**The Fringe Effects of Patent Troll Regulation**

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# I. Introduction

Although the term “patent troll” may capture the attention of the uninformed reader by enticing hopes of a fanciful, science-fiction tale, its legal definition hardly rises to the occasion. In sharp contrast to the foul creature that the modern movie goer may be tempted to envision, a patent troll is simply a person or company who enforces patent rights against accused infringers in an attempt to collect licensing fees, but does not manufacture products or supply services based upon the patents in question. [[2]](#footnote-2) In other words, a patent troll is a non-practicing entity which does not make a product, but rather acquires patents and asserts them against companies in the hope of achieving a settlement rather than actually bringing a case to trial on the merits of their clam. Thus, it can be gleaned that patent trolls are entities who are engaging in economic rent-seeking of-sorts in the field of intellectual property; a vast difference from their fictional counterpart.

Patent trolls have captured the attention of the nation in recent years. Unfortunately, there has been a substantial amount of negative publicity regarding patent trolls and their effects on various business markets. Additionally, there has been a surge of recent cases and proposed legislation which has attempted to reduce patent trolls’ legal abilities. However, regardless of one’s personal thoughts as to the character of patent trolls, this pending legislation in addition to recent court decisions regarding changes to common laws has had, and will continue to have, a substantial side effect on small entities, such as individual inventors and small businesses, which possess one or more patents.

It follows that one question emerges; regardless of whether patent trolls are similar to their fictional counterparts, does the recent flux in proposed legislation and court decisions induce the intended result?

# II. Background of Patents

## Patents; What Are They?

Patents are an area of a legal doctrine founded in the United States Constitution. Specifically, United States patent law is authorized by Article one, section eight, clause eight of the United States Constitution which states:

The Congress shall have power...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.... [[3]](#footnote-3)

In view of the foregoing legal doctrine, the United States Patent Act, 35 U.S.C. §§ 1 was enacted by the United States Congress under its constitutional grant of authority to secure to inventors the exclusive right to their discoveries for limited times. [[4]](#footnote-4)

It follows that patents may be applied for, and if granted, award legal protection to the entities which own the granted patent. The legal protection awarded is essentially a limited monopoly whereby the patent holder is granted the exclusive right to make, use, and sell the patented innovation for a limited period of time. [[5]](#footnote-5) Although the term of the limited monopoly has varied through the years, the current term of a patent is generally 20 years from the date of the earliest filing date, however there may be some variations depending on the particular case.

Some philosophies justify granting exclusive rights to the inventor as a way to encourage the investment of time and resources into the development of new and useful discoveries. In exchange for this limited monopoly, immediate disclosure of the patented information to the U.S. Patent and Trademark Office (PTO) is required. [[6]](#footnote-6) Moreover, after the term of the patent has run, the limited monopoly is ended and the patented invention becomes publically available for use, manufacture, implementation, etc.

## The Process of Obtaining a Patent

The United States Patent and Trademark Office is charged with the task of processing all patent applications which includes determining whether a proposed patent should be granted at all. Specifically, there are five primary requirements for patentability which require: (i) patentable subject matter, (ii) utility, (iii) novelty, (iv) nonobviousness, and (v) enablement.

1. **Patentable Subject Matter**

The first requirement necessitating patentable subject aids the United States Patent and Trademark Office in determining which types of patent applications will even be considered for patent protection. 35 U.S.C. § 101 broadly defines the categories for patentable subject matter as any process, machine, manufacture, or composition of matter, or improvement thereof. [[7]](#footnote-7)

In ***Diamond v. Chakrabarty***, the United States Supreme Court determined that Congress intended patentable subject matter to "include anything under the sun that is made by man." [[8]](#footnote-8) However, the United States Supreme Court also stated that this broad definition has limits and does not embrace every discovery. According to the Court, the laws of nature, physical phenomena, and abstract ideas are not patentable. [[9]](#footnote-9) It follows that the pertinent distinction between the subject matter which qualifies as patentable includes human-made inventions, while the subject matter which falls short and is considered unpatentable subject matter includes products of nature, living or not.

1. **Utility**

35 U.S.C. § 101 outlines the statute based requirements of meeting a useful invention. In correspondence with this statute, the United States Patent and Trademark Office has developed a test which determines whether a proposed invention satisfies the utility requirement. The guidelines require that the utility asserted in the application be credible, specific, and substantial. [[10]](#footnote-10) Credible utility requires that logic and facts support the assertion of utility, or that a person of ordinary skill in the art would accept that the disclosed invention is currently capable of the claimed use. [[11]](#footnote-11) Furthermore, utility must be specific to the subject matter claimed rather than a general utility that could apply to a broad class of inventions. Substantial utility requires that the invention have a defined real world use; a claimed utility that requires or constitutes carrying out further research to identify or confirm a use in the context of the real world is not sufficient. [[12]](#footnote-12)

1. **Novelty**

The novelty requirement is outlined under 35 U.S.C. § 102 which requires novelty as well as outline specific statutory bars to patentability. In view of the first requirement included under 35 U.S.C. § 102, novelty requires that the invention was not known or used by one of ordinary skill in the art of the proposed invention. Furthermore, novelty requires that the proposed invention cannot already be publically known. Accordingly, the proposed invention cannot already be patented and/or disclosed in a publically available document. [[13]](#footnote-13) It follows that in order to overcome the novelty requirement, the proposed invention must be new compared to the prior art.

According to more detailed instances, a statutory bar applies to instances in which the proposed invention was in public use or on sale in this country, or patented or described in a printed publication in this or another country more than one year prior to the date of the application for a U.S. patent. [[14]](#footnote-14) In other words, the right to patent a given invention is lost if the inventor delays too long before seeking patent protection. An essential difference between the novelty requirement and statutory bars is that an inventor's own actions cannot destroy the novelty of his or her own invention, but can create a statutory bar to patentability [[15]](#footnote-15).

1. **Nonobviousness**

Congress added the nonobviousness requirement to the test for patentability with the enactment of the Patent Act of 1952. [[16]](#footnote-16) The test for nonobviousness includes determining whether the subject matter of the proposed patent and the subject matter of the prior art are such that the subject matter as a whole would have been obvious to a person having ordinary skill in the art at the time the invention was made. [[17]](#footnote-17)

In 2007, the United States Supreme Court addressed the test for nonobviousness in ***KSR International Co. v. Teleflex, Inc***. There United States Supreme Court ruled that under the "teaching, suggestion, or motivation test" applied by the Federal Circuit, a patent claim was only deemed obvious if "some motivation or suggestion to combine the prior art teachings can be found in the prior art, the nature of the problem, or the knowledge of person having ordinary skill in the art." [[18]](#footnote-18) The Court endorsed a more expansive and flexible approach under which "a court must ask whether the improvement is more than the predictable use of prior art elements according to their established functions." [[19]](#footnote-19)

1. **Enablement**

Finally, the enablement requirement is directly related to the required specification of the patent application. 35 U.S.C. § 112 requires that "[t]he specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains...to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention." [[20]](#footnote-20) Moreover, at the end of the specification, the applicant lists "one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention." [[21]](#footnote-21) In view of the foregoing excerpt, “enablement” is understood as including three separate requirements which include: the enablement requirement, the written description requirement, and the best mode requirement.

Every patent application must include a specification describing the workings of the invention, and one or more claims at the end of the specification stating the legal definition of the invention described in the specification. To satisfy the enablement requirement, the specification must describe the invention with sufficient particularity that a person having ordinary skill in the art would be able to make and use the claimed invention without "undue experimentation." [[22]](#footnote-22) Furthermore, the written description requirement compares the description of the invention set out in the specification with the particular attributes of the invention identified for protection in the claims. Finally, in addition to disclosing sufficient information to enable others to practice the claimed invention, the patent applicant is required to disclose the best mode of practicing the invention. [[23]](#footnote-23)

## Patents; What Do They Grant a Holder?

As described above, patents grant the holder a limited monopoly. Specifically, the patent holder is granted the exclusive right to make, use, and sell the patented innovation for a limited period of time. Thus, the patent holder is awarded the legal remedy of seeking damages for instances in which an unauthorized entity impinges on one of these exclusive rights to make, use, and sell the patented innovation.

As previously described, patent trolls include non-practicing entities, which essentially includes any entity which does not make a product, but rather acquires patents and asserts them against companies in the hope of achieving a settlement rather than actually bringing a case to trial on the merits of their clam.

## Proposed Changes

Recent changes in proposed legislation and court decisions affect several venues. First, these changes to common laws include a shift in the payment of legal fees incurred as a result of legislation. Specifically, while traditional approaches included each party bearing their own legal costs, a recent case required there be extraordinary circumstances for an award of attorneys’ fees (as is commonly accepted) usually implemented as a sanction for untenable litigation practices or if some fraud was conducted during the litigation or even if the suit was entirely baseless, but has lowered the burden of proof required to award attorney fees to a party, namely the party opposing litigation brought by a patent troll.

Other pending legislation would require any party associated with a given patent litigation to be disclosed. Currently, many patent trolls create a company specifically to assert a patent or family of patents to mask the identities of the parties who are actually invested and/or interested in the outcome of the litigation.

Another set of pending legislation is designed to reach out and impose damages on any party on the losing side who had an interest in the outcome of the case if attorney fees are awarded to the party opposing the patent troll’s claim. Although this pending legislation may be intended to prevent patent trolls from setting up shell companies as described above to avoid being legally required to pay any additional damages, it has quite a different effect on small businesses and individual inventors who may be trying to protect their legitimately acquired intellectual property. Any shareholders, officers, directors, etc. would potentially be liable for any damages imposed by this pending legislation, thereby again reducing the legal protection over the intellectual property of small entities.

Caps may also be placed on the amount which may be awarded to entities which do not produce a product (patent trolls) even if litigation is decided in their favor. Thus, the remedies available for small entities such as small businesses and individual inventors would also be drastically reduced, again even in the case where the court rules in their favor.

# III. Effects of Patent Troll Based Legal Changes

## What Are The Actual Effects Of Patent Troll Based Legal Changes?

The aforementioned changes to proposed legislation and common law in view of recent court decisions have resulted in a substantial effect on entities other than those who are generally understood to be patent trolls. Specifically, the aforementioned legal transitions have affected smaller companies and sole inventors by stifling their ability to assert their own patents that they have developed and had granted by the United States Patent and Trademark Office on their own. This substantial effect on small entities is a result of their inability to afford the risk of not only losing any patent suits with infringing entities (and potentially having their patent invalidated), but also the threat of potentially being required to pay the legal fees of the opposing party should the judge side with opposing counsel.

Alternatively, large companies will certainly benefit from these shifts in legal doctrine as they are aware of the added disadvantage imposed on smaller companies and individual inventors in addition to those traditionally present in different markets. For example, large companies are able to afford drawn out litigation, and as a result, will not hesitate to steal the intellectual property of these small businesses and individual inventors. Thus, large companies are able to use their virtually unlimited resources to scare small companies and individual inventors into giving up their intellectual property without a fight.

Many small businesses and individual inventors have patentable ideas which they simply do not have the resources to develop into a product. The number of patents granted alone, much less the number of patent applications filed, give strong support to the fact that not every patentable idea results in a product; to suggest the contrary is simply not economically practical. However, granted patents are the product of substantial costs which may include engineering time, research and development, patent prosecution, etc. Thus, granted patents hold economic value regardless of whether they are developed into a product. The United States Patent and Trademarks Office states that when an applicant files a patent application, they have reduced their invention to practice. In other words, with the filing of an application, the applicant has essentially made a copy of their invention. Thus, at least in view of the United States Patent and Trademarks Office rules, an applicant has made a physical embodiment of their invention, regardless of whether or not they have produced an actual prototype corresponding thereto.

It follows that the problem with these measures designed to prevent entities from asserting their patents which they do also make a product for, is that these measures will negatively affect a much wider group than intended by the legislative bodies. As has been reiterated throughout, mall companies, individual inventors, individual investors, and others who may wish to create a product associated with their patent, but simply do not have the resources, opportunities and/or business contacts to do so.

Small entities such as these individual inventors and small businesses will often times pitch their intellectual property to larger companies in the hopes that they will find interest in developing their idea into a manufactured product. However, if these larger companies decide to implement the intellectual property of the small entity into one of their products, they will often then refuse to compensate the small entity for their intellectual property. Under current and previous legal platforms, large companies have had the ability to strong-arm small entities and take advantage of their intellectual property. It follows that, should the proposed legislation and judicial developments continue to support the eradication of patent trolls in at least a similar manner to recent trends, small entities will ultimately be the ones to bear the blow intended for the true trolls.

# IV. Conclusion

Patent trolls are not as bad as they have been made to seem in recent years. As previously mentioned, small entities such as individual inventors and small businesses may advance a patentable idea which they are ultimately unable to bring to market, e.g., due to a lack of resources, marketing skills, etc. However, the fact that these small entities are unable to bring their patented ideas to market does not mean that they are poor business ideas. Accordingly, entities with the resources to produce these patents which have not yet been developed may do so with piece of mind knowing that the small entity which owns the intellectual property which they are now developing has neither the resources nor the capabilities to oppose this trespass. As a result, most patents belonging to small entities will never be asserted in view of the vastly uneven playing field between themselves and a large company with a bottomless checkbook. Yet, if a patent troll were to side with the small entity who would otherwise be helpless against the larger company who is stealing their intellectual property, they may be able to successfully assert the small entity’s patent against the infringing large company. Thus, the small entity is compensated for their intellectual property by the patent troll, the patent troll is compensated for their legal efforts to prevent intellectual property infringement, and the infringing entity is held accountable for its actions. Furthermore, large companies are kept in check and are ultimately less likely to knowingly steal the intellectual property of another party who may seem to be an easy prey.

Patent trolls have created a market for patents which would otherwise be taken advantage of and/or expire without rewarding the small entity which took the time to earn them. Thus, patent trolls may actually pose as the only viable legal and/or financial support for entities such as individual inventors and small companies which hold one or more patents.

It follows that the intent behind the proposed patent troll legislation is likely far different than the effects it is producing. As a result, the judicial and legislative branches should make greater efforts to ensure that the intellectual property rights of small entity patent owners are not violated and/or hindered.

1. J.D. Candidate, Santa Clara University School of Law, 2016; B.S. Electrical Engineering, Santa Clara University, 2011. [↑](#footnote-ref-1)
2. http://en.wikipedia.org/wiki/Patent\_troll [↑](#footnote-ref-2)
3. Article one, section eight, clause eight of the United States Constitution [↑](#footnote-ref-3)
4. 35 U.S.C. §§ 1 [↑](#footnote-ref-4)
5. http://www.law.cornell.edu/wex/patent [↑](#footnote-ref-5)
6. http://www.law.cornell.edu/wex/patent [↑](#footnote-ref-6)
7. 35 U.S.C. § 101 [↑](#footnote-ref-7)
8. ***Diamond v. Chakrabarty***, 447 U.S. 303 (1980) [↑](#footnote-ref-8)
9. http://www.law.cornell.edu/wex/patent [↑](#footnote-ref-9)
10. http://www.law.cornell.edu/wex/patent [↑](#footnote-ref-10)
11. http://www.law.cornell.edu/wex/patent [↑](#footnote-ref-11)
12. http://www.law.cornell.edu/wex/patent [↑](#footnote-ref-12)
13. 35 U.S.C. § 102(a) [↑](#footnote-ref-13)
14. 35 U.S.C. § 102(b) [↑](#footnote-ref-14)
15. http://www.law.cornell.edu/wex/patent [↑](#footnote-ref-15)
16. http://en.wikipedia.org/wiki/Patent\_Act\_of\_1952 [↑](#footnote-ref-16)
17. See 35 U.S.C. § 103 [↑](#footnote-ref-17)
18. KSR International Co. v. Teleflex, Inc. (04-1350) [↑](#footnote-ref-18)
19. http://www.law.cornell.edu/wex/patent [↑](#footnote-ref-19)
20. See 35 U.S.C. § 112 [↑](#footnote-ref-20)
21. See 35 U.S.C. § 112 [↑](#footnote-ref-21)
22. See MPEP 2164.01(a) [↑](#footnote-ref-22)
23. See 35 U.S.C. § 112 [↑](#footnote-ref-23)