

No. 12-1184

In The
Supreme Court of the United States

—◆—
OCTANE FITNESS, LLC,

Petitioner,

v.

ICON HEALTH & FITNESS, INC.,

Respondent.

—◆—
**On Writ Of Certiorari To The
United States Court Of Appeals
For The Federal Circuit**

—◆—
**BRIEF OF PROFESSOR ROBIN FELDMAN
AND THE U.C. HASTINGS INSTITUTE
FOR INNOVATION LAW AS *AMICI CURIAE*
IN SUPPORT OF NEITHER PARTY**

—◆—
ROBIN FELDMAN
Counsel of Record
UNIVERSITY OF CALIFORNIA,
HASTINGS COLLEGE OF THE LAW
200 McAllister Street
San Francisco, CA 94102
(415) 565-4661
feldmanr@uchastings.edu

Counsel for Amici Curiae

TABLE OF CONTENTS

	Page
TABLE OF CONTENTS	i
TABLE OF AUTHORITIES	ii
INTEREST OF THE <i>AMICI CURIAE</i>	1
SUMMARY OF ARGUMENT	3
ARGUMENT	6
I. THE “EXCEPTIONAL CASE” LANGUAGE OF § 285 SHOULD BE INTERPRETED IN A MANNER CONSISTENT WITH THE PROVISION’S PURPOSE: TO DETER PATENT HOLDERS FROM ABUSING THE PATENT SYSTEM	6
II. THE FEDERAL CIRCUIT’S TWO-PART EXCEPTIONAL CASE TEST HINDERS § 285’S INTENDED PURPOSE TO DETER ABUSE OF THE PATENT SYSTEM	13
III. UNDER § 285, COURTS SHOULD BE PERMITTED TO FIND CASES EXCEPTIONAL WHERE PATENT HOLDERS EXPLOIT THE PATENT SYSTEM	19
CONCLUSION.....	21

TABLE OF AUTHORITIES

Page

CASES

<i>Apple, Inc. v. Motorola, Inc.</i> , No. 1:11-CV-08540, 2012 WL 2362630 (N.D. Ill. E. Div. Jun. 7, 2012).....	4
<i>Automated Bus. Cos. v. NEC America, Inc.</i> , 202 F.3d 1353 (Fed. Cir. 2000).....	2
<i>Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.</i> , 393 F.3d 1378 (Fed. Cir. 2005).....	<i>passim</i>
<i>Catch Curve, Inc. v. Venali, Inc.</i> , CV 05-04820 DDP AJWx, 2006 WL 4568799 (C.D. Cal. Feb. 27, 2006) (filed Nov. 3, 2008)	15
<i>eBay, Inc. v. MercExchange LLC</i> , 547 U.S. 388 (2006).....	8
<i>Fromson v. W. Litho Plate & Supply Co.</i> , 853 F.2d 1568 (Fed. Cir. 1988), overruled by <i>Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.</i> , 383 F.3d 1337 (Fed. Cir. 2004)	8
<i>F.T.C. v. Actavis, Inc.</i> , 133 S. Ct. 2223 (2013).....	19
<i>Georgia-Pac. Corp. v. U.S. Plywood Corp.</i> , 318 F. Supp. 1116 (S.D.N.Y. 1970), modified sub nom. <i>Georgia-Pac. Corp. v. U.S. Plywood-Champion Papers Inc.</i> , 446 F.2d 295 (2d Cir. 1971).....	8, 9
<i>Handgards, Inc. v. Ethicon Inc.</i> , 601 F.2d 986 (9th Cir. 1979)	16
<i>Honeywell Int'l, Inc. v. Universal Avionics Sys. Corp.</i> , 343 F. Supp. 2d 272 (D. Del. 2004), aff'd, 488 F.3d 982 (Fed. Cir. 2007)	16

TABLE OF AUTHORITIES – Continued

	Page
<i>Ill. Tool Works Inc. v. Indep. Ink, Inc.</i> , 547 U.S. 28 (2006).....	18
<i>Loctite Corp. v. Ultraseal Ltd.</i> , 781 F.2d 861 (Fed. Cir. 1985), overruled on other grounds by <i>Nobelpharma AB v. Implant Innovations, Inc.</i> , 141 F.3d 1059 (Fed. Cir. 1998).....	16
<i>Mathis v. Spears</i> , 857 F.2d 749 (Fed. Cir. 1988).....	3
<i>Professional Real Estate Investors v. Columbia Pictures Industries</i> , 508 U.S. 49 (1993).....	2, 4
<i>In Re Terazosin</i> , 335 F. Supp. 2d 1336 (S.D. Fla. 2004).....	15
 CONSTITUTION AND STATUTES	
U.S. Const. art. I, § 8, cl. 8.	12
35 U.S.C. § 284 (2006)	8
35 U.S.C. § 285 (2013)	<i>passim</i>
 LEGISLATIVE SOURCES	
S.Rep. No. 1503, 79th Cong., 2d Sess. (1946), reprinted in 1946 U.S. Code Congressional Service 1386	20
 RULES	
Supreme Court Rule 37.6.....	1

TABLE OF AUTHORITIES – Continued

Page

OTHER SOURCES

James E. Bessen & Michael J. Meurer, <i>The Direct Costs from NPE Disputes</i> , 99 Cornell L. Rev. ____ (forthcoming 2014), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2091210	12
Tom Ewing, <i>Indirect Exploitation of Intellectual Property Rights by Corporations and Investors</i> , 4 Hastings Sci. & Tech. L.J. 1 (2012)	7
Tom Ewing, <i>Practical Considerations in the Indirect Deployment of Intellectual Property Rights by Corporations and Investors</i> , 4 Hastings Sci. & Tech. L.J. 109 (2012)	7
Exec. Office of the President, <i>Patent Assertion and U.S. Innovation</i> (June 2013)	2
Robin Feldman, <i>Intellectual Property Wrongs</i> , 18 Stan. J.L. Bus. & Fin. 250 (2013), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2333291	2, 14
Robin Feldman, <i>Ending Patent Exceptionalism & Structuring the Rule of Reason: The Supreme Court Opens the Door for Both</i> , 15 Minn. J.L. Sci. & Tech. ____ (forthcoming 2013), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2333291	2
Robin Feldman et al., <i>The AIA 500 Expanded: Effects of Patent Monetization Entities</i> (April 9, 2013), UC Hastings Research Paper No. 45, available at http://ssrn.com/abstract=2247195	11

TABLE OF AUTHORITIES – Continued

	Page
Robin Feldman, <i>Public Comment on Intellectual Property Assertion & Monetization</i> , FTC Patent Assertion Entity Activities Workshop (Mar. 27, 2013)	14
Robin Feldman, <i>Rethinking Patent Law</i> (Harvard 2012).....	1, 14
Robin Feldman, <i>The Role of Science in Law</i> (Oxford 2009).....	1
Robin Feldman, <i>Patent and Antitrust: Differing Shades of Meaning</i> , 13 Va. J.L. & Tech. 5 (2008).....	17
James Gibson, <i>Risk Aversion and Rights Accretion in Intellectual Property Law</i> , 116 Yale L.J. 882 (2007).....	15
Edmund W. Kitch, <i>The Nature and Function of the Patent System</i> , 20 J.L. & Econ. 265 (1977)	10
Mark A. Lemley, <i>Rational Ignorance at the Patent Office</i> , 95 Nw. U. L. Rev. 1495 (2001)	11
Mark A. Lemley & Carl Shapiro, <i>Probabilistic Patents</i> , 19 J. Econ. Persp. 75 (2005)	18
Fiona Scott Morton & Carl Shapiro, <i>Strategic Patent Acquisitions</i> , available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2288911	13
Gideon Parchomovsky & R. Polk Wagner, <i>Patent Portfolios</i> , 154 U. Pa. L. Rev. 1 (2005).....	10

TABLE OF AUTHORITIES – Continued

Page

Jeff John Roberts, *Famous judge spikes Apple-Google case, calls patent system “dysfunctional”*, GigaOM (Jun. 8, 2012), available at <http://gigaom.com/2012/06/08/famous-judge-spikes-apple-google-case-calls-patent-system-dysfunctional/>4

INTEREST OF THE *AMICI CURIAE*¹

Amicus curiae Professor Robin Feldman is an expert in intellectual property law, particularly issues involving the sciences, intellectual property monetization, and the intersection of intellectual property and antitrust. She is a Professor of Law at the University of California, Hastings College of the Law, and holds the Harry & Lillian Hastings Chair. Professor Feldman is Director of *amicus curiae* the Institute for Innovation Law, focused on innovation at the crossroads of intellectual property and emerging technology. She also directs clinical programs in intellectual property, including the Startup Legal Garage, and writes extensively about intellectual property issues. She has received multiple awards for teaching and scholarship, and has published two books, *Rethinking Patent Law* (Harvard 2012) and *The Role of Science in Law* (Oxford 2009), in addition to numerous articles in law reviews and the New England Journal of Medicine. Professor Feldman has testified before Congress and the California legislature on intellectual property issues, and has provided commentary for the Federal Trade Commission, the Department of Justice, and the Patent & Trademark Office. Her empirical work on patent trolling was

¹ Counsel for all parties has consented to the filing of this brief, as indicated by consents lodged with the Clerk of this Court. No counsel for any party had any role in authoring this brief, and no person other than the named *amici* and their counsel has made any monetary contribution to the preparation of this brief. *See* Rule 37.6.

cited in the 2013 White House Report on Patent Assertion.²

Amici curiae Professor Feldman and the Institute for Innovation Law at the University of California, Hastings College of the Law submit this brief to highlight for the Court the critical role fee shifting provisions, like 35 U.S.C. § 285 (2013) at issue here, play in preventing abusive exploitation of the intellectual property system, particularly in light of the growing trend of monetization and magnification across all types of intellectual property.³ By importing to the patent context this Court's heightened test for the "sham" exception to the doctrine of immunity in antitrust cases,⁴ the Federal Circuit has hindered § 285's essential role as a deterrent to 'improper bringing of clearly unwarranted suits' for patent infringement." *Automated Bus. Cos. v. NEC America, Inc.*, 202 F.3d 1353, 1355 (Fed. Cir. 2000) (quoting

² Exec. Office of the President, *Patent Assertion and U.S. Innovation* (June 2013).

³ Portions of this brief were adapted from two of Professor Feldman's most recent articles, *Intellectual Property Wrongs*, 18 *Stan. J.L. Bus. & Fin.* 250 (2013), and *Ending Patent Exceptionalism & Structuring the Rule of Reason: The Supreme Court Opens the Door for Both*, 15 *Minn. J.L. Sci. & Tech.* ____ (forthcoming 2013), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2333291.

⁴ See *Brooks Furniture Mfg., Inc. v. Dutilier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005) (citing *Professional Real Estate Investors v. Columbia Pictures Industries*, 508 U.S. 49, 60-61, 113 S. Ct. 1920, 123 L.Ed.2d 611 (1993)).

Mathis v. Spears, 857 F.2d 749, 754 (Fed. Cir. 1988)). Importantly, as the Federal Circuit has itself recognized, § 285 “is the *only* deterrent” to suits brought to enforce “obviously invalid or unenforceable patents. . . .” *Mathis*, 857 F.2d at 754 (emphasis added).



SUMMARY OF ARGUMENT

In recent years, a troubling trend has occurred in the intellectual property system in the United States. Large numbers of intellectual property rights have been stripped away from underlying products, repackaged, grouped, and traded as monetized assets, a phenomenon known as intellectual property rights “monetization.” Some of this activity involves legitimate enforcement of rights, but much of it is opportunistic, inappropriately capitalizing on the costs and risks of litigation. In addition, the intellectual property system is plagued by uncertainty regarding the boundaries of rights, lack of a quick and reasonably priced method for resolving disputes regarding the boundaries of those rights, and potential damages that are out of proportion to the nature of the harm. These factors allow rights holders to bargain for returns far beyond the value of those rights, a situation known as “magnification.” Together, magnification and monetization are creating opportunities for behavior that is harming innovation, creating dysfunction in markets, and wasting vast amounts of resources, both litigant and judicial. As federal district court judge James Roberts noted recently, in

frustration, “the court is well aware that it is being played as a pawn.”⁵

Against this backdrop, the Federal Circuit’s current two-part “exceptional case” test for fee shifting under 35 U.S.C. § 285 merely provides fuel to the fire. Permitting fee shifting under § 285 only if *both* (1) the litigation is brought in *subjective* bad faith, *and* (2) the litigation is objectively baseless (*Brooks Furniture*, 393 F.3d at 1381 (citing *Professional Real Estate Investors*, 508 U.S. at 60-61)), creates a standard so high it presents no meaningful deterrent to the pursuit of wholly unwarranted lawsuits. It is remarkably difficult to show that any patent lawsuit is both objectively and subjectively baseless, when, for example, the interpretation of the language of a patent is fraught with uncertainty. In such cases, courts are reluctant to find that even tremendously weak arguments satisfy the two-part test.

Amici urge the Court to articulate a standard for fee shifting under § 285 which empowers courts to remedy schemes that exploit the patent system. The key to identifying exceptional cases and thereby disrupting the practice of patent holders distorting

⁵ See Jeff John Roberts, *Famous judge spikes Apple-Google case, calls patent system “dysfunctional”*, GigaOM (Jun. 8, 2012), available at <http://gigaom.com/2012/06/08/famous-judge-spikes-apple-google-case-calls-patent-system-dysfunctional/> (discussing *Apple, Inc. v. Motorola, Inc.*, No. 1:11-CV-08540, 2012 WL 2362630, at *1 (N.D. Ill. E. Div. Jun. 7, 2012)).

and inflating the value of their patents lies in the distinction between the *legitimate* use of the patent *right* and the *illegitimate* use of the patent *system*. By highlighting this system deployment versus right deployment dichotomy, the Court can provide lower courts a useful starting point from which to assess the myriad patent assertion schemes as they are presented. Where a patentee brings a cause of action that attempts to enforce the boundaries of its patent and nothing more, the patentee is appropriately deploying its patent rights, and is doing nothing exceptional for purposes of § 285. Conversely, where the patentee's actions have allowed it to reap or potentially reap rewards far in excess of the value of the patent through abuse of the patent system (as, for example, asserting a never-commercialized arguably obsolete patent as Petitioner argues was done here), the court should have the discretion to look more closely at *all* the factors in play and, in its discretion, award § 285 fees where appropriate.



ARGUMENT

I. THE “EXCEPTIONAL CASE” LANGUAGE OF § 285 SHOULD BE INTERPRETED IN A MANNER CONSISTENT WITH THE PROVISION’S PURPOSE: TO DETER PATENT HOLDERS FROM ABUSING THE PATENT SYSTEM

The Federal Circuit’s current interpretation of the exceptional case doctrine has aided in the proliferation of business practices that would make Rumpelstiltskin proud. With virtual impunity, more and more companies are spinning worthless patents into golden income streams and competitive advantages. The schemes companies have used to achieve these fairy tale ends are numerous and varied, but they share one underlying idea: Find a patent, deploy the patent system, and the riches will follow.

The combination of uncertainty regarding the boundaries of rights, the lack of a quick and inexpensive method for resolving that uncertainty, and the possibility that damages awarded may be out of proportion to the nature of the harm make the modern patent system a complex and multi-dimensional strategy game. When patent holders take advantage of these system inefficiencies it is possible for them to distort and inflate the value of their patents. This value magnification occurs for several reasons. First, it is simply impossible to know the full boundaries of a patent at the time the patent is granted. A patent is not a physical object, but a verbal description of something that may not even exist in tangible form.

As a result, it can be very difficult to say exactly what is included within the boundaries of a given patent, especially as time passes and technology develops. The sheer volume of modern patents adds to the challenge. The patent system allows patents to be overlapping, and the millions of patents active in the United States makes determining the boundaries of each one impossible. Moreover, the massive number of patent applications filed each year in comparison to the number of patent examiners ensures that examiners will spend very little time on each application, leaving the litigation system to weed out patents as they become commercially significant.

Second, the patent system lacks a quick and inexpensive way to resolve the uncertainty about the boundaries of a particular patent. Scholars estimate that the average patent trial lasts from nine to fifteen months and costs from one to six million dollars.⁶ In addition to the problems of uncertainty and the costs of resolving that uncertainty, the remedy system in patents can create a distortion between a patent's value and the return that a patent holder can gain. With a finding of infringement, a patent holder can receive an injunction against the infringer. Although

⁶ Tom Ewing, *Indirect Exploitation of Intellectual Property Rights by Corporations and Investors*, 4 *Hastings Sci. & Tech. L.J.* 1, 34, 63 (2012); Tom Ewing, *Practical Considerations in the Indirect Deployment of Intellectual Property Rights by Corporations and Investors*, 4 *Hastings Sci. & Tech. L.J.* 109, 119, 131 (2012).

the pace of injunctions has slowed in the wake of *eBay, Inc. v. MercExchange LLC*, 547 U.S. 388 (2006), courts still grant injunctions in a significant number of cases. Thus, when a company producing an actual product is threatened with an infringement claim by a patent holder, the company must decide whether to risk having its entire product shut down. If the patent claim relates only to a small aspect of the product, the threat of injunction creates an inordinate risk, one much more costly than the value the patent could possibly contribute to the whole product.

Injunctions are not, however, the only risk to a threatened patent infringement defendant. The damage measurements available in patent cases significantly heighten the risk of magnification. According to the Patent Act, courts are to award damages “adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention.” 35 U.S.C. § 284 (2006). The language is perfectly reasonable in the abstract; it is the application of the language that has been problematic. Part of the problem flows from the so-called “*Georgia-Pacific*” test that many courts use to determine reasonable royalties. It is an elaborate, 15-part test introduced by a district court in the 1970s, in which not all factors are relevant to all cases and courts do not always use the same factors. See *Georgia-Pac. Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1120 (S.D.N.Y. 1970), modified sub nom. *Georgia-Pac. Corp. v. U.S. Plywood-Champion Papers Inc.*, 446 F.2d 295 (2d Cir. 1971). With such variability, the test has been described as involving more the talents of a conjuror than a judge. See *Fromson v. W. Litho*

Plate & Supply Co., 853 F.2d 1568, 1574 (Fed. Cir. 1988), overruled by *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (describing a practitioner's comment).

The *Georgia-Pacific* test is particularly troubling in the way it has been applied to complex multipart products. When a product is made up of many components, the price of the product may reflect not just one patented process or component, but also dozens of other patented inventions. The price may also reflect unpatented technology included in the product, as well as the value added by the manufacturer in putting everything together and marketing the product. The *Georgia-Pacific* test does not adequately take all of this into account, and patented inventions that make a small contribution to an overall product have received damage awards well beyond their contribution to the whole, or based on a distorted view of the whole.

Magnification, in combination with the increasingly popular practice of patent monetization, has created the perfect storm for patent abuse. The patent system has long operated with the comfort of knowing that only a tiny percentage of patents will ever earn a return. But, today, large numbers of patents that would not have garnered any return in the past are being traded and monetized. Their presence in the market, particularly in the form of commoditized, tradable rights, enhances the uncertainty and game playing that allows patent holders to obtain rights above the value of the patents themselves. The current rush toward monetization is

contributing to the ability of patent holders to bargain for more than the patent is worth, as well as creating distortions in the market for patents. Traditionally, the patent system has operated with a high percentage of “shadow patents” – patents that are never actualized but remain largely invisible, on the periphery of the patent system. The vast majority of patents have never directly earned a return for the patent holder. Estimates suggest that the number is well above 90%. Gideon Parchomovsky & R. Polk Wagner, *Patent Portfolios*, 154 U. Pa. L. Rev. 1, 5 (2005) (noting that estimates suggest that less than 5 percent of patents hold any value); *see also* Edmund W. Kitch, *The Nature and Function of the Patent System*, 20 J.L. & Econ. 265, 267 (1977). These patents do have some impact. Among other things, they clog the patent system, making it even more difficult for manufacturers to know whether a potential product would infringe any existing rights. Nevertheless, they do not extract any direct returns for their inventors.

In fact, many of these shadow patents were never intended to earn a direct return. When a company patents a particular invention, the company will engage in a series of defensive patents that are intended to cover variations or improvements that others could come up with. The intent is not to create new products, but to keep others out of the commercial space in which the product is operating, and to protect the company if competitors try to sue. Many of these unrealized patents, along with patents in

general, are of questionable validity. The patent approval system has nowhere near the resources necessary to weed out patents that are weak. One scholar estimates that the average patent examiner spends 18 hours over a period of two to three years examining a particular patent. Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 Nw. U. L. Rev. 1495, 1500 (2001). This is a remarkably small amount of time to evaluate highly technical documents that may contain dozens or even hundreds of separate claims.

If it is too great a burden on the patent office to examine each patent application extensively, imagine what would happen to the entire patent system if every patent, or even large numbers of the shadow patents, were to become monetized. That, however, is precisely what is happening in the modern patent system. According to a recent analysis of all patent litigation filed in four years, 2007-2008 and 2011-2012,⁷ patent infringement litigation by patent monetization entities has risen dramatically over a remarkably short period of time. The study analyzed roughly 13,000 cases involving almost 30,000 asserted patents, and perhaps the most notable finding was that, in 2012, litigation by patent monetizers represented a *majority* of the patent litigation filed in the

⁷ Robin Feldman et al., *The AIA 500 Expanded: Effects of Patent Monetization Entities* (April 9, 2013), UC Hastings Research Paper No. 45, available at <http://ssrn.com/abstract=2247195>.

United States. Specifically, patent monetizers filed 58.7% of the patent lawsuits in 2012. This was a sharp rise from 2007, when patent monetizers filed just 24.6% of patent infringement litigations. Additionally, the data showed that the parties who filed the highest number of patent lawsuits were generally monetizers. Of the 10 parties who filed the greatest number of patent cases in the years studied, *all were patent monetizers*.

The modern combination of magnification and monetization is playing out in ways wholly inconsistent with the goals of the patent system. The Constitutional language explains that the goal of the patent system is “to promote the progress . . . of the useful arts.” U.S. Const. art. I, § 8, cl. 8. In other words, patents do not, for example, seek to promote science for the sake of science but, rather, encourage the creation of products that will be useful and beneficial to society. Although enormous amounts of money are being paid through patent assertion, there is no evidence to suggest that much in the way of new products are emerging from all of the modern patent assertion activity. As Professors Bessen and Meurer have estimated, patent demands by monetizers cost U.S. companies 29 billion dollars in 2011 alone.⁸

⁸ See James E. Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 Cornell L. Rev. ____ (forthcoming 2014), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2091210.

Moreover, in what economists are calling the “leaky bucket,” very little of that money flowed back to inventors or innovation.⁹ Only an estimated 20% of 29 billion dollars flowed back to original inventors or went into any internal R&D by the monetizers themselves. Instead of rewarding innovation, the patent system has begun to look like the Wild West with no sheriff in sight. Courts should – indeed, *must* – have the discretion to look more closely at all the factors in play and, in their discretion, award § 285 fees where appropriate as a meaningful deterrent to the pursuit of wholly unwarranted lawsuits.

II. THE FEDERAL CIRCUIT’S TWO-PART EXCEPTIONAL CASE TEST HINDERS § 285’S INTENDED PURPOSE TO DETER ABUSE OF THE PATENT SYSTEM

When the Federal Circuit conflated this Court’s two-part definition of sham litigation in antitrust cause of actions with § 285 fee shifting, it elevated the exceptional case standard to unreachable heights. To establish that a lawsuit is an exceptional case, one must show that the suit is both objectively and subjectively baseless. *Brooks*, 393 F.3d at 1381. With the vast uncertainty involved in interpreting the language of any patent, it is remarkably difficult

⁹ See *id.*; Fiona Scott Morton & Carl Shapiro, *Strategic Patent Acquisitions*, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2288911.

to show that any patent lawsuit is both objectively and subjectively baseless. Feldman, *Rethinking Patent Law*, at 168 (“Proving sham litigation, however, requires satisfaction of a remarkably high burden. . .”). An argument can always be made in patent law that there was reason to believe someone might construe language somewhere in some claim in a way that is favorable. Even if the argument is tremendously weak, courts are reluctant to find that it satisfies the two-part test. Robin Feldman, *Public Comment on Intellectual Property Assertion & Monetization*, FTC Patent Assertion Entity Activities Workshop (Mar. 27, 2013).

Indeed, overcoming the two-part test in patent cases has proven difficult in a variety of contexts. Consider the case of an electronic fax company that acquired broadly worded patents and asserted them against numerous competitors.¹⁰ The patents were related to telephone switchboard technology. Many of those against whom the patents were asserted chose to settle, and a couple of those competitors were subsequently acquired by the electronic fax company. A few defended against the infringement claim, with one competitor filing an antitrust counterclaim. The district court rejected the antitrust claim on summary judgment on the grounds that the claim could not overcome the Federal Circuit’s stringent two-part

¹⁰ See *Intellectual Property Wrongs*, 18 Stan. J.L. Bus. & Fin. 250, 284-292 (2013).

test. One aspect of the summary judgment decision is particularly striking. The court felt that, although prior suits were not resolved by a court or jury on the merits and no prior court had construed any of the patent claims, the fact that prior cases had ended in settlements should be considered “litigation success.”¹¹ The court did not discuss any of the other factors at play, including allegations setting forth a pattern of aggressive behavior, unsupportable patent interpretations, and intimidation aimed at a broad array of competitors. Notably, the court reasoned that, because the patent owners sought an injunction or damages through an infringement suit, the fact that the defendants paid licensing fees reflected a successful case.

The problem with this logic is the feedback loop it creates.¹² In the modern world of patent monetization,

¹¹ See *Catch Curve, Inc. v. Venali, Inc.*, CV 05-04820 DDP AJWx, 2006 WL 4568799 (C.D. Cal. Feb. 27, 2006) (filed Nov. 3, 2008) at 18; see also *In Re Terazosin*, 335 F. Supp. 2d 1336, 1358 n.13 (S.D. Fla. 2004) (noting that “[T]he court cannot agree with Plaintiffs that a plaintiff who has filed suit and receives the relief sought (e.g., monetary compensation, a change in conduct, etc.) could only have been deemed to have ‘won’ under PRE if it continued to litigate the case and received a favorable judgment from the court”).

¹² Cf. James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 Yale L.J. 882, 882 (2007) (arguing that “[s]eeking a license where none is needed is problematic because ‘the existence (vel non) of licensing markets plays a key role in determining the breadth of rights, [so] these . . . decisions eventually feed back into doctrine, as the licensing itself becomes proof that the entitlement covers the use.’”).

an aggressive and well-financed patent holder can pressure smaller or less sophisticated targets into settling, simply because the costs of litigation are too burdensome. By choosing one's targets wisely, a savvy monetizer can target vulnerable plaintiffs early on and establish a string of settlements, which can then be used to convince other targets to settle and convince a court that the entire campaign was meritorious from the outset. Significantly, in some electronic fax cases that have actually proceeded to determination of patent applicability, the telephone switchboard patents at issue were held *not to apply* to electronic fax technology. That decision is cold comfort to those who paid for licenses and those who were unable to overcome the two-part test.

Compounding this unfortunate conundrum, the Federal Circuit in *Brooks* suggested that the burden for proving sham litigation should be *even higher* in cases that involve patents, on the grounds that patents are presumptively valid. *See Brooks*, 393 F.3d at 1382; *see also, e.g., Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 876 (Fed. Cir. 1985), overruled on other grounds by *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059 (Fed. Cir. 1998); *Handgards, Inc. v. Ethicon Inc.*, 601 F.2d 986, 996 (9th Cir. 1979); *Honeywell Int'l, Inc. v. Universal Avionics Sys. Corp.*, 343 F. Supp. 2d 272 (D. Del. 2004), *aff'd*, 488 F.3d 982 (Fed. Cir. 2007). This is a remarkable misinterpretation of patent law. It is true that a patent carries a presumption of validity, but that has nothing to do with whether the *assertion* of the patent against a

particular target is valid. Indeed, asking this question does not conflict with patent policy but, rather, helps to ensure that a patent is enforced consistent with patent policy.

The *Brooks* court's invocation of the presumption of patent validity misconstrues the nature of patent law, imparting an artificial significance to patents, which distorts the patent system as well as the other legal domains with which it must interact. This artificial significance, or patent exceptionalism, has allowed patent holders effectively to abuse the patent system. Patent exceptionalism flows, to some extent, from a distorted view of what a patent actually is. The notion of exclusion in patent law is quite different from the notion of exclusion in antitrust law, or in popular discourse. In antitrust law, exclusion, as in exclusion of rivals, connotes an image of occupying a competitive sphere to prevent the incursion of rivals. The patent notion of exclusion is, however, far more subtle. Despite much broad-brush language from courts and commentators, a patent does *not* grant an exclusive right to make, use, or sell a product. *See, e.g.,* Robin Feldman, *Patent and Antitrust: Differing Shades of Meaning*, 13 Va. J.L. & Tech. 5, 8 n.27, 9 n.36 (2008). In fact, a patent does not grant the right to do anything affirmative at all. A patent merely grants the right to exclude others from making, using, or selling the invention, but that right can be overlapping. In other words, all you get is the right to exclude others from standing in the sphere of the invention – as long as they do not have their own rights to be standing in that sphere as well. The

difference is more than one of semantics. The patent system contemplates far less power and control than many people assume. Oblivious to this, courts treat patents as exceptional creatures, endowing them with a power well beyond what is contemplated by the patent system itself.

In a similar vein, courts and commentators often assume that a patent confers a monopoly. This is simply untrue. A patent may give its holder the opportunity to try to carve out space in the market or to find others interested in licensing the patent to do so, but that pursuit rarely succeeds, let alone leads to a monopoly. Historically, the vast majority of patents never create any economic return at all. *See, e.g.,* Mark A. Lemley & Carl Shapiro, *Probabilistic Patents*, 19 J. Econ. Persp. 75, 75 (2005). Translating a patented idea into an actual product usually requires the use of multiple patented inventions, as well as much that is not patented. In the pharmaceutical arena, for example, one must be able to translate the patent into a product that is stable and can be mass-produced, as well as one that is approved by the Food and Drug Administration. In addition, there may be other close substitutes or sufficient cross-market elasticities. This Court has itself recognized that a patent does not necessarily confer a monopoly. *See Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 45-56 (2006) (holding that a patent by itself is not sufficient to create a presumption of market power for the purposes of a tying claim). A patent is, in short, a remarkably limited right, and its limited nature

reflects the policies inherent in the patent system. The Federal Circuit application of this Court's two-part definition of sham litigation in antitrust cause of actions to § 285 fee shifting ignores the nature of a patent, and the policies underlying the rights it protects.

III. UNDER § 285, COURTS SHOULD BE PERMITTED TO FIND CASES EXCEPTIONAL WHERE PATENT HOLDERS EXPLOIT THE PATENT SYSTEM

The surge of patent magnification and monetization, the rigidity of the Federal Circuit's sham litigation rules, and the rise of patent exceptionalism have created a substantial risk of giving companies a free pass to exploit the patent system. Section 285 was intended to and should give courts the power to police efforts to exploit the system by awarding fees to the prevailing party in exceptional cases. The key to identifying exceptional cases and thereby disrupting these practices lies in acknowledging the difference between the legitimate use of the patent right and the illegitimate use of the patent system.

This Court recently recognized the importance of empowering courts with the discretion to investigate and remedy schemes that may expand patent rights beyond their legal limits by exploiting the patent system. In *F.T.C. v. Actavis, Inc.*, this Court recognized the anticompetitive potential of reverse payment settlements in the context of Hatch-Waxman litigation.

133 S. Ct. 2223, 2237 (2013). Rather than mandate rigid rules, the Court wisely utilized a broad framework, the rule of reason, which the lower courts could structure and develop as appropriate. In so doing, the Court recognized that freedom and flexibility was necessary to allow the courts to analyze adequately the complex interests and considerations at play.

Reverse payments are one of many potentially abusive schemes that could deploy the patent system in a manner that inflates the value and power of an underlying patent right. The lower courts should, similarly, be empowered to utilize § 285 to address other schemes that exploit the patent system. Whether that behavior is in the context of Hatch-Waxman litigation, patent trolling, or other circumstances, courts must be able to separate use of the intellectual property right from use of the intellectual property system, as well as to identify when the intellectual property system is being used in an inappropriate manner.

Section 285 was “made general as to enable the court to prevent a gross injustice to the alleged infringer.” *See* S.Rep. No. 1503, 79th Cong., 2d Sess. (1946), *reprinted in* 1946 U.S. Code Congressional Service 1386, 1387. Such an injustice occurs when the patent system is improperly deployed to provide the patentee with benefits beyond those established by the underlying patent right, to the detriment of the defendant, the judiciary, and the patent system itself.



CONCLUSION

Amici urge this Court to interpret § 285 consistent with its intended purpose to deter abuse of the patent system. Courts should have the power to utilize § 285 to remedy schemes that expand patent rights beyond their legal limits by exploiting the patent system. Because the Federal Circuit misconstrued this Court's heightened test for the "sham" exception to the doctrine of immunity in antitrust cases as applying in the patent context, the instant Writ of Certiorari is properly granted for consideration of the issues raised herein.

Respectfully submitted,

ROBIN FELDMAN

Counsel of Record

UNIVERSITY OF CALIFORNIA,

HASTINGS COLLEGE OF THE LAW

200 McAllister Street

San Francisco, CA 94102

(415) 565-4661

feldmanr@uchastings.edu

Counsel for Amici Curiae

December 6, 2013