to attorneys representing the parties or entities with an equity interest but no influence over the action. These provisions would also not apply if joinder would deprive the court of subject matter jurisdiction, if joinder would create improper venue, or if the party being joined is not subject to service of process.

4. Customer Suits

These provisions seek to address the practice employed by some PAEs of suing a product manufacturer's end user customers for using an allegedly infringing product. This practice, in particular, has attracted significant attention from the press in recent months. When a manufacturer intervenes in a case, a court would be required to stay an action brought against an end user of its infringing product if certain requirements have been met. These include an agreement by both the manufacturer and customer to be bound by the outcome of the manufacturer's action.

5. Pleading

These provisions are aimed at curbing complaints in patent infringement suits that are vague and targeted at an industry in general, rather than at specific infringing defendants. The proposal would require all complainants in patent suits to disclose which claims are being infringed, to clearly specify which products are allegedly infringing and on what grounds. It would also require the complainant to demonstrate its right to assert the patent, and to describe its principal business.

6. Attorneys' Fees

These provisions would require courts to award attorneys' fees to the prevailing party in a patent suit absent a showing that the non-prevailing party's position was "substantially justified" or if special circumstances make an award unjust. To address concerns regarding the multi-tiered corporate structures implemented by some PAEs, fees would be recoverable from all parties having a financial interest in the suit, rather than only those parties with an ownership interest in the patent.

S. 1612: The Patent Litigation Integrity Act

1. Attorneys' Fees

These provisions would require courts to award attorneys' fees to the prevailing party in a patent suit absent a showing that the non-prevailing party's position was "substantially justified" or if special circumstances make an award unjust. The Act would also allow defendants to file a motion requiring the plaintiffs to post bond covering these fees. The Act gives courts several factors to consider when determining whether to allow such a motion. These factors, which appear in large part to be directed at determining whether the plaintiff asserting a patent is a PAE, include whether the issuance of the bond would affect activities other than patent assertion, acquisition, litigation, or licensing; whether the plaintiffs are universities or nonprofit entities; whether a licensee to the patent at issue is conducting further research on the patented technology; whether the plaintiffs are either named inventors or original assignees; whether the plaintiffs make or sell products covered by the patent at issue; whether the plaintiffs can afford to pay attorneys' fees; and whether the plaintiffs illustrate a willingness to pay these fees in the event the infringement claims fail.

H.R. 845: The SHIELD Act

1. Attorneys' Fees

The SHIELD Act would allow the defendant in a patent suit to file a motion to determine whether the plaintiff asserting a patent meets one of the following "conditions": it is an inventor or assignee of the asserted patent, a university or university-affiliated technology transfer association, or a party that has otherwise made a substantial investment in the patent. If the plaintiff is determined by the court not to meet one of these conditions, it must post bond in an amount calculated to cover the recovery of costs by the defendant. If the defendant in a patent suit brought by an entity that does not meet one of the conditions described above prevails in its assertion of invalidity or non-infringement, the court will award the defendant recovery of its full costs, including attorneys' fees.

H.R. 2024: The End Anonymous Patents Act

1. Real Party In Interest

The End Anonymous Patents Act seeks to increase transparency in the patent system, but unlike the Innovation Act and other proposals discussed above, is not specific to patent litigation. The bill requires the Director of the PTO to develop regulations relating to the disclosure of each entity having the legal right to enforce a patent, its ultimate parent entity and any entity having a controlling interest in the enforcement of a patent (real parties in interest). Such disclosures would be required of patent applicants upon the issuance of a new patent, and upon the payment of maintenance fees and transfer of existing patents. The bill would also limit damages for patent infringement to the period after which the required disclosures have been made.

S. 1013: The Patent Abuse Reduction Act

1. Real Party in Interest

This provision is similar to the one in the Innovation Act (H.R. 3309), discussed above.

2. Discovery

This provision is similar to the discovery provisions of the Innovation Act (H.R. 3309), discussed above.

3. Attorneys' Fees

These requirements are similar to those in the Innovation Act (H.R. 3309), discussed above. The principal distinction is that the Patent Abuse Reduction Act does not address covenants not to sue.

4. Joinder

This provision is similar to the one in the Innovation Act (H.R. 3309), discussed above.

H.R. 2639: Patent Litigation and Innovation Act

1. Real Party in Interest

The Patent Litigation and Innovation Act would require parties filing patent infringement suits to disclose all owners, licensees and assignees of the patent(s) at issue. It would also require the filing party to disclose its principal business. These requirements are similar to those proposed under the Innovation Act (H.R. 3309) and the Patent Abuse Reduction Act (S. 1013). However, the Patent Litigation and Innovation Act does not require parties to disclose prior or pending litigation.

2. Customer Suits

This provision is similar to the one in the Innovation Act (H.R. 3309), discussed above. However, the Patent Litigation and Innovation Act covers not only consumers but also other "secondary parties"— entities that either resell or redistribute patented articles.

3. Sanctions

The Patent Litigation and Innovation Act seeks to provide patent litigation defendants with additional protection through provisions that would make it easier for judges to award sanctions for abusive litigation. It seeks to achieve this end by requiring judges to apply greater scrutiny in their analyses under Rule 11 of the Federal Rules of Civil Procedure. Judges would be required to include specific findings in the record as to abusive practices that take place during trial. Judges would also be required to enforce these sanctions against noncompliant attorneys and their respective clients.

4. Joinder

This provision is similar to the one in the Innovation Act (H.R. 3309), discussed above. However, unlike the Innovation Act this bill does not define the term "interested party." It also requires that parties file a motion for joinder within 120 days of the first complaint, answer, or counterclaim.

5. Discovery

The Patent Litigation and Innovation Act would allow courts to stay discovery until they have ruled on motions to dismiss, motions to transfer venue, and claim construction issues. The Act would also allow courts to expand discovery in extraordinary circumstances.

White House Fact Sheet – Legislative Priorities & Executive Actions

The White House document of June, 2013 makes several legislative and executive recommendations intended to address PAE issues. These include:

1. Real Party in Interest

Recommends that legislation requiring that any party sending demand letters, filing an infringement suit or seeking PTO review of a patent file update patent ownership information with the PTO and enabling the PTO or district courts to impose sanctions for non-compliance. Also directs the PTO to develop rules to require patent applicants and owners "update patent ownership information when they are involved in proceedings before the PTO, specifically designating the "ultimate parent entity" in control of the patent or application."

2. Demand Letter Disclosure

Recommends that legislative incentives be created to have patent demand letters filed publicly in a manner that is accessible to and searchable by the public.

3. Attorneys' Fees

Recommends "providing district courts with more discretion to award attorneys' fees under 35 USC 285 as a sanction for abusive court filings".

4. Customer Suits

Recommends legislation protecting consumers and businesses from infringement suits for the use of "off-the-shelf" products, and that such suits be stayed when an infringement suit has been brought against the product manufacturer. Also directs the PTO to develop better education and outreach materials to answer common questions regarding PAE suits against customers.

5. ITC Standards

Recommends legislation providing that the ITC standard for issuing an exclusion order be better aligned with the four-factor equitable test for injunctive relief set forth by the Supreme Court in *eBay v. MercExchange*. The *eBay* test, which arose in a case involving a PAE's attempt to obtain an injunction against eBay, is widely viewed as having made it more difficult for PAEs to obtain injunctive relief in District Court.

III. IMPACT ON SOFTWARE AND BUSINESS METHOD PATENTS

Another issue that has been the subject of significant discussion among policymakers is the effect that software patents, as they are currently issued and enforced, have on innovation and the economy. Numerous commentators have argued that patents covering software inventions are too broad, vague and/or numerous, and that much PAE litigation involves software patents. Others argue that software patents encourage innovation and are appropriately limited by judicial decisions and PTO practice.

The America Invents Act of 2011 (AIA) sought to address the enforcement of financial services business method patents by establishing a Transitional Program for Covered Business Method (CBM) Patents the PTO. This program permits persons charged with infringing a CBM patent to initiate a review proceeding at the PTO in which the validity of the patent may be challenged. However, the program is limited in both its scope and duration. It expires in 2020 and only covers patents claiming “a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term *does not include patents for technological inventions*” (emphasis added). The term “technological inventions” is not defined in the AIA, but it was defined by the PTO through notice and comment rulemaking procedures. Finally, the program only allows domestic patents and publications to be used as prior art in a CBM review. Foreign patents and publications are not permitted.

The following proposals have been made to modify the legal framework as it relates to software and business method patents:

H.R. 3309: The Innovation Act

1. **Studies**

   The Innovation Act would require the PTO to conduct studies regarding patent “quality”. These studies would likely assess the PTO’s examination practices regarding software patents.

2. **Covered Business Methods**

   The Innovation Act seeks to expand the ability of parties to challenge certain patents by modifying and codifying the CBM review program at the PTO. The Innovation Act would modify the scope of the CBM program to allow litigants to introduce foreign patents and publications as prior art. The Innovation Act would also eliminate its current 2020 expiration date, but make the program apply only to first-to-invent patents. The Innovation Act does not expand the scope of challengeable patents beyond those claiming a financial product or service, but would instead codify the PTAB’s decision in *SAP America, Inc. v. Versata Dev. Group, Inc.*, CBM2012–00001, Paper 36 (January 9, 2013). This interpretation suggests that the definition of CBM patents includes patents claiming inventions, including software, incidental to a financial service and not only those in which the claimed invention directly performs a financial service.

S. 866: The Patent Quality Improvement Act

1. Covered Business Methods

Like the Innovation Act (H.R. 3309), the Patent Quality Improvement Act would make the CBM review program at the PTO permanent and expand available prior art to foreign patents and publications. However, the Patent Quality Improvement Act expands CBM's jurisdiction further. Whereas the CBM program as defined by the AIA only covers *financial* business method patents, the proposed Act would expand the CBM program to encompass *all* business method patents and not just those that are financially-related.

H.R. 2766: Stopping the Offensive Use of Patents Act (STOP Act)

1. Covered Business Methods

The provisions in the STOP Act relating to CBM are nearly identical to those proposed in The Patent Quality Improvement Act (S. 866) discussed above. The principal difference is that the STOP Act contains an additional administrative provision that is unrelated to CBM expansion.

White House Fact Sheet – Legislative Priorities & Executive Actions

The White House document of June, 2013 makes several legislative and executive recommendations intended to address software patenting issues. These include:

1. Covered Business Methods

Recommends expanding the CBM program to "include a broader category of computer-enabled patents and permit a wider range of challengers to petition for review of issued patents before the Patent Trial and Appeals Board (PTAB)."

2. Functional Claiming

Directs the PTO to provide enhanced training to its examiners on "functional" claims, which have been criticized as overly broad and vague, and to develop new strategies over the next six months to improve claim quality, including through the use of glossaries in the specifications of software patents.

PTO Software Business Partnership and Roundtable

The PTO has announced a number of initiatives and sought input on ideas to help improve the quality of examination of software patents, including roundtables on functional claiming, the use of glossaries in applications, and access to software prior art.

IV. IMPACT ON FRAND LICENSING

One issue that has been the subject of discussion of many policymakers has been the impact that Standard Essential Patents (SEPs) subject to Fair Reasonable & Nondiscriminatory (FRAND) licensing agreements have had on patent policy. The following recent policy decisions have had an impact on the legal framework surrounding these SEPs.

H.R. 3309: The Innovation Act

1. Pleading

The Innovation Act would expand pleading disclosure requirements in patent infringement suits by requiring the party filing a complaint to disclose whether any of the patent claims at issue are essential to the implementation of an industry standard.

2. Discovery

The Innovation Act would define any documents or licensing agreements relevant to standards-essential patents as being “core” documents in discovery.

3. Bankruptcy

Section 365(n) of the U.S. Bankruptcy Code currently allows a licensee of intellectual property to continue its license even if the licensor enters bankruptcy and rejects the license agreement. In several recent cases, however, a licensee’s right to continue its license has been questioned when the underlying intellectual property has been transferred to a third party that is arguably not subject to Section 365(n). This issue is particularly important in the context of standards-essential patents, which are often broadly licensed (or subject to licensing commitments) across industries. The Innovation Act would amend Section 365(n) by clarifying that its effect extends to intellectual property that the debtor/licensor has transferred.

White House Fact Sheet – Legislative Priorities & Executive Actions

The White House document of June, 2013 makes several legislative and executive recommendations intended to address FRAND issues. These include:

1. ITC Standards

Recommends legislation providing that the ITC standard for issuing an exclusion order be better aligned with the four-factor equitable test for injunctive relief set forth by the Supreme Court in *eBay v. MercExchange*. This amendment to the ITC’s authorizing statute, 19 U.S.C.

§1337, is consistent with a recommendation of the DOJ and PTO made in a joint Policy Statement on January 8. 2013, which was cited by the U.S. Trade Representative in August 2013 when disapproving an ITC exclusion order against certain Apple products covered by Samsung's standards-essential patents (SEPs). In its letter, the USTR urge the ITC to take into account the impact that the FRAND licensing issues implicated by the case would have on the public interest.

APPENDIX I: LINKS TO ONLINE VERSIONS OF PROPOSALS

H.R. 3309: The Innovation Act

http://judiciary.house.gov/news/2013/10232013%20%20Innovation%20Act.pdf

S. 1612: The Patent Litigation Integrity Act

http://www.gpo.gov/fdsys/pkg/BILLS-113s1612is/pdf/BILLS-113s1612is.pdf

H.R. 845: The Saving High-Tech Innovators From Egregious Legal Disputes Act (SHIELD Act.)

http://www.gpo.gov/fdsys/pkg/BILLS-113hr845ih/pdf/BILLS-113hr845ih.pdf

S. 866: The Patent Quality Improvement Act

http://www.gpo.gov/fdsys/pkg/BILLS-113s866is/pdf/BILLS-113s866is.pdf

H.R. 2766: Stopping the Offensive Use of Patents Act (STOP Act)

http://www.gpo.gov/fdsys/pkg/BILLS-113hr2766ih/pdf/BILLS-113hr2766ih.pdf

H.R. 2024: The End Anonymous Patents Act

http://www.gpo.gov/fdsys/pkg/BILLS-113hr2024ih/pdf/BILLS-113hr2024ih.pdf

S. 1013: The Patent Abuse Reduction Act

http://www.gpo.gov/fdsys/pkg/BILLS-113s1013is/pdf/BILLS-113s1013is.pdf

H.R. 2639: Patent Litigation and Innovation Act

http://www.gpo.gov/fdsys/pkg/BILLS-113hr2639ih/pdf/BILLS-113hr2639ih.pdf

FACT SHEET: White House Task Force on High-Tech Patent Issues: Legislative Priorities & Executive Actions

http://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues

Executive Office of the President – Patent Assertion and U.S. Innovation

http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf

APPENDIX II: SUMMARY OF PROPOSED AMENDMENTS

	PAEs	Software and Business Methods	FRAND
Innovation Act (H.R. 3309 – Goodlatte)	Real Party in Interest Discovery Joinder Customer Suits Pleading Attorneys' Fees	Studies CBM*	Pleading Discovery Bankruptcy
Patent Litigation Integrity Act (S. 1612 – Hatch)	Attorneys' Fees		
SHIELD Act (H.R. 845 – DeFazio/Chaffetz)	Attorneys' Fees		
Patent Quality Improvement Act (S. 866 - Schumer)		CBM*	
STOP Act (H.R. 2766 – Issa/Chu)		CBM*	
End Anonymous Patents Act (H.R. 2024 – Deutch)	Real Party in Interest		
Patent Abuse Reduction Act (S. 1013 – Cornyn)	Real Party in Interest Discovery Attorneys' Fees Joinder		
Patent Litigation and Innovation Act (H.R. 2639 – Jeffries)	Real Party in Interest Customer Suits Sanctions Joinder Discovery		
White House Fact Sheet	Real Party in Interest Demand Letter Disclosure Attorneys' Fees Customer Suits ITC Standards	CBM* Functional Claiming	ITC Standards

* Modifications to PTO's Transitional Program for Covered Business Method Patents.

PATENT ASSERTION AND U.S. INNOVATION

Executive Office of the President

June 2013

THE WHITE HOUSE
WASHINGTON

This report was prepared by the President's Council of Economic Advisers, the National Economic Council, and the Office of Science & Technology Policy.

Executive Summary

- Some firms that own patents but do not make products with them play an important role in U.S. innovation ecosystem, for example by connecting manufacturers with inventors, thereby allowing inventors to focus on what they do best.

- However, Patent Assertion Entities (PAEs, also known as "patent trolls") do not play such roles. Instead they focus on aggressive litigation, using such tactics as: threatening to sue thousands of companies at once, without specific evidence of infringement against any of them; creating shell companies that make it difficult for defendants to know who is suing them; and asserting that their patents cover inventions not imagined at the time they were granted.

- Suits brought by PAEs have tripled in just the last two years, rising from 29 percent of all infringement suits to 62 percent of all infringement suits. Estimates suggest that PAEs may have threatened over 100,000 companies with patent infringement last year alone.

- While aggressive litigation tactics are a hallmark of PAEs, some practicing firms are beginning to use them as well. ("Practicing" firms use their patents to design or manufacture products or processes.)

- PAE activities hurt firms of all sizes. Although many significant settlements are from large companies, the majority of PAE suits target small and inventor-driven companies. In addition, PAEs are increasingly targeting end users of products, including many small businesses.

- PAEs take advantage of uncertainty about the scope or validity of patent claims, especially in software-related patents because of the relative novelty of the technology and because it has been difficult to separate the "function" of the software (e.g. to produce a medical image) from the "means" by which that function is accomplished.

- A range of studies have documented the cost of PAE activity to innovation and economic growth. For example:

  - One study found that during the years they were being sued for patent infringement by a PAE, health information technology companies ceased all innovation in that technology, causing sales to fall by one-third compared to the same firm's sales of similar products not subject to the PAE-owned patent.

  - Another study found that the financial reward received by winning PAEs amounted to less than 10% of the share value lost by defendant firms, suggesting that the suits result in considerable lost value to society from forgone technology transfer and commercialization of patented technology.

- History suggests that it should be possible to address these challenges. Similar cases occurred with patents for agricultural equipment and for railroad equipment in the late 19th century, in which there was great uncertainty about whether a valid patent had been infringed. Once these underlying conditions were changed, this business model was no longer profitable and litigation of this type fell dramatically.

- Policies such as the following: fostering clearer patents with a high standard of novelty and non-obviousness; reducing disparity in the costs of litigation for patent owners and technology users; and increasing the adaptability of the innovation system to challenges posed by new technologies and new business models; would likely have a similar effect today.

I. Introduction

> *The folks that you're talking about [PAEs] 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... [O]ur efforts at patent reform only went about halfway to where we need to go and what we need to do is pull together additional stakeholders and see if we can build some additional consensus on smarter patent laws.*
>
> *- President Obama, February 14, 2013*

The purpose of the U.S. patent system, according to the Constitution, is "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries" (U.S. Const., art. 1, sec. 8, cl. 8). Giving inventors this right provides a powerful incentive for innovation.

Patent policy must navigate a fine line however, as excessive enforcement of that exclusivity—such as through abusive litigation or overly broad patent claims—may dampen incentives for future innovation. Innovators who fear inadvertently infringing existing patents may reduce innovative activity or take costly steps to defend against lawsuits claiming infringement, leading to fewer resources available for wages, job creation, and innovation of new products and services.

Firms that own patents but do not practice[1] them can play a useful role in the innovation ecosystem. Firms that aggregate and manage patents can play an important intermediary role, bringing value to society by more efficiently matching inventors to patent users in an otherwise illiquid market, and by developing expertise in legitimately protecting patents from infringement. However, some litigation strategies may reduce incentives to transfer or commercialize technology by unwarrantedly raising potential innovators' fears that they will be accused of patent infringement if they do so.

This report looks particularly at firms who do not practice the patents they own and instead engage in aggressive litigation to collect license and other fees from alleged infringers. A review of the evidence suggests that on balance, such patent assertion entities (PAEs) (also known as "patent trolls") have had a negative impact on innovation and economic growth.

The success of the PAE business model in part reflects patent policy challenges created by the rapid growth of complex software products. Because of rapid technological change and the special characteristics of software, it has been hard to define clear boundaries for patents, and hard to set an appropriate bar for non-obviousness, leading to many opportunities that PAEs (and in some cases, non-PAEs) have exploited.

II. The Role of Intermediaries in the Patent System

[1] Firms that "practice" their patents use them to design or manufacture products or processes.

Patent intermediaries can play a useful social role. Inventors and buyers of patents (such as a manufacturer who can commercialize patented inventions) may have a difficult time finding each other because the potential usefulness of a patented technology is often not obvious, and often depends on the complementarity between the protected technology and the buyer's own portfolio of technology.

In principle, illiquid markets such as the one for patents may benefit from specialized intermediaries. These intermediaries bring value to society by more efficiently matching patent holders to patent buyers, thereby fostering transfer of technology from inventors to those who can use the technology to make products that are valuable to consumers. For example, an individual inventor might sell a patented battery technology to an intermediary, who then sells or licenses the patent to a cell-phone manufacturer who has both the equipment to make the battery in large scale and the ability to market the advantages of the new battery when combined with that phone.

This arrangement allows inventors to specialize in innovation and benefit from the specialized commercial knowledge and connections of an intermediary. Similarly, it can be costly for technology users to find all potentially-relevant patents. Effective brokering of patents by intermediaries can therefore increase the value of patents, fostering greater incentives to innovate. And finally, potential inventors may not have the resources to protect their patents from infringement; their incentives to invent may be increased if they can sell their patents to firms that specialize in litigation and other means to collect license fees from those who are using the patented technology.

THE LEAHY-SMITH AMERICA INVENTS ACT (AIA)

In September, 2011, President Obama signed into law the Leahy-Smith America Invents Act, historic patent reform legislation designed to help American entrepreneurs and businesses bring their inventions to market sooner, creating new businesses and new jobs.

The key provisions of the AIA, which went into full effect in 2012, are helping to improve the patent system for innovators in all fields by offering a fast-track option for patent processing; taking important steps to reduce the current patent backlog; and increasing the ability of Americans to protect their intellectual property abroad.

Several provisions of AIA may help address some of the problematic behavior of PAEs by creating new programs at the Patent and Trademark Office to create alternatives to litigation regarding patent validity, new methods for post-grant review of issued patents, and major steps to increase patent quality through clarifying and tightening standards. Nonetheless, the impact of aggressive litigation tactics by PAEs and others was not widely known during the seven years the AIA was under negotiation, and as President Obama said, AIA "only went about halfway to where we need to go."

On the other hand, patent intermediaries may also act in ways that reduce innovation. Recent years have seen the rapid emergence of PAEs, or "patent trolls." These firms "use patents primarily to obtain license fees rather than to support the development or transfer of technology" (Chien 2012). Obtaining these license fees in practice often means aggressive litigation practices, in which PAEs tie up (or threaten to tie up) legitimate innovators in court by charging them with patent infringement. The PAE business model is generally seen as combining characteristics such as the following (Chien 2012; Bessen, Meurer and Ford 2011; Hagiu and Yoffie 2013):

1. They do not “practice” their patents; that is, they do not do research or develop any technology or products related to their patents;

2. They do not help with “technology transfer” (the process of translating the patent language into a usable product or process);

3. They often wait until after industry participants have made irreversible investments before asserting their claims,

4. They acquire patents solely for the purpose of extracting payments from alleged infringers;

5. Their strategies for litigation take advantage of their non-practicing status, which makes them invulnerable to counter-claims of patent infringement.

6. They acquire patents whose claim boundaries are unclear, and then (with little specific evidence of infringement) ask many companies at once for moderate license fees, assuming that some will settle instead of risking a costly and uncertain trial.

7. They may hide their identity by creating numerous shell companies and requiring those who settle to sign non-disclosure agreements, making it difficult for defendants to form common defensive strategies (for example, by sharing legal fees rather than settling individually).

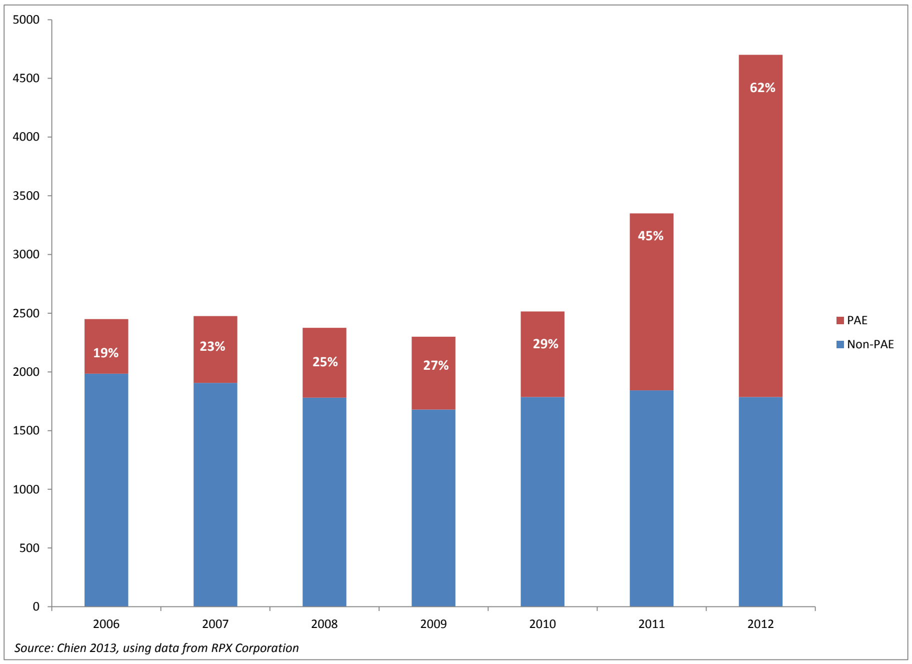
While intermediaries in general may be non-practicing entities, and generate revenues through licensing fees, PAEs go further by masking their identity, and acquiring and asserting broad patents, some of questionable validity, in order to extract settlement fees.

For example, one company sued dozens of online retailers, claiming that its patents covered nearly any use of online shopping cart technology, leading several retailers to pay settlements worth millions of dollars each. Ultimately, one online technology retailer won an appeal that invalidated each of the three key patents that were the basis for the original suits. The court found that the claims of the patents were obvious in light of products that already existed at the time the patent was filed.[2] The victory in this case, however, required spending millions of dollars and years in court – a risk that other online retailers had been unwilling to take (Mullin 2013a; Mackie, Payne, and Stewart 1994). See below for additional examples of PAE tactics.

[2] The appeals court held that once the technology existed to do purchasing on a closed network, extending this capability to allow purchasing on the Internet, while novel, required only steps that would be obvious to anyone skilled in the relevant prior art.

PAE activity has increased dramatically in recent years (Figure 1). Last year, PAEs brought over 2,500 lawsuits — 62% of all patent suits. That compares to 1,500 in 2011 (45% of all cases,), and 731 in 2010 (accounting for 29%) (Chien 2013). Other studies find a similar rise in PAE activity. An updated version of a study done for the US Government Accountability Office (Jeruss, Feldman and Walker, 2012) finds that PAEs filed 59% of the patent lawsuits in the US in 2012 (Feldman, Ewing, and Jeruss (2013).

Figure 1: Total number of Patent Cases Commenced, 2006-2012



The increased prevalence of PAE suits, and patent suits in general, in recent years stands in contrast to the 20th century, when suits for patent infringement were relatively rare. This increase is likely due to two factors. First, there are an increasing number of computer and communications patents, whose wider breadth makes them more easily abused, as we discuss below. PAE suits are concentrated in the IT sphere; according to one estimate, 82% of PAE defendants were sued on the basis of a software patent (in contrast to only 30% of those sued by non-PAEs) (Chien and Karkhanis, 2013). Software patents are nearly five times as likely to be in a lawsuit as chemical patents; business method patents are nearly fourteen times as likely (Bessen 2011).

Second, during the 20th century, patents were primarily held by manufacturers (FTC 2011). Rival makers of complex products are likely to be infringing each other's patents, so they have an incentive to settle competing infringement cases by cross-licensing, rather than engaging in expensive legal battles that do not add to society's stock of scientific knowledge. In contrast, a PAE has no rival product, so it can't be counter-sued. PAEs also have few of the reputational concerns that might deter a well-known company from appearing to victimize other innovators. Furthermore, PAEs can develop economies of scale in suing many firms at once on a contingency-fee basis; once the initial legal preparation work has been done, a PAE can send demands asserting infringement to numerous companies at low cost, paying legal fees only in the event that its assertion is successful.

PAEs often threaten to sue with the intention of extracting license fees or settlement payments. The increase in the number of suits filed for patent infringement has thus been accompanied by an increasingly large number of suits threatened. PAEs assert broad patent claims against an unusually large set of potential defendants; these assertions are often not based on any evidence of infringement by an individual defendant, but are instead an attempt to find companies that will seek to settle the PAE's claims rather than risk a trial. Conservative estimates place the number of threats in the last year alone at a minimum of 60,000 and more likely at over 100,000 (Chien 2012).[3]

The uncertainty and expense of litigation suggests that many patents might be best viewed as "probabilistic property rights" or "lottery tickets" (Lemley and Shapiro 2005). Given this situation, many patent owners and users prefer to settle out of court for amounts that have not so much to do with the economic value of their patents or the probability that they have infringed. Instead, settlements are affected more by the parties' relative opportunity costs of going to trial and attitudes towards risk—factors that favor PAEs, whose legal fees are low (since they do not have to provide much evidence to assert that there has been patent infringement), and who do not have to pay the fixed costs of a manufacturing operation. Therefore, PAEs have an incentive to drag out litigation, to increase pressure on defendants to settle the case (Tucker 2012).

Examples of Abusive Practices in Litigation by Patent Assertion Entities

Above we have argued that Patent Assertion Entities (PAEs) have "over-asserted" their patents, pursuing legal action in a way that does not increase incentives for innovation, and in fact reduces these incentives and complicates normal business operation. Below are two examples:

Large company example

SAS is the world's largest privately held software company, providing business and organizational customers with advanced analytics. SAS has been a defendant in several suits filed by PAEs. In Congressional testimony in March, John Boswell, SAS's General Counsel, described the PAE business model and its impacts on his company:

> Here are the basic parameters of what is happening with these suits. A patent troll sets up shop in a jurisdiction known to be supportive of patent plaintiffs… It buys patents from defunct companies or patents that companies no longer want to keep. It does not hire employees; it does not engage in research; it does not even practice the invention—nor does it ever intend to practice it. The patent troll then either serves a demand letter on the

[3] For example, one PAE sent 8,000 notice letters to coffee chains, hotels, and retailers seeking compensation for use of Wi-Fi equipment made by several manufacturers that they allege to infringe on its patents. In February, a Federal judge dismissed a suit by one of those manufacturers to prevent the PAE from seeking royalties from Cisco customers. See Jones (2013).

victims, or effects legal service of a complaint. The troll then pursues settlement by threatening massive and costly discovery,… of every electronic document that might touch upon the alleged claims, by any person inside the defendant's operations. …[In one recent case], the number of electronic documents that we had to collect exceeded 10 million.... SAS won summary judgment in this case and it is now on appeal to the Federal Circuit. So far this case has cost us in excess of $8 million [in legal fees alone].

If SAS ultimately wins this case it will be a Pyrrhic victory at best. We spent $8 million and huge amounts of developer time and executive time etc., for what? This victory does not resolve the other patent troll cases that we face, or will face in the future. This $8 million and the millions more we are spending on other cases is money SAS no longer has to invest in people, facilities, research, or product development; and we are a relatively small player in this world. .. It does not cost much to be a troll and to make broad, vague demands. On the other hand, the risk to the company receiving a troll threat is enormous.(Boswell 2013)

Small company example

A PAE sent letters to hundreds of small businesses alleging infringements of patents if the businesses have document scanners integrated into their computer networks, and demanding a "good faith payment" of $900-1,200 per employee for a license. The letter provides no specific evidence against the recipient; it argues instead that general research "has led us to the conclusion that an overwhelming majority of companies like yours utilize systems that are set up to practice at least one of scenarios A through C" that are covered by the patents. In May, the State of Vermont sued the PAE for unfair and deceptive practices, alleging that the letters were targeted to businesses and non-profits unlikely to be familiar with patent law, that they "shifted the entire burden of the pre-suit investigation onto the small business that received the letters", and that despite repeated threats to sue if the payment is not made, no such suits had been filed (see Fisher, 2013).

III. "Functional Claiming" and Uncertain Infringement

To be awarded a patent, an inventor must disclose the invention in sufficient detail to enable skilled practitioners in the relevant field to understand it and potentially build upon it. Patent applicants must also articulate the specific claims as to the scope of the patent. Understanding which products and processes are, in fact, protected by the patent is essential to avoiding infringement upon that patent. Moreover, such clarity enables patents to serve the socially beneficial purpose of promoting technology transfer. The Patent and Trademark Office grants patents only if the claims are novel (have not been made before) and are not obvious to a person skilled in the relevant art.

Setting an appropriate bar for novelty and non-obviousness is particularly important in a new field; if the bar is not set high (something difficult to do in a new field), firms may well find themselves inadvertently infringing patents, both because of the sheer number of patents and because commercial need is driving many inventors to create similar inventions near-simultaneously (Lemley and Melamed 2013). Many practitioners of such technologies (such as railroads in the 19th

century and software today) find it more profitable to focus on expanding the overall market for their products by technological cooperation with rivals, rather than working to clearly delineate property rights (Boldrin and Levine 2013).

An additional reason that the issue of overbroad patents is particularly salient in software is due to the prevalence of "functional claiming" in these patent classes (Lemley 2012). A claim term is "functional" when it recites a feature by "what it does rather than by what it is" (In re Swinehart 1971).[4] Functional claiming involves claiming exclusive rights over any device that performs a given function, regardless of how that function is performed.

Functional language can therefore lead to very broad and/or vague claims. These problems are especially acute for software patents. For these patents, it has been argued that the code *is* the function, with the implication that a software patent arguably excludes any other code that performs that same function. In contrast, in pharmaceuticals, the distinction between a function and the means used to perform that function is generally clear. For example, several patents have been awarded for the function of reducing cholesterol; each patent covers a different chemical compound—a different means of providing that function.

Compounding the problem is the fast-moving, interdependent nature of technical change in the software industry. Functional claims can be used to 'over-assert' a patent by attempting to cover products and processes that were never contemplated by the inventor or the examiner as being within the claim scope at the time of the invention. For example, a patent claim about a programmed processor could be asserted broadly to cover any and all devices that achieve the claimed result, rather than being limited to a device programmed with the specific software used by the inventor.

In addition, a single piece of software or website might have several thousand "functions" that could be claimed in as many patents. It is also difficult for an outsider to judge what an inventor meant by a claim and to know what sort of invention would be "obvious" to a skilled practitioner and thus unworthy of a patent. For example, in the case discussed earlier, the appeals court had to consider detailed features of twenty-year-old technologies to determine whether the shopping basket patents in fact made novel claims.

Thus, it can be very difficult to know if one is infringing patents. These broad, functionally-defined, and intertwined patents are therefore a key part of the PAE business model. These intermediaries acquire broad patents and threaten suit, in hopes of extracting settlements. If even one patent in a complex product is held to be infringed, the product cannot be legally sold (Lemley and Shapiro, 2005). This situation can lead to problems for practicing firms both large (note that a single smartphone may read on over 100,000 patents) and small (the basis of the demand letters discussed in the examples above is the alleged interaction between components of a computer

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[4] For example, functional language is often used to add further description to a structure or step, e.g., a claim may recite a conical spout (*a structure*) that allows several kernels of popped popcorn to pass through at the same time (*a function*). *In re Schreiber*, 128 F.3d 1473, 1478(Fed. Cir. 1997).

network found in most offices). The stakes are particularly high when the venue for an infringement dispute is the U.S. International Trade Commission (ITC), given the ITC's inability to award damages and reliance instead on exclusion orders barring import of products deemed infringing into the United States.

IV. The Economic Cost of PAE Activity

While most patents are not litigated and are properly practiced and enforced, the harassing litigation tactics of some PAEs, combined with substantial litigation costs (ranging from a median of $650,000 for smaller cases, to a median of over $5 million per case where the amount in controversy exceeds $25 million) (AIPLA 2013), have added significant costs to the innovation ecosystem and sapped investments in research and development, causing great harm to society. These costs are of several types.

Direct costs to firms that practice patents. James Bessen and Michael Meurer (2012) find that defendants and licensees paid PAE's $29 billion in 2011, a 400% increase from 2005; they estimate that less than 25% of this money flowed back to innovation.[5] In addition, in the majority of PAE cases, the legal cost of the defense exceeds this settlement or judgment amount (Chien 2012c).

Private costs of lost opportunities to commercialize technology. One might argue that the losses to defendants accused of infringement would be offset by gains to the owners of patents. However, very little such transfer of value appears to take place. For example, in the years 2000 through 2010, a set of fourteen publicly-traded PAEs followed by Bessen, Meurer, and Ford (2011) had total revenues of $7.6 billion.[6] Patent suits initiated by those fourteen entities were associated with a decline of $87.6 billion in defendant company share value over the same period, implying that the financial award experienced by winning PAEs amounts to less than 10% of the lost share value in this sample.

While drops in the share value of a defendant companies may reflect other economic factors (e.g. the now-raised expectation of losing future suits or making settlement payments), the 90% of lost defendant share values that simply vanishes suggests considerable lost value to society from forgone technology transfer and commercialization of patented technology. Aggregating to all suits by PAEs yields lost wealth of over $300 billion in four years starting in 2007. That is, the stock

[5] In their papers, Bessen and Meurer define PAEs as firms with each of the following characteristics: they "do not produce goods, rather they acquire patents in order to license them to others," they "seek to derive the majority of their income from the enforcement of patent rights," and they file lawsuits.

[6] These revenues may include revenues from sources other than litigation, and therefore may overstate the value of transfers from defendants to these PAEs. Note that the $7.6 billion does not include payment streams received after 2010 related to settlements won during the study period. Future payment streams are unlikely to be large given that settlements tend to be paid in lump sums. Also, the "event study" method used by the authors controls for the impact of the recession on firm valuations, because the method looks at changes in a firm's share value around the time of a lawsuit filing.

market values the lost opportunities for technology commercialization as significantly greater than the direct payments from defendants and licensees to PAEs.

Even if patent assertion entities do not prevail in the courtroom, their actions can significantly reduce incremental innovation while litigation is ongoing, a situation that can persist for years. The reason is that such action could be viewed by courts as an evidence of "willful infringement" if the plaintiff's patent is upheld, making the firm liable for treble damages. For example, one study found that during the years they were being sued for patent infringement by a PAE, health information technology companies ceased all innovation in that technology, causing sales to fall by one-third compared to the same firm's sales of similar products not subject to the PAE demand (Tucker 2013).

Social costs of reduced innovation. A great deal of economic literature shows that firms do not capture all the value created by the research and development they do (Mansfield 1968). Thus, the losses caused by excessive litigation exceed even the large stock market losses described above, including lost value to consumers who are not able to buy innovative products, and reduced income for workers whose pay is lower because they are unable to work with more productive new processes.

Range of Victims

Although PAEs often target major, household-name and deep-pocketed technology companies, they also target start-ups and small companies. In fact, though the most substantial settlements are often extracted from large entities, the majority of PAE suits target small and inventor-driven companies (Bessen and Meurer 2012).

Recent surveys provide evidence for the negative impact of PAE litigation on innovative companies. The impact on smaller startups is particularly acute. In a recent survey of 223 technology company startups, 40 percent of PAE-targeted companies reported a "significant" operational impact (e.g. change in business, exit from the market, delay in milestone, change in product, etc.) due to the suit or threat thereof (Figure 2).[7] In another recent survey of 116 in-house counsels, primarily from firms with over $100 million in annual revenue, nearly all firms reported that PAE demands had affected them financially or distracted them from their core business, with nearly 40 percent stating that PAE activity had led them to make changes to an underlying product (McBride 2013).

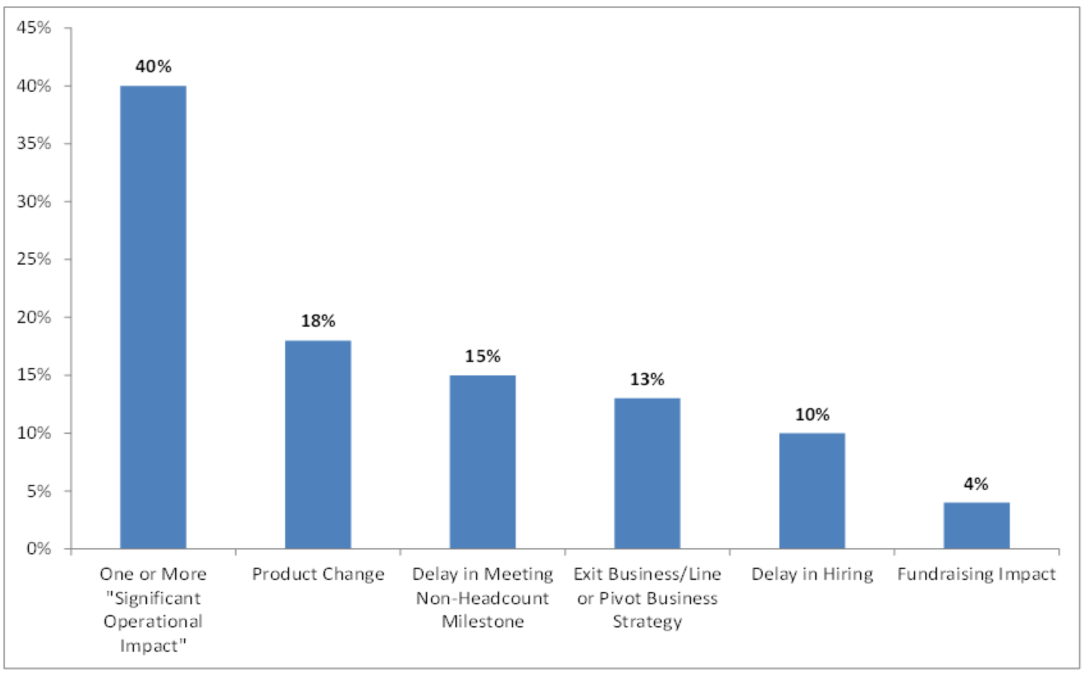
PAEs have also sent infringement notices to "downstream users" of technologies, who are often small companies, as in the scanner and Wi-Fi cases discussed above. Although the amount of money extracted from each company is small, the number of potential defendants makes this strategy potentially profitable overall.

[7] "PAE" was defined as "an entity that does not offer products/services" and makes a "demand" regarding patents (Chien 2012).

Aggressive litigation tactics have also been adopted by some firms that practice their patents. The recent spate of patent litigation among large technology companies—termed the "smartphone patent wars" by the press—typifies this behavior, which also involves companies purchasing massive numbers of patents as a defense against of litigation, or as leverage in negotiating licenses with competitors.

Between $15-20 billion was spent on patent litigation and patent purchases in the smartphone industry from 2010- 2012 (Lemley 2012). And in 2011, spending by Apple and Google on patent litigation and patent acquisitions exceeded spending on research and development of new products, according to public filings (Duhigg and Lohr 2012).[8] Indeed, Google's $12.5 billion purchase of Motorola, according to its own statements, was undertaken in large part to prevent patent suits from competitors (Womack and Tracer 2011).

Figure 2: Impacts of a PAE Demand on Technology Startups[9]



"Defensive" purchase of patents has come under scrutiny by the Federal Trade Commission and the Department of Justice for potentially anti-competitive behavior.[10] In one illustrative case,

[8] In 2012, Google spent $12.5 billion to buy Motorola Mobility and its patents and $5.2 billion in 2011 on research and development (R&D) Google, Inc., Annual Report (Form 10-K) 6 (Jan. 26, 2012), available at http://www.sec.gov/Archives/edgar/data/1288776/000119312512025336/d260164d10k.htm. In 2011, Apple spent $2.4 billion on R&D but contributed more, approximately $2.6 billion, to a single transaction to buy patents from Nortel. Apple, Inc., Annual Report (Form 10-K) 7 (Oct. 26, 2011), available at http://www.sec.gov/Archives/edgar/data/320193/000119312511282113/d220209d10k.htm

[9] Source: Chien 2012

[10] http://www.justice.gov/atr/public/press_releases/2012/280190.htm

Apple and Motorola engaged in protracted legal wrangling over whether Motorola's royalty requests were reasonable given that the technology was "standard essential," i.e. required for a standardized technology to function. In some technical standards-setting situations in which a patented technology is being considered for inclusion in a standard (such as Wi-Fi), a patent-holder may agree to offer licenses for the technology on "fair, reasonable, and non-discriminatory" (FRAND) terms, in return for gaining access to the broad market that having a standard potentially creates.

When standards incorporate patented technologies, owners of those patents benefit from expanded marketing and licensing opportunities, while the public benefits from products embodying the best technical solutions. However, a product that complies with such a standard will necessarily read on these patents, creating a potential incentive for patent owners to raise the price of a license after the standard is set. In early 2013, the Department of Justice and Patent and Trademark Office issued a joint policy statement on the implications of this phenomenon for enforcement at the International Trade Commission (ITC).[11] Also in 2013, the FTC settled with Google, issuing a consent decree in which Google agreed to honor Motorola's prior commitments to license standard-essential technologies on FRAND terms (Federal Trade Commission 2013).

V. Conclusion

> *[A]mong a host of dormant patents, some will be found which contain some new principle . . . which the inventor, however, had failed to render of any use in his own invention. And some other inventor, ignorant that such a principle had been discovered... had the genius to render it of great practical value . . . when, lo! the patent-sharks among the legal profession, always on the watch for such cases, go to the first patentee and, for a song, procure an assignment of his useless patent, and at once proceed to levy black-mail upon the inventor of the valuable patent*.
>
> - Senator Issac Christiancy, (R – Michigan) 1878[12]

"Patent Assertion Entities" (PAEs) often abuse the U.S. intellectual property system's strong protections by using tactics that create outsize costs to defendants and innovators at little risk to themselves. The PAE business model is based on the presumption that in many cases, targeted firms will settle out of court rather than take the risky, time-consuming course of allowing a court to decide if infringement has occurred.

The practices of this group of firms, which has come to file 60% of all patent lawsuits in the US, act to significantly retard innovation in the United States and result in economic "dead weight loss" in the form of reduced innovation, income, and jobs for the American economy.

Improving policy in this area is challenging because maintaining the incentives for innovation provided by patents requires allowing litigation when patents are infringed, and because practicing firms sometimes act badly as well.

[11] http://www.justice.gov/atr/public/guidelines/290994.pdf
[12] 45 CONG. REC. 307 (1878); quoted in Magliocca, 2007

As the quote above suggests, this problem has occurred before in US history. These abusive suits occur when it is costly or risky for practicing firms to defend themselves against unwarranted claims of infringement. Similar cases occurred with patents for agricultural equipment and for railroad equipment in the late 19th century.

In the case of agriculture, “shark” activity was unleashed in the late 1860s when the Commissioner of Patents (with the support of Congress) issued rulings that had the effect of reducing the bar for non-obviousness. In the 1880s, the Patent Office (again supported by Congress) changed the standard back to what it had been, and suits by non-practicing patent owners fell dramatically (Lamoreaux, et al 2013; Magliocca 2007).

In the case of railroad equipment, the late 19th century was a period of fast-moving, complex technical change, making it difficult to determine whether claims were novel and non-obvious to a skilled practitioner. In addition, practitioners of railroad technologies (not unlike software innovators today) preferred to focus on expanding the overall market for their products by technological cooperation with rivals, rather than working to clearly delineate property rights (Boldrin and Levine 2013). In this case, “shark” activity fell away as a) railroad firms banded together to fight all claims of infringement (rather than settling) and b) patent claims became narrower and clearer, as railroad technology became more codified (Chien 2012; Usselman and John, 2006).

A key factor in the rise of patent assertion by non-practicing entities in each of these cases was a change in law or technology that led to uncertainty about whether a patent had been infringed (for example, the granting of large numbers of patents that were broadly written or that met only a low standard of non-obviousness). History suggests that it should be possible to address these challenges. There have been two periods when conditions arose for the PAE or “shark” business model to be profitable (Lamoreaux *et al* 2013). In both instances, once the underlying conditions were changed, this business model was no longer profitable and litigation of this type fell dramatically.

Thus, the best approach to resolving today’s patent troll problem is not to ban firms specialized in patent assertion, but rather to reduce the extent to which legal rules allow patent owners to capture a disproportionate share of returns to investment (Lemley 2008). We see three main areas for improvement: clearer patents with a high standard of novelty and non-obviousness, reduced disparity of litigation costs between patent owners and technology users, and greater adaptability of the innovation system to challenges posed by new technologies and new business models.

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STATE OF VERMONT
SUPERIOR COURT
WASHINGTON UNIT

STATE OF VERMONT, Plaintiff v. MPHJ TECHNOLOGY INVESTMENTS, LLC Defendant	)))))))	CIVIL DIVISION Docket No. 282-5-13 Wncv

CONSUMER PROTECTION COMPLAINT

I. Introduction

1. The Vermont Attorney General brings this suit under the Vermont Consumer Protection Act, 9 V.S.A. §§ 2451 *et seq.* in response to consumer fraud violations by Defendant MPHJ Technology Investments, LLC. Defendant has engaged in unfair and deceptive acts by sending a series of letters to many small businesses and non-profit organizations in Vermont. The letters threaten patent litigation if the businesses do not pay licensing fees. The Attorney General seeks injunctive relief, restitution and other compensation to consumers, civil penalties, fees and costs, and other appropriate relief.

II. Parties, Jurisdiction and Related Matters

2. Defendant MPHJ Technology Investments, LLC ("MPHJ Technology") is a Delaware Limited Liability Company that claims to be located at 1220 North Market Street, Ste. 806, Wilmington, Delaware 19801. This is the address of Registered Agents Legal Services, LLC, MPHJ Technology's registered agent in Delaware.

3. MPHJ Technology operates in Vermont through forty wholly-owned shell subsidiary companies: AbsMea, LLC; AccNum, LLC; AdzPro, LLC; BarMas, LLC; BetNam,

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LLC; BriPol, LLC; BruSed, LLC; BunVic, LLC; CalLad, LLC; CalNeb, LLC; CapMat, LLC; ChaPac, LLC; CraVar, LLC; DayMas, LLC; DesNot, LLC; DreOcc, LLC; DucPla, LLC; ElaMon, LLC; EntNil, LLC; EquiVas, LLC; FanPar, LLC; FasLan, LLC; FolNer, LLC; FraMor, LLC; GimVea, LLC; GosNel, LLC; GraMet, LLC; HadOpp, LLC; HanMea, LLC; HarNol, LLC; HeaPle, LLC; InaNur, LLC; InkSen, LLC; IntPar, LLC; IsaMai, LLC; JamVor, LLC; JitNom, LLC; JonMor, LLC; JudPur, LLC; and JusLem , LLC (collectively, the "Shell LLCs"). Each of the Shell LLCs is a Delaware Limited Liability Company that claims to be located at 40 East Main Street, #19, Newark, Delaware 19711, a UPS Store.

4. Jay Mac Rust, a Texas attorney, is the manager of MPHJ Technology. Calls from letter recipients to any Shell LLC are directed to Mr. Rust if there is a significant problem.

5. Mr. Rust is also the signatory of every patent's "Exclusive License Agreement" between MPHJ Technology and each Shell LLC. He has signed each agreement on behalf of both MPHJ Technology and the Shell LLC.

6. MPHJ Technology controls the operations of the Shell LLCs.

7. At all times relevant to this Complaint, Defendant MPHJ Technology did business in Vermont and solicited payments from Vermont consumers through its wholly owned subsidiaries.

8. The Vermont Attorney General is authorized under the Vermont Consumer Protection Act, 9 V.S.A. § 2458(b), to sue to enforce the Act's prohibitions on unfair and deceptive acts and practices in commerce.

9. This Court has personal jurisdiction over Defendant and is the proper venue for this action, based on the unfair and deceptive letters sent, or otherwise authorized, by Defendant throughout Vermont, including in Washington County.

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10. This action is in the public interest.

III. Statutory Framework

11. The Vermont Consumer Protection Act, 9 V.S.A. § 2453(a), prohibits unfair and deceptive acts and practices in commerce.

12. Businesses are considered consumers under the Vermont Consumer Protection Act, except where the goods or services at issue are being resold by the business.

13. The acts described below, and summarized in paragraphs 14-54, constitute unfair and deceptive acts and practices in commerce.

IV. Facts

14. Since September 2012, numerous Vermont small businesses have received letters from one of the Shell LLCs.

15. Defendant, acting through the Shell LLCs, has sent similar letters to hundreds or thousands of businesses outside Vermont.

16. One Vermont recipient of the letters was Lincoln Street, Inc., a Springfield, Vermont non-profit that operates on state and federal funding to bring home care to developmentally disabled Vermonters. Another Vermont recipient was ARIS Solutions, a non-profit that provides fiscal agent services to Vermonters with disabilities to assist them with daily living tasks.

17. The letters allege potential infringement of MPHJ Technology's patents, and request that the recipients either purchase licenses or confirm that they are not infringing the patents. *See* Exs. A-C.

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18. The patents that Defendant owns and that are referenced in these letters sent to Vermont businesses were previously the subject of litigation brought by the prior owner of the patents. Those lawsuits were voluntarily dismissed by the patent-holder prior to any determination of their validity. No court has ruled on the validity of the patents.

19. The earliest patent referenced in these letters was filed in 1998 and issued in 2001.

20. On information and belief, no attempt to enforce the patents occurred until 2012.

21. Exhibit A is a redacted copy of the first letter sent to targeted businesses.

22. The first letter began, "We have identified your company as one that appears to be using the patented technology."

23. The first letter further stated:

> You should know also that we have had a positive response from the business community to our licensing program. As you can imagine, most businesses, upon being informed that they are infringing someone's patent rights, are interested in operating lawfully and taking a license promptly. Many companies have responded to this licensing program in such a manner. Their doing so has allowed us to determine that a fair price for a license negotiated in good faith and without the need for court action is payment of [$900 – $1200] per employee.

24. The first letter demanded that if the recipient business did not believe it was infringing, it fill out a questionnaire and produce extensive and burdensome documentation to prove that it was not infringing. *See* Ex. A, p. 4, para 2.

25. Exhibit B is a redacted copy of the third letter in the series of letters sent to Vermont businesses.

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26. Exhibit C is a redacted copy of a draft complaint sent to Vermont businesses with the second or third letter.

27. The second and third letters were sent by a Texas law firm, Farney Daniels LLP ("Farney Daniels"). The second and third letters state that Farney Daniels is sending the letters on behalf of the Shell LLC that sent the first letter.

28. These later letters claimed that, because the recipients did not respond to the first, or first and second, letters, it was reasonable to assume that the recipient was infringing the patents, and Defendant had therefore retained patent counsel.

29. Some businesses that have complained to the Attorney General never received the first or second letters, and only received a third letter that referred to the prior letters.

30. The second letter stated that Farney Daniels' representation can involve litigation, which could be avoided if the recipient were to respond in two weeks to discuss licensing the patents.

31. The third letter twice promised to bring litigation:

> [I]f we do not hear from you within two weeks from the date of this letter, our client will be forced to file a Complaint against you for patent infringement in Federal Court where it will pursue all of the remedies and royalties to which it is entitled. . . .
>
> <u>[W]e must hear from you within two weeks of the date of this letter.</u> Given that litigation will ensue otherwise, we again encourage you to retain competent patent counsel to assist you in this matter. (Emphasis in original).

32. The third letter, and sometimes the second letter, attached a draft complaint against the receiving business, naming the Shell LLC that sent the letter as the plaintiff. *See* Exhibit C.

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33. Defendant states in the letters that it will target additional Vermont businesses as part of its "ongoing vigorous licensing program."

34. The three letters Defendant sent to Vermont businesses contain statements that are false, deceptive, and likely to mislead the businesses that received them.

35. On information and belief, Defendant performed little, if any, due diligence to confirm that the targeted businesses were actually infringing its patents prior to sending these letters.

36. Defendant targeted small businesses in commercial fields that were likely unrelated to patent law.

37. On information and belief, Defendant has not received a positive response from the business community to its licensing program.

38. Nationwide, only a tiny fraction of the businesses that have received these letters, not "many" or "most," have purchased licenses.

39. The actual average licensing fee negotiated by Defendant was less than $900.

40. A business that receives a letter from a law firm that mentions the possibility of litigation is reasonably likely to infer that the threat of potential litigation is real.

41. Neither Defendant nor any Shell LLC has filed a single lawsuit in Vermont or any other state.

42. Over 130 days have passed since Vermont businesses began receiving letters promising that they would be sued if they did not respond within two weeks.

43. On information and belief, at the time the third letters were sent, and Defendant's counsel promised to sue the recipient businesses, Defendant had not engaged

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in any further investigation of the recipient businesses or determined that the businesses were actually infringing its patents.

44. At the time the letters were sent to Vermont businesses, Defendant had not retained local Vermont counsel, as would be needed to prepare for litigation in Vermont.

45. Obtaining an opinion from qualified patent counsel as to whether a patent is valid and whether a potential patent-infringement action is likely to succeed can cost thousands of dollars, and can exceed the cost of the requested licenses.

46. Even an unsuccessful patent-infringement action may cost the defendant in excess of $1-2 million if the defendant chooses not to settle.

47. In certain circumstances, defendants in patent litigation may be able to recover their costs from plaintiffs, but that requires first enduring the entirety of the litigation.

48. If the defendant in a patent lawsuit successfully moves for an award of fees and costs, but the plaintiff is an undercapitalized shell company, the defendant will not be reimbursed for the costs of litigation.

49. In the letters sent to Vermont businesses, each Shell LLC claimed to possess an exclusive license, which would permit it to enforce the patents against businesses within a specific geographic area and commercial field.

50. Each Shell LLC was actually assigned a combination of geographic and commercial fields that was identical to at least one other Shell LLC.

51. Given the overlapping assignments, the Shell LLCs do not possess exclusive licenses.

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52. The Shell LLCs mostly targeted businesses in Vermont that were located outside the geographic regions in which the Shell LLCs claimed to be legally permitted to enforce the patents.

53. Despite the reasonable inference that counsel sending a letter threatening litigation has reviewed the case and found it meritorious in accordance with his or her professional and ethical obligations, on information and belief, that review did not take place.

54. Defendant acted in bad faith by sending these letters to Vermont businesses.

V. Cause of Action: Unfair and Deceptive Trade Practices

55. Plaintiff realleges and incorporates by reference herein each and every allegation contained in the preceding paragraphs 1 through 54.

56. Defendant engaged in unfair trade practices in commerce in violation of the Vermont Consumer Protection Act, 9 V.S.A. § 2453(a), including:

a. Stating that litigation would be brought against the recipients, when Defendant was neither prepared nor likely to bring litigation;

b. Using legal counsel to imply that Defendant had performed a sufficient pre-suit investigation, including investigation into the target businesses and their potentially infringing activities, that would be required to justify filing a lawsuit;

c. Targeting small businesses that were unlikely to have the resources to fight patent-litigation, or even to pay patent counsel;

d. Sending letters that threatened patent-infringement litigation with no independent evidence that the recipients were infringing its patents;

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e. Shifting the entire burden of the pre-suit investigation onto the small businesses that received the letters;

f. Propounding burdensome information demands on any business that claimed not to infringe the patents; and

g. Using shell corporations in order to hide the true owners of the patents, avoid liability, and encourage quick settlements.

57. Defendant engaged in deceptive trade practices in commerce in violation of the Vermont Consumer Protection Act, 9 V.S.A. § 2453(a), by making deceptive statements in the threatening letters which would likely lead consumers to believe the following:

a. Defendant would sue the target businesses if they did not respond within two weeks;

b. Defendant would sue the target businesses if they did not pay money;

c. Defendant had a reasonable basis for identifying the target businesses as infringing its patents;

d. Subsidiary Shell LLCs were exclusive licensees able to enforce the patents;

e. Target companies were within the sending Shell LLC's alleged area of exclusivity;

f. Defendant's licensing program had received a positive response from the business community;

g. Many or most businesses were interested in promptly purchasing a license from Defendant;

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h. Based on prior licensing agreements, the fair price of a license was between $900 and $1200 per employee;

i. Target businesses were receiving a third letter, which refers to two prior letters, when in many cases recipients had received no prior letters.

WHEREFORE Plaintiff State of Vermont requests judgment in its favor and the following relief:

1. A permanent injunction prohibiting Defendant from engaging in any business activity in, into or from Vermont that violates Vermont law.

2. A permanent injunction requiring Defendant to stop threatening Vermont businesses with patent-infringement lawsuits.

3. Full restitution to all Vermont businesses who suffered damages due to Defendant's acts.

4. Civil penalties of up to $10,000.00 for each violation of the Consumer Protection Act.

5. The award of investigative and litigation costs and fees to the State of Vermont.

6. Such other relief as the Court deems appropriate.

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Dated: May 8, 2013

STATE OF VERMONT

WILLIAM H. SORRELL
ATTORNEY GENERAL

By: ______________________________

Bridget C. Asay
Ryan Kriger
Assistant Attorneys General
Vermont Attorney General's Office
109 State Street
Montpelier, VT 05609
Tel. (802) 828-5500
basay@atg.state.vt.us
rkriger@atg.state.vt.us

Exhibit A

HarNol, LLC

40 East Main Street, #19
Newark DE 19711
866-320-8371
licensing@harnol.org

[redacted]

[redacted]

[redacted]

Re: [redacted]

We are the licensing agent for certain U.S. patents listed below. We have identified your company as one that appears to be using the patented technology, and we are contacting you to initiate discussions regarding your need for a license. In this letter, we explain what the patents cover, how you likely have an infringing system, explain why a license is needed, and provide you the general terms for such a license. We also answer some frequently asked questions, as well as explain how you can determine whether you do have an infringing system that requires a license. We should note that we have written you with the understanding that you are the proper person to contact on behalf of [redacted] If you are not the proper person to handle this matter on behalf of the company, please provide this letter to the proper person, and notify us so that we may update our records and contact them directly in the future.

To turn to the matter at hand, the patents for which we are the licensing agent are listed below. The list includes both issued U.S. patents, as well as a patent application which is expected to issue in the future as an additional U.S. patent.

1. U.S. Pat. No. 7,986,426 ("Distributed Computer Architecture And Process For Document Management");
2. U.S. Pat. No. 7,477,410 ("Distributed Computer Architecture And Process For Virtual Copying");
3. U.S. Pat. No. 6,771,381 ("Distributed Computer Architecture And Process For Virtual Copying");
4. U.S. Pat. No. 6,185,590 ("Process And Architecture For Use On Stand-Alone Machine And In Distributed Computer Architecture For Client Server And/Or Intranet And/Or Internet Operating Environments"); and
5. 13/182,857 filed July 14, 2011 ("Distributed Computer Architecture And Process For Document Management").

You can find and review each of the issued patents listed above at www.google.com/patents.

[redacted]

As you may know, a patent's scope is defined by its claims, and you will see that each of the above-listed patents have different claims. While those differences matter and mean each patent is distinct, the patents listed above do, as a group, generally relate to the same technology field, and cover what at the time was a groundbreaking distributed computer architecture and process for digital document management. An illustrative embodiment of the architecture of the patents is provided in Figure 28, which is reproduced here for your reference.

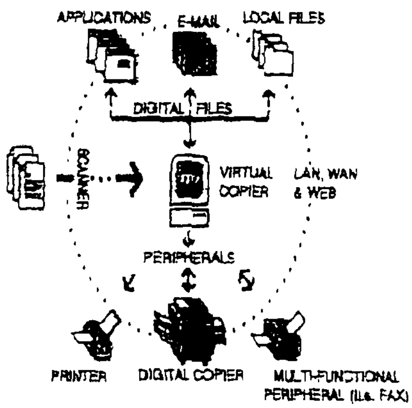

Fig. 28

A good example of an infringing system, and one your company likely uses, is an office local area network ("LAN") which is in communication with a server, employee computers having email software such as Outlook or Lotus, and a third-party scanner (or a multi-function printer with scanning functionality) which permits the scanning of a document directly to employee email address as a pdf attachment. Such a system would be a typical example of what infringes. There are other examples listed further below.

We note here that the scope of the patents is technically defined by the claims, and the language of the claims defines the legal scope of the patents. The more generalized examples provided in this letter are for your convenience and should not be considered exact substitutes for the more detailed claims. As such, you may find it useful to consider, as illustrative examples, claims 1-5 of the '426 Patent. Reviewing those you can see that the patent claims are directed to a system having a digital copier/scanner/multifunction device with an interface to office equipment (or to the web) and related software, for scanning or copying and transmitting images electronically to one or more destinations such as email, applications or other local files. Coverage of this type of system, and of the more generally worded example in the previous paragraph, is further reflected in claims 1, 8 and 15 of the '410 Patent, claims 12 and 15 of the '381 Patent, and claims 9 and 16 of the '590 Patent. Obviously each claim is separately drafted and you should consider the scope of each claim separately.

To assist you in confirming that you need a license, we provide illustrative examples of infringing systems below in the form of a brief set of fact checklists that you can use to determine if your system is one for which you should contact us about a license. If you can answer "YES" to each question under any of the scenarios A through C below, then you should contact us promptly.

[redacted]

A. Internetworking of Scanner/MFP and Email (SMTP, IMAP, POP3)

Yes **No**

□ □ 1. Does your company use document scanning equipment that is network addressable (*i.e.*, it has an IP address and can communicate on your network);

□ □ 2. Does your company use Microsoft Exchange/Outlook, Lotus Domino/Notes or a comparable system for company email;

□ □ 3. Are at least some of your employees' email addresses loaded into the scanner, so that you can select to whom you wish to send a scanned document by email; or, alternatively, can you manually input an employee's email address into the scanner to whom you wish a scanned document to be sent; and

□ □ 4. Can you cause your scanner to transform your paper document to a .pdf file, and have it automatically transmitted to one or more of your employees by email. By automatically, we mean that pressing a "Start" or "Go" button instigates both the copying of the document and the automatic transmission of the document to its intended destination (such as a Microsoft Outlook email inbox).

B. Scanner/MFP and Sharepoint (HTTP and HTTPS)

□ □ 1. Does your company use document scanning equipment that is network addressable (*i.e.*, it has an IP address and can communicate on your network);

□ □ 2. Does your company use Microsoft Sharepoint; and

□ □ 3. Is your scanner equipment configured so that you can scan a document and automatically transmit it to a Sharepoint site address.

C. Scanner/MFP and FTP/SFTP Site

□ □ 1. Does your company use document scanning equipment that is network addressable (*i.e.*, it has an IP address and can communicate on your network);

□ □ 2. Does your company use File Transfer Protocol and/or Secure File Transfer Protocol; and

□ □ 3. Is your scanner equipment configured so that you can scan a document and automatically transmit it to an FTP or SFTP site.

Our research, which includes review of several marketplace trends and surveys, including various IDC reports, Infotrends reports and market share analyses, as well as a recent survey of an IT service company about the internal network environments of its clients, has led us to the conclusion that an overwhelming majority of companies like yours utilize systems that are set up to practice at least one of scenarios A through C above. Indeed, such practices are now standard in many industries. As a common example, our investigation has shown that most businesses have migrated to the usage of corporate email servers running Exchange or Lotus Domino/Notes and have further incorporated digital scanning into their workflows.

[redacted]

As your organization almost certainly uses in its day-to-day operations digital copier/scanner/multifunction equipment which is interfaced to a separate central office computer (an office network), so that digital images may be scanned and transmitted to one or more destinations such as email accounts and other applications, you should enter into a license agreement with us at this time.

If you believe you are in the unusual position of not having a system that can practice any of scenarios A through C outlined above, or otherwise avoids the requirements of the patent claims, please contact us so we may discuss means for confirming that. Upon appropriate confirmation, we would agree you have no need of a license and would not intend to pursue the matter further unless circumstances changed in a way to warrant reopening a reasonable inquiry. The materials we likely would require could include copies of the user manuals for your office copying/scanning equipment, along with the IP addresses and 2012 daily activity logs for each of them, as well as the registry of each of the email servers and file servers used in your company. These would allow us to determine whether we agree with your assessment. Of course, we are willing to treat any information you provide us as confidential and we will sign a non-disclosure agreement to that effect if you so desire. We should note that the examples A through C above are not an exhaustive list of the systems which may infringe, and that it may be determined that your system nevertheless requires a license even if it does not exactly fit one of the more common examples we have provided in this letter. However, when you provide us with the above information, we will be able to make that determination and explain that situation to you, if it exists.

You should know also that we have had a positive response from the business community to our licensing program. As you can imagine, most businesses, upon being informed that they are infringing someone's patent rights, are interested in operating lawfully and taking a license promptly. Many companies have responded to this licensing program in such a manner. Their doing so has allowed us to determine that a fair price for a license negotiated in good faith and without the need for court action is a payment of $1,000 per employee. We trust that your organization will agree to conform your behavior to respect our patent rights by negotiating a license rather than continuing to accept the benefits of our patented technology without a license. Assuming this is the case, we are prepared to make this pricing available to you.

As part of our licensing program, we have received certain common inquiries that frequently are asked. In anticipation that you might have some of those same questions, and with an interest in addressing those sooner than later, we wish to provide some additional information as well.

One common question we have been asked is why we are not contacting the manufacturers of the scanning equipment or application software directly. The answer is our patent rights do not claim any scanning equipment, network file systems, FTP or Sharepoint sites, or email systems *alone*. Instead, our patent rights are addressed to end user enterprise systems which use network scanners or MFPs interoperably with other software/systems in order to practice the patented solution. As such, we would not, and do not, expect any manufacturer of a particular piece of equipment or software to accept any responsibility for the infringement created by the overall system, of which their product is only a part. Further, we expect that if you review your own agreements with these manufacturers, you will find that likewise they do not owe you any duty to indemnify you for situations where you combine a piece of equipment or software with other equipment or software to make a larger, more integrated (and useful) system.

[redacted]

Another common question is whether (or why) you have been singled out to receive this letter, as you may believe there are other companies like you that have not been contacted. Our response to that is to assure you that we have an ongoing vigorous licensing program that is being handled as promptly as possible, and that we fully expect to address the companies who are in need of a license. That said, your infringement of the patent rights is not justified by the infringement by others, as we are sure you understand.

We do invite you to consult with a patent attorney regarding this matter. Patents are exclusive property rights granted by law, and there can be serious consequences for infringement. Infringers who continue to infringe in the face of an objectively high risk of infringement of a valid patent can be forced to pay treble (triple) the actual damages, as well as the patent owner's litigation costs, including all attorney's fees.

Please let us hear from you within two weeks of the date of this letter, so that we may agree with you upon an appropriate license arrangement if one is needed. You may answer by contacting us by mail, phone, or email at the address provided at the start of this letter. We look forward to hearing from you.

Sincerely,

David Martin
HarNol, LLC

FARNEY DANIELS LLP

[redacted]

Silicon Valley
Dallas

800 South Austin Ave., Suite 200
Georgetown, Texas 78626-5845
www.farneydaniels.com

Delaware
Austin/Georgetown

[redacted]

Via First Class Mail

[redacted]

Re: [redacted]

Dear [redacted]

We write with respect to the patent licensing efforts of our client, EntNil, LLC. This is the third letter you have received on this topic. The first letter, sent to you some time ago, provided a detailed explanation of what our client's patents cover, how you likely have an infringing system and therefore require a license, and provided you with the general terms for such a license. We then wrote you several weeks ago, noting that our client had not received a response from you, and had turned the matter over to us in hopes that we would be able to work out a license agreement. Both letters advised you to seek patent counsel for assistance. As you have not contacted us to explain that you do not have an infringing system, we reasonably can only assume that the system you are using is covered by the patents. In that case, you do need a license.

Accordingly, if we do not hear from you within two weeks from the date of this letter, our client will be forced to file a Complaint against you for patent infringement in Federal District Court where it will pursue all of the remedies and royalties to which it is entitled. The Complaint is attached, so that you may review it and show it to your counsel. Please note that we reserve the right to modify the Complaint, including adding additional patents, before we file. While our client would like to avoid litigation, it takes its licensing responsibilities seriously, as well as its responsibilities to protect the interests of all the companies who have already taken the proper step of obtaining a license. As stated in both the first and second letters you received, our client has no interest in seeking a license from someone who does not infringe. To reiterate this point one last time, if your company does not use a system covered by the patents, we urge you to contact us to confirm non-infringement so that we may discontinue our correspondence with you and avoid the unnecessary expense associated with a lawsuit.

In the far more likely scenario that you do need a license, we are prepared to work with you to reach an agreement on reasonable terms, <u>but we must hear from you within two weeks of the date of this letter</u>. Given that litigation will ensue otherwise, we again encourage you to retain competent patent counsel to assist you in this matter. If you have already retained patent counsel, please forward this letter to them and inform us of your choice of counsel so that we may direct all future correspondence to them.

You may contact me at (512) 508-8481.

Sincerely,

Maeghan Whitehead

Maeghan Whitehead

[redacted]

Exhibit C

IN THE UNITED STATES DISTRICT COURT

EntNil, LLC Plaintiff, v. [redacted] Defendant.	Civil Action No. _________ JURY TRIAL REQUESTED

COMPLAINT

Plaintiff EntNil, LLC ("EntNil" or "Plaintiff"), by way of Complaint against Defendant [redacted] or "Defendant"), hereby alleges as follows:

NATURE OF THE ACTION

1. This is an action for patent infringement arising under the Patent Laws of the United States, 35 U.S.C. §§ 1, *et seq*.

THE PARTIES

2. Plaintiff EntNil is a limited liability company organized under the laws of Delaware with its principal place of business at 40 East Main Street, #19, Newark, DE 19711.

3. [redacted]

JURISDICTION AND VENUE

4. This is an action for patent infringement arising under the patent laws of the United States, Title 35 of the United States Code. This Court has jurisdiction over the subject matter of this action under 28 U.S.C. §§ 1331 and 1338(a). Venue is proper in this judicial district under 28 U.S.C. §§ 1391(b&c) and 1400(b).

[redacted]

5. This Court has personal jurisdiction over Defendant for at least the following reasons: (i) [redacted] has, upon information and belief, knowingly and intentionally committed acts of patent infringement at least in this District and (ii) [redacted] regularly does business or solicits business, engages in other persistent courses of conduct, and/or derives substantial revenue from products and/or services provided to individuals in this District.

RELEVANT FACTS

6. This is a case where the Plaintiff owns valuable patent rights through a combination of issued patents and patents pending which cover the Defendant's ability to operate an information technology system within which its employees are able to scan a document into such things as (a) an email attachment, including transmittal of the attachment over a local area network or across the Internet; (b) a digital document file format, transmitted over a local area network or across the Internet, including storage of the document into its network files so that it can be accessed by Defendant's employees through one or more software applications; (c) a digital document, including transmittal of the document to a Sharepoint site or an FTP site. These patent rights are valuable because of the efficiencies they add to the workplace via the fast, reliable transmission of data without the added cost, delay and unreliability of paper-based systems of the prior art.

7. Defendant obtained this technology by integrating hardware, software and other equipment provided by various companies, none of which individually are accused of infringing the Plaintiff's patent rights. However, the Defendant has brought these diverse elements together into a data management system that infringes Plaintiff's patent rights.

8. Plaintiff has previously communicated in writing with Defendant about its patent rights, including setting forth its view that Defendant should take a license to one or more of its

[redacted]

patents. Defendant has not denied the use of the infringing technology, but has thus far been unwilling to share any of its own business information requested by Plaintiff, and has furthermore failed to cease its illegal theft of Plaintiff's patent rights.

9. Upon information and belief, Defendant has created and maintains a system for collecting, storing and accessing information.

10. Upon information and belief, Defendant utilizes a network addressable scanner and or a network addressable multifunction device (each of which is hereby described as an "IP scanner"). The IP scanner is capable of scanning paper into a digital form. Said IP scanner has its own IP address. It is configured so that various employee email addresses may be inputted into it in advance. Said IP scanner also includes a user interface which permits the user to input, *inter alia*, an intended recipient's email address, and then to press a button, which in turn triggers the scanning of paper into a digitally-formatted file that is automatically emailed to the intended recipient's email address. Upon information and belief, such IP scanner is configured to support similar related functionality such as scanning a document into a digital file that it transmitted to a Sharepoint site and/or to an FTP site, where it may be accessed by one or more of Defendant's employees. To be clear, Plaintiff is not alleging or contending that IP scanner equipment alone infringes any patent rights.

11. Upon information and belief, Defendant utilizes within its IT infrastructure an email system. Upon information and belief, Defendant utilizes Microsoft Exchange and Outlook, which runs on at least one server, in order to aid the process of communicating a digital image from an IP scanner to an intended email destination. Again, Plaintiff is not alleging or contending that these Microsoft products (or servers running them) by themselves infringe any patent rights.

[redacted]

12. Upon information and belief, Defendant utilizes an IP scanner capable of scanning paper into a digital form. Said IP scanner includes a user interface which permits the user of the IP scanner to input, *inter alia*, an intended network file destination, and to then press a button, which in turn triggers the scanning of paper into a digitally-formatted file that is automatically transmitted to and stored within the designated network file destination. To be clear, Plaintiff is not alleging or contending that the IP scanner equipment alone infringes any patent rights.

13. Upon information and belief, Defendant utilizes Microsoft Windows in a client server configuration, in order to aid the process of communicating a digital image from a scanner/copier to an intended file destination accessible to a file server. Again, Plaintiff is not alleging or contending that these Microsoft products (or server running Microsoft products) by themselves infringe any patent rights.

<u>COUNT I – INFRINGEMENT OF U.S. PATENT NO. 7,477,410</u>

14. EntNil repeats and re-alleges the allegations of all of the preceding paragraphs as *if fully set forth herein.*

15. On January 13, 2009, United States Patent No. 7,477,410 (hereinafter referred to as the "'410 Patent"), entitled DISTRIBUTED COMPUTER ARCHITECTURE AND PROCESS FOR VIRTUAL COPYING, was duly and legally issued by the United States Patent and Trademark Office. A true and correct copy of the '410 Patent is attached as Exhibit A to this Complaint.

16. EntNil is the exclusive licensee for the field pertinent to the Defendant in and to the '410 Patent, with sufficient rights and interest in the '410 Patent as to have standing to

[redacted]

assert all causes of action arising under said patent and the right to any remedies for infringement of it with respect to [redacted]

17. Upon information and belief, Defendant has in the past and continues to directly infringe at least Claim 8 and other claims of the '410 Patent by making and using in this judicial district and elsewhere in the United States, a data management system possessing all of the elements of at least these claims.

18. Upon information and belief, Defendant uses at least one network addressable scanner, digital copier or other multifunction peripheral (collectively, "digital copying devices") capable of creating a digital copy of a physical document (*e.g.*, a paper document).

19. Upon information and belief, Defendant uses one or more central computer(s) or server(s) for sharing access to information (collectively, Defendant's "file server") among desktop computers and/or other computers used by Defendant's employees (collectively, "client computers") and/or mobile devices used by Defendant's employees such as Blackberry® devices and other smartphones.

20. Upon information and belief, Defendant uses one or more central computer(s) or server(s) running corporate electronic email software (collectively, Defendant's "email server").

21. Upon information and belief, Defendant's file server and its email server are each connected to data stored in an electronic storage medium ("Defendant's data storage") such that certain of Defendant's data located in Defendant's data storage is accessible to Defendant's file server and/or email server.

22. Upon information and belief, Defendant uses memory in its file server and/or email server which stores software permitting electronic communication between Defendant's file server and at least one of the Defendant's digital copying devices.

[redacted]

23. Upon information and belief, Defendant uses memory in its file server and/or email server which stores software permitting electronic communication between Defendant's file server and at least one of the Defendant's client computers.

24. Upon information and belief, Defendant uses memory in its file server and/or email server which stores software permitting electronic communication between Defendant's email server and at least one of the Defendant's digital copying devices.

25. Upon information and belief, Defendant uses memory in its file server and/or email server which stores software permitting electronic communication between Defendant's email server and at least one of the Defendant's client computers.

26. Upon information and belief, Defendant uses software operated on or in conjunction with its file server and/or its email server and/or its data storage to replicate and transmit one or more digital copies of physical documents such as paper documents to one or more servers or client computers.

27. This replication and transmission occurs as a result of a user-command communicated through a graphical user interface (GUI), without any modification of any of Defendant's client computers, and without any modification of Defendant's software source code.

28. As a consequence of the infringement of the '410 Patent by the aforesaid Defendant, Plaintiff is entitled to recovery of past damages in the form of, at a minimum, a reasonable royalty.

29. Defendant's conduct since at least Defendant's receipt of the first communication from Plaintiff to Defendant regarding the '410 Patent also has induced infringement and/or contributed to infringement by others. For this indirect infringement, Plaintiff also is entitled to recover damages in the form of, at a minimum, a reasonable royalty.

[redacted]

30. Moreover, as a consequence of the prior communication of patent rights by Plaintiff to Defendant, combined with Defendant's failure to cease and desist from further infringement in the face of the objective risk of infringement, the infringement is willful, giving rise to Plaintiff's claims for trebling of the damages in this case, as well as to Plaintiff's claims that this is a case where Defendant should reimburse Plaintiff for its attorneys' fees and other costs of litigation pursuant to 35 U.S.C. Section 285.

COUNT II- INFRINGEMENT OF U.S. PATENT NO. 7,986,426

31. EntNil reasserts and incorporates herein by reference the allegations of all preceding paragraphs of this Complaint as if fully set forth herein.

32. On July 26, 2011, U.S. Patent No. 7,986,426 (hereinafter referred to as the "'426 Patent"), entitled DISTRIBUTED COMPUTER ARCHITECTURE AND PROCESS FOR DOCUMENT MANAGEMENT, was duly and legally issued by the United States Patent and Trademark Office. A true and correct copy of the '426 Patent is attached as Exhibit B to this Complaint.

33. EntNil is the exclusive licensee for the field pertinent to the Defendant in and to the '426 Patent, with sufficient rights and interest in the '426 Patent as to have standing to assert all causes of action arising under said patent and the right to any remedies for infringement of it with respect to [redacted]

34. As a result of the Defendant's scan-to-file and scan-to-email functionality described in the preceding paragraphs, which are incorporated herein in their entirety, the '426 patent is directly infringed by Defendant. The infringement includes infringement of Claim 1.

[redacted]

35. As a consequence of the infringement of the '426 Patent by the aforesaid Defendant, Plaintiff is entitled to recovery of past damages in the form of, at a minimum, a reasonable royalty.

36. Defendant's conduct since at least Defendant's receipt of the first communication from Plaintiff to Defendant regarding the '426 Patent also has induced infringement and/or contributed to infringement by others. For this indirect infringement, Plaintiff also is entitled to recover damages in the form of, at a minimum, a reasonable royalty.

37. Moreover, as a consequence of the prior communication of patent rights by Plaintiff to Defendant, combined with Defendant's failure to cease and desist from further infringement in the face of the objective risk of infringement, the infringement is willful, giving rise to Plaintiff's claims for trebling of the damages in this case, as well as to Plaintiff's claims that this is a case where Defendant should reimburse Plaintiff for its attorneys' fees and other costs of litigation pursuant to 35 U.S.C. Section 285.

JURY DEMAND

38. Pursuant to Rule 38 of the Federal Rules of Civil Procedure, EntNil demands a trial by jury on all issues triable as such.

PRAYER FOR RELIEF

WHEREFORE, EntNil respectfully demands judgment for itself and against Defendant as follows:

A. An adjudication that Defendant has infringed the '410 Patent;

B. An adjudication that Defendant has infringed the '426 Patent;

C. An award of damages to be paid by Defendant adequate to compensate EntNil for its past infringements of the '410 and '426 Patents and any continuing or future

[redacted]

infringement through the date such judgment is entered, including interest, costs, expenses and enhanced damages for any willful infringement as justified under 35 U.S.C. § 284 and an accounting of all infringing acts including, but not limited to, those acts not presented at trial;

D. A declaration that this case is exceptional under 35 U.S.C. § 285, and an award of Plaintiff's reasonable attorneys' fees; and

E. An award to EntNil of such further relief at law or in equity as the Court deems just and proper.

Respectfully submitted,

Dated: __________, 2012 By: ______________________________

Attorneys for Plaintiff,
EntNil, LLC

[redacted]