BAD ACTORS AND THE EVOLUTION OF PATENT LAW

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In patent law, bad actors are the topic du jour. Nuisance value patent lawsuits, mass-mailed demand letters, and other practices of dubious social value dominate patent policy discussions. So much so, in fact, that only four years after overhauling the patent system in 2011 Congress is again considering a package of patent reforms to target these activities and more.

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2 President Obama signed the Leahy-Smith America Invents Act ("AIA"), Pub. L. No. 112-29, 125 Stat. 284 (2011), the largest package of patent reform legislation passed since 1952, on September 16, 2011. Because most controversial aspects of the bill were removed before its passage, the AIA was largely greeted with ambivalence by the patent community. See, e.g., Gary R. Maze & K. Kalan, The America Invents Act: Much Ado About Very Little, Berenbaum Weinshienk PC (Oct. 3, 2011), http://www.bwlegal.com/news/nbin/20111006_whitepaper.pdf. In recent months, however, new procedures created by the AIA for administratively challenging issued patents have exploded in popularity and promise to have a significant impact on patent litigation strategy moving forward. See Brian J. Love & Shawn Ambwani, Inter Partes Review: An Early Look at the Numbers, 81 U. Chi. L. Rev. Dialogue 93, 93–95 (2014).

3 In December 2013, the U.S. House of Representatives passed the Innovation Act, H.R. 3309, 113th Cong. (2013), but the bill later died in the Senate in May 2014. See Kate Tummarello, Patent Reform Bill Dealt Fatal Blow in Senate, The Hill (May 21, 2014, 5:16 PM), http://thehill.com/policy/technology/206793-leahy-takes-patent-reform-off-committee-agenda. The Innovation Act was largely designed with nuisance value patent litigation in mind and, if passed, would have, inter alia, raised pleading requirements for patent infringement claims, established a presumption that attorneys'
Though recent criticism of the patent system is wide-ranging, many view courts’ historical reluctance to award attorney’s fees and otherwise exercise their equitable powers to counteract sharp behavior as central factors behind the present abundance of socially-questionable patent enforcement. As a result, there is general agreement that patentees regularly sit on their rights while others unwittingly invest to their detriment, take advantage of continu-
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variably, these scholars base their calls for reform on an accounting of the direct costs—particularly legal fees—borne by accused infringers forced to litigate patent suits that appear to have little social benefit. On the other side of the debate are commentators who argue that deterrents like those included in current reform bills cast too wide of a net and threaten to unduly restrain the power of all patent rights, rather than merely weed out ne’er-do-wells with laser-like focus. These arguments, like those made by reform proponents, also generally rest on a tally of direct losses—in this case, predictions of deflated patent valuations and reduced licensing revenue that all patent owners (good as well as bad) will face due to inevitable imperfections in any mechanism for targeting bad actors.


10 See, e.g., James Bessen & Michael J. Meurer, The Direct Costs from NPE Disputes, 99 Cornell L. Rev. 387, 387 (2014) ("Using a survey of defendants and a database of litigation, this paper estimates the direct costs to defendants arising from NPE patent assertions. We estimate that firms accrued $29 billion of direct costs in 2011."); James Bessen et al., The Private and Social Costs of Patent Trolls, Reg., Winter 2011–12, at 26, 26 ("We find that NPE lawsuits are associated with half a trillion dollars of lost wealth to defendants from 1990 through 2010. During the last four years, the lost wealth has averaged over $80 billion per year.").

11 See, e.g., Louis Carboneau, Toxic Asset: The Gradual Demise of the American Patent, IPWatchdog (Dec. 10, 2014), http://www.ipwatchdog.com/2014/12/10/toxic-asset-the-gradual-demise-of-the-american-patent/id=52571/ ("[T]here has been a multi-faceted attack on patent holders, primarily as a result of some real and perceived abuses of the system . . . . Unfortunately, shooting the messenger instead on focusing on the reprehensible behavior of a few has had unintended consequences that we now have to account for."); Joff Wild, Obama Declares War on Trolls, but All Patent Owners Will Be Affected, IAM Blog (June 4, 2013), http://www.iam-magazine.com/Blog/Detail.aspx?g=188b987a-1722-4613-9952-bb20a2b2041d1 ("[Y]ou are going to find a large number of entities targeted, many of which will not be the kinds of bottom-feeding outfits that use the threat of litigation as a means of extracting relatively low sums from their targets that the President may wish to discourage.").

12 See, e.g., Bruce Berman, Nine Companies in IP CloseUp 30 Index Fall Below $1/Share, IP CloseUp Blog (Dec. 17, 2014), http://ipcloseup.wordpress.com/2014/12/17/nine-companies-in-ip-closeup-30-index-fall-below-1-share/ (explaining that these valuations reflect that patent holding entities have been “beaten down by new patent laws”); Joff Wild, Big US Tech Companies Face Major Patent Losses in the Post-Alice
Though scholars’ focus on the first-order effects of potential reforms is quite understandable, this emphasis has left largely unexplored the possibility that less direct, though still sizeable, costs and benefits exist as well. This Essay begins the process of filling this gap in the literature by highlighting one heretofore underappreciated indirect benefit of implementing reforms that strengthen courts’ ability to punish and prevent inequitable behavior: namely, that doing so will tend to make patent law more coherent and predictable in the long run, to the benefit of all patentees and perhaps especially those industry groups most opposed to reform.

As I explain below, there is good reason to believe that patent law’s historical paucity of tools for deterring socially-questionable behavior played a large, though unstated, role in the creation of some of the most perennially confounding aspects of patent law. In the words of a familiar adage, patent jurisprudence has seen its fair share of “bad facts mak[ing] bad law”—that is, opinions that hastily apply ill-suited, generally-applicable legal rules to quietly rebuke a bad actor who otherwise would go unpunished. Consequently, there is also good reason to believe that one benefit of raising the bar for patent law’s bad actors is that patent law will thereafter develop more logically because, simply put, when bad actors sue less often, courts grapple with “bad facts” less often, and thus have fewer opportunities to generate “bad law.”

A REALIST VIEW OF PATENT LAW

It is no secret that judges’ feelings about litigants and legal issues influence court rulings, and judges hearing patent cases are no exception. Commentators have long recognized that jurists can be swayed by the importance of the technology at issue in the patent World, IAM Research Reveals, IAM Blog (Sept. 27, 2014), http://www.iam-magazine.com/Blog/Detail.aspx?g=2028b324-2d4a-4523-9f0d-f0773b8b3fa1. Indeed, there is a long-running literature on this topic. See, e.g., Karl N. Llewellyn, Some Realism About Realism—Responding to Dean Pound, 44 Harv. L. Rev. 1222, 1239–42 (1931); Thomas J. Miles & Cass R. Sunstein, The New Legal Realism, 75 U. Chi. L. Rev. 831, 834 (2008) (“Much of the emerging empirical work on judicial behavior is best understood as a new generation of legal realism.”). See Brian J. Love, The Misuse of Reasonable Royalty Damages As a Patent Infringement Deterrent, 74 Mo. L. Rev. 909, 910–11 (2009) (making this observation in light of reasonable royalty awards that appear to be punitive in nature).
cases they oversee.\footnote{Perhaps the most well-known example is Parke-Davis & Co. v. H. K. Mulford Co., 189 F. 95, 103 (S.D.N.Y. 1911), aff’d in part, rev’d in part sub nom. Parke-Davis & Co. v. H. K. Mulford & Co. 196 F. 496, 497 (2d Cir. 1912), a case that has been described by many as holding that purified natural substances can be patented simply because the much-impressed, and highly-influential, Learned Hand “said so.” See Jon M. Harkness, Myriad Misunderstandings of Parke-Davis v. Mulford, Patently-O (May 23, 2012), http://patentlyo.com/patent/2012/05/myriad-parke-davis.html.} Indeed, this practice was at one time formally enshrined in a doctrine designed to bend the rules of claim construction in favor of protecting “pioneer inventions.”\footnote{See Brian J. Love, Interring the Pioneer Invention Doctrine, 90 N.C. L. Rev. 379, 389–404 (2012) (summarizing the history of the pioneer invention doctrine). A doctrine with similar effect, but which bends the rules in favor of impressive technology accused of infringement, is the “reverse doctrine of equivalents.” See Westinghouse v. Boyden Power Brake Co., 170 U.S. 537, 568–69 (1898).}

Less common—at least among patent commentators—is the observation that courts also may look with suspicion at patentees who appear to be bad actors and, as with “pioneers,” feel less restrained by precedent as a result. Though Oliver Wendell Holmes, Jr. observed that “hard cases make bad law” more than a century ago,\footnote{This adage is usually attributed to Justice Oliver Wendell Holmes, Jr., who wrote in a 1904 dissent that “hard cases make bad law,” N. Sec. Co. v. United States, 193 U.S. 197, 400 (1904) (Holmes, J., dissenting), but the phrase dates back much further. Winterbottom v. Wright, (1842) 152 Eng. Rep. 402 (Exch.) 402; 10 M&W 109, 116 (“Hard cases, it has frequently been observed, are apt to introduce bad law.”).} patent scholars have paid this idea little heed to date. If anything, recent commentary has stressed to the contrary that courts and juries are virtually blind to several forms of iffy behavior on the part of patent plaintiffs, like establishing superficial ties to favorable localities,\footnote{See Chester S. Chuang, Offensive Venue: The Curious Use of Declaratory Judgment to Forum Shop in Patent Litigation, 80 Geo. Wash. L. Rev. 1065, 1072–77 (2012) [documenting accused infringers’ inability to combat forum shopping with declaratory judgment actions]; Jeanne C. Fromer, Patentography, 85 N.Y.U. L. Rev. 1444, 1462–63 (2010) [discussing “[w]idespread [f]orum [s]hopping in the [d]istrict [c]ourts’]; see also Network Prot. Scis, LLC v. Fortinet, Inc., No. C 12-01106 WHA, 2013 WL 4479363, at *7 (N.D. Cal. Aug. 20, 2013) (declining to sanction patentee despite evidence that it “manufactured venue in Texas via a sham . . . . [The sham included] renting a windowless file-cabinet room with no employees in Texas and [holding] it out as an ongoing business concern”).} obfuscating ownership of asserted patents,\footnote{See Feldman, supra note 9.} and feigning commercialization efforts.\footnote{See Joe Mullin, How Newegg Crushed the “Shopping Cart” Patent and Saved Online Retail, Ars Technica (Jan. 27, 2013), http://arstechnica.com/tech-policy/2013/01/how-newegg-crushed-the-shopping-cart-patent-and-saved-online-retail/ (noting
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While these observations do have merit, they nonetheless offer an incomplete picture of the role that questionable conduct has played in patent jurisprudence. As the paragraphs below demonstrate, a broader inspection reveals many layers in the sedimentary crust of U.S. patent law bear the telltale signs of bad facts ushering the creation of bad law. In fact, one need look no further than a selection of “textbook” patent cases already familiar to generations of patent lawyers.

“SUBMARINE” INVENTORS SHAPED NOVELTY AND UTILITY

Probably no patent-related court opinion exemplifies this phenomenon better than *Egbert v. Lippman*, which reaches the surprising conclusion that an invention can be “publicly used” even when worn exclusively inside a person’s undergarments. The technology at issue in the case—a new corset spring design—was “publicly used” according to the Court because the inventor’s significant other (subsequently his wife) wore an embodiment sewn into her corset for several years before her tinkerer-turned-inventor husband filed a patent application on the design.

For a legal system that, in other contexts, ensures the secrecy of marital conversations, it is hard to imagine a decision that deems “public” the interior of a romantic partner’s underwear. The case that Soverain Software’s webpage, which has “separate pages for products,” “services,” and “solutions” as well as “phone numbers and e-mail addresses for sales and tech support,” is “all a sham” because “[c]ourt records show Soverain hasn’t made a sale—ever.”

To be fair, the Court stressed that the inventor not only gave the corset spring to his significant other, but also did so “without limitation or restriction, or injunction of secrecy.” *Egbert*, 104 U.S. at 336. Then again, as the dissent points out, it seems likely that telling one’s romantic partner not to share the contents of his or her undergarments with the public “would have been supposed to be a piece of irony.” Id. at 339 (Miller, J., dissenting).

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21 104 U.S. 333 (1881).
22 Id. at 335 (explaining that the inventor’s “intimate friend... wore [the corset] steels [that he constructed for her] a long time... [and] when the corsets in which these steels were used wore out, the witness ripped them open and took out the steels and put them in new corsets”).
23 See Milton C. Regan, Jr., Spousal Privilege and the Meanings of Marriage, 81 Va. L. Rev. 2045, 2055 (1995) (“The privilege for confidential marital communications may be invoked in federal court and in all state courts. In federal court and in many state courts, the privilege is available in both civil and criminal proceedings.” (footnotes omitted)).
24 To be fair, the Court stressed that the inventor not only gave the corset spring to his significant other, but also did so “without limitation or restriction, or injunction of secrecy.” *Egbert*, 104 U.S. at 336. Then again, as the dissent points out, it seems likely that telling one’s romantic partner not to share the contents of his or her undergarments with the public “would have been supposed to be a piece of irony.” Id. at 339 (Miller, J., dissenting).
makes a great deal more sense, however, when viewed in the context of two additional facts: first, that the inventor waited eleven years before filing a patent application; and second, that the corset spring industry independently and innocently adopted the same design in the meantime. In other words, the patentee appears to have intentionally “slept on his rights” until many years later when the unwitting efforts and finances of others proved them to have great value.

Rather than enunciating an equitable rule to protect settled expectations, and conversely to punish those who sit on their rights only to spring forth later and disrupt those expectations, the Court chose instead to stretch the meaning of “publicly used” to an arguably tortured and, at the very least, quite counter-intuitive extent. Members of the Court, it seems quite possible, spotted a bad actor and made a deliberate decision not to reward his sharp behavior. But, rather than doing so forthrightly and in a manner directed solely at the inventor involved in this case, the Court did so sub silencio and in a manner that created a perennial trap for unsophisticated inventors that continues to destroy the nascent patent rights of small inventors to this day, more than a century later.

25 Id. at 337 (majority opinion) (“The inventor slept on his rights for eleven years. . . . In the mean time, the invention had found its way into general, and almost universal, use. A great part of the record is taken up with the testimony of the manufacturers and venders of corset-steels, showing that before he applied for letters the principle of his device was almost universally used in the manufacture of corset-steels.”). The industry’s use of the invention-at-issue over the course of several years did not bar the inventor’s patent rights in this case because, at the time this case was decided, it was generally understood that a “public use” could bar patent rights only if that use took place with the inventor’s consent. Robert Patrick Merges & John Fitzgerald Duffy, Patent Law & Policy: Cases and Materials 512–13 (6th ed. 2013). Today any public use can constitute a statutory bar. Id.

26 Egbert, 104 U.S. at 337.

27 See William C. Rooklidge & Russell B. Hill, The Law of Unintended Consequences: The On Sale Bar After Pfaff v. Wells Electronics, 82 J. Pat. & Trademark Off. Soc’y 163, 176 (2000) (“The ‘reduced to practice,’ ‘substantially complete’ and ‘experimental stage’ tests resulted from an urge to soften the harsh effects of application of the on sale and public use bars. More often applied to legally-unsophisticated or un conseilsed inventors, and having a disproportionate effect on individual inventors, the bars have been reviled as a ‘trap for the unwary’ . . . .”); Jay David Schainholz, Note, The Validity of Patents after Market Testing: A New and Improved Experimental Use Doctrine?, 85 Colum. L. Rev. 371, 394 n.113 (1985) (“Generally, a patent legal department is in constant contact with the research and development and marketing departments to avoid costly but inadvertent mistakes that could lead to patent invalidation . . . [But] [t]o the
Facts underlying another seminal patent case, Brenner v. Manson, give rise to similar inferences. In this case, the Court denied patent rights to a putative inventor who—a careful reading of the opinion reveals—filed a patent application on a new process for making a particular steroid four years after another team of researchers filed an application covering the same process and, perhaps not coincidentally, just three months after that application was first revealed to the public as a published patent.

But again, rather than focusing on the suspicious timing of the Johnny-come-lately inventor’s alleged conception and application dates, the Court seized instead on the fact that the latecomer could not demonstrate he was aware of a use for the steroid that his process created—even though he clearly could show that many researchers believed the steroid would prove useful and, thus, intended to produce it for research purposes. As a result, the Court deemed not “useful” within the meaning of the Patent Act a process that, oddly enough, the record clearly demonstrated was useful to researchers in the field. As in Egbert, the counter-intuitive nature of this holding combined with the suspicious nature of the facts-at-hand plausibly suggests that members of the Court identified a potential bad actor and, with that unspoken conclusion in mind, were inclined to adopt a narrow definition of “useful” that would deny him patent rights—a ruling that, despite decades of persistent criticism from commentators and the biopharmaceutical industry, remains good law today.
CONTINUATION ABUSE REANIMATED THE WRITTEN DESCRIPTION REQUIREMENT

A similar motivation may well have also been at work in *Gentry Gallery, Inc. v. Berkline Corp.* As recounted in this opinion, the inventor of the patent-in-suit—which, as originally filed, was directed to a reclining sofa with *console-mounted* controls—admitted at trial that he intentionally broadened his claims during prosecution to cover competitors’ later-conceived designs with recliner controls located elsewhere on the sofa.

Yet again, rather than directly address the inventor’s apparent bad faith addition of “new matter” to his patent application—a practice that is generally regarded as widespread and virtually never punished—the court instead focused on the mismatch between the patent-in-suit’s specification and claims that resulted from these shenanigans. In doing so, the court revived the (until then) largely-dormant “written description requirement,” a doctrine that went on to develop into what commentators have called “an unmitigated disaster” and “an essentially standardless disclosure doctrine that can be deployed arbitrarily.”

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32 134 F.3d 1473 (Fed. Cir. 1998).
33 Id. at 1479 (“Sproule admitted at trial that he did not consider placing the controls outside the console until he became aware that some of Gentry’s competitors were so locating the recliner controls.”).
35 See Lemley & Moore, supra note 6, at 65; Merges & Duffy, supra note 25, at 291 (“When the language in the patent application allows, the applicant’s lawyer may add a claim to the application embracing the variant sold by the competitor…. This type of practice is a standard type of gamesmanship that lawyers have long tried.”).
36 *Gentry Gallery*, 134 F.3d at 1479–80.
38 Mark D. Janis, On Courts Herding Cats: Contending with the “Written Description” Requirement (and Other Unruly Patent Disclosure Doctrines), 2 Wash. U. J.L. & Pol’y 55, 61 (2000). See also Ariad Pharm. v. Eli Lilly & Co., 598 F.3d 1336, 1361–62 (Fed. Cir. 2010) (en banc) (Rader, J., dissenting-in-part) (“The frailties of this court’s ‘written description’ doctrine have been exhaustively documented… [including] the embarrassingly thin (perhaps even mistaken) justifications for the minting of this new description doctrine … and the extensive academic criticism of this product of judicial imagination.”); id. at 1360–61 (Gajarsa, J., concurring) (“I disagree … with those who view an independent written description requirement as a necessity of patent law…. [It] serves little practical purpose as an independent invalidity device ….”); Laurence H.
“PATENT TROLLS” AWOKE PATENTABLE SUBJECT MATTER

A final example—and perhaps the most salient one today—is the resurgence of patentable subject matter jurisprudence over the course of the last several years. The notion that Section 101 should serve as a serious check on software patentability awoke from a decades-long slumber in tandem with the rise of the “patent troll” business model in the mid-2000s. Arguably, it was because accused infringers and judges lacked the firepower necessary to shoot down cases brought by bad actors with bad patents, that courts slowly began to embrace patentable subject matter as a means to toss suits brought at least in part for nuisance-value before litigation costs could reach six figures.

Perhaps due to the ad hoc and case-specific nature in which it was revived, courts have to date failed to apply Section 101 to software in a principled manner. As Judge Plager bluntly put it in a recent opinion, patentable subject matter jurisprudence has become a “murky morass” that few in the patent bar purport to understand fully. Nonetheless, its emergence has cast a dark shadow on the validity of virtually all pure software patents and, much to the bio-

40 See Brian J. Love, Why Patentable Subject Matter Matters for Software, 81 Geo. Wash. L. Rev. Arguendo 1, 10–11 (2012) (“It was only after finding themselves with nowhere else to turn that accused infringers gradually began to resort to section 101 for protection. Though software first clearly became patentable in 1998, challenges on the basis of patentable subject matter were largely unheard of prior to 2007, when Bilski first landed at the Federal Circuit.” (footnote omitted)).  
41 MySpace, Inc. v. GraphOn Corp., 672 F.3d 1250, 1260 (Fed. Cir. 2012) (referring to patentable subject matter jurisprudence as a “swamp of verbiage” and a “murky morass”). See also Peter S. Menell, Forty Years of Wondering in the Wilderness and No Closer to the Promised Land: Bilski’s Superficial Textualism and the Missed Opportunity to Return Patent Law to Its Technological Mooring, 63 Stan. L. Rev. 1289, 1291 (2011) (describing patentable subject matter precedent as “[leaving] the patent community in the wilderness”).  
42 The Supreme Court’s latest word on this issue, Alice Corp. v. CLS Bank Int’l, 134 S. Ct. 2347 (2014), has spurred lower courts to strike down software patents with unusual vigor in recent months, to the dismay of royalty-dependent players in that industry. See, e.g., Brian McCall, Lessons from 4 Months of Post-Alice Decisions, Law360 (Oct. 31, 2014, 10:18 AM), http://www.law360.com/articles/590465/lessons-from-4-months-of-post-alice-decisions (“As of Oct. 20, 2014, 18 courts have directly relied up-
tech industry’s chagrin, may well have inspired courts and litigants
to reach for the doctrine more often in cases involving genes and di-
agnostics.43

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While astute readers can no doubt think of additional cases that
belong on this list, an exhaustive accounting is not necessary to
make what at core is a very simple point. Bad facts often make bad
law—but only when cases with bad facts reach a ruling on the mer-
its. And, because patent law traditionally has not done a good job of
weeding out cases brought by bad actors, the patenting commu-
ity—especially the parts thereof most opposed to patent reform:
small inventors, biopharma companies, and patent-reliant software
makers—have suffered the effects of controversial doctrinal shifts
that, had more effective deterrents existed, might never have come
into existence.

In short, while establishing new deterrents to bad faith actions
may well impose direct costs on good actors (along with the bad), it
likely will also bring indirect benefits to that same community in the
form of increased doctrinal clarity that, though hard to quantify,
may nonetheless be quite substantial in size. Sectors of the tech
world that presently oppose reforms aimed at bad faith conduct
may want to ask: Might it be worth it to lose a few more dollars per
patent transaction to avoid yet another doctrinal debacle?

43 See Ass’n for Molecular Pathology v. Myriad Genetics, 133 S. Ct. 2107, 2111 (2013)
(holding that claims covering isolated DNA segments are unpatentable because “a natu-
really occurring DNA segment is a product of nature”); Christopher M. Holman, In
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adiad the Supreme Court Has, Once Again, Increased the Uncertainty of U.S. Patent Law,
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v. Prometheus Labs., 132 S. Ct. 1289, 1294 (2012) (holding that claims covering diag-
nostic tests are unpatentable if they are so broad that they cover, “apart from the natu-
ral laws themselves,” no more than “well-understood, routine, conventional activity
previously engaged in by researchers in the field”); Bernard Chao, Moderating Mayo,