Nuisance-Value Patent Suits: An Economic Model and Proposal

Ranganath Sudarshan

Follow this and additional works at: http://digitalcommons.law.scu.edu/chtlj
Part of the Law Commons

Recommended Citation
Available at: http://digitalcommons.law.scu.edu/chtlj/vol25/iss1/6

This Article is brought to you for free and open access by the Journals at Santa Clara Law Digital Commons. It has been accepted for inclusion in Santa Clara High Technology Law Journal by an authorized administrator of Santa Clara Law Digital Commons. For more information, please contact sculawlibrarian@gmail.com.
NUISANCE-VALUE PATENT SUITS: AN ECONOMIC MODEL AND PROPOSAL

Ranganath Sudarshan†

Abstract

Patent holding entities frequently approach companies with vague allegations of patent infringement, offering a license in exchange for a "nuisance" payment which amounts to less than the cost of litigating a defense. Although accused infringers often have strong arguments that the asserted patent claims are either invalid or not infringed, most risk-averse companies opt to settle rather than face the expensive, protracted, and uncertain prospect of litigation. Such "nuisance" patent settlements, however, defy their name—often amounting to millions of dollars.

Despite a wealth of analysis in the tort context of the nuisance-value settlement problem, there has been no comparable analysis in the patent context. This Article presents substance to that void with an economic model that explains the dynamics of nuisance-value patent litigation, as well as the background conditions in patent law which facilitate these dynamics. After exploring proposed solutions from the tort context, the economic model is used to explain why a unique solution is necessary for patent suits. Finally, this Article proposes a narrowly-tailored procedural mechanism which will allow district courts to liberally grant a stay of the infringement phase of a patent suit pending completion of an expedited validity phase. Such a mechanism will provide economic incentives for defendants to litigate against nuisance patents rather than opt for nuisance settlements.

† J.D., University of California, Berkeley; B.S., M.S., Stanford University; rsudarsh@cs.stanford.edu. Law Clerk for Judge Randall Rader of the United States Court of Appeals for the Federal Circuit, 2008-09. I am grateful to Professor Robert Merges for his thoughtful reviews of an initial proposal for this paper.
INTRODUCTION

Today's corporate Chief Executive Officers and Chief Financial Officers are keenly aware of the threat that big-ticket patent infringement poses to the bottom line. However, they are not attuned to a smaller, yet significant threat which is a growing concern for the office of the General Counsel. Beneath the radar of newspaper headlines and Congressional floor speeches addressing patent reform, nuisance-value patent suits are a daily fact of life for most corporate legal departments.

The pattern is familiar. Corporations receive a letter in the mail from a patent holding company inviting a "discussion" regarding the company's patent portfolio. The corporation allegedly infringes this portfolio, and the holding company invites it to participate in a "licensing program." The holding company contacts dozens of potential defendants in this manner, offering preferable licensing fees to companies who settle early. The holding company pegs the cost of settlement below the cost of defending against an infringement suit; a number which can often reach into the millions. Faced with a pure business decision, most corporate legal departments opt for the "nuisance" settlement, even when there are meritorious defenses. In the words of one industry veteran, such suits are corporate America's latest "slip and fall."  

This paper is the first academic attempt to analyze nuisance-value patent litigation. Part I addresses the foundational question of what constitutes a nuisance-value patent suit. It then presents an economic model which reflects the unique litigation and business strategies of nuisance patent plaintiffs. This model reveals the central economic reality which enables nuisance-value patent suits to be brought—a litigation cost imbalance that favors plaintiffs over defendants.

Part II explores why nuisance patent litigation is a matter of concern for those interested in innovation and a robust patent system. This section aims to establish that nuisance patent suits threaten vital gatekeepers of patent quality.

Part III examines the background conditions of the U.S. patent system which enable nuisance patent plaintiffs to achieve success. An understanding of these conditions, and their relation to the economic

---

model of Part I, is critical to developing proposals which ameliorate the problem of nuisance patent suits.

Part IV examines scholarly treatment of nuisance-value settlements in the field of tort law. This examination reveals that existing proposals are ill-adapted to address the specific problem of nuisance-value patent suits.

Part V advances a proposal to curtail nuisance-value patent litigation abuse. Under this proposal, at the request of a defendant, the court stays the infringement phase of a suit while first addressing the issue of the patent's validity in a condensed time frame. This proposal alters the economic dynamic upon which nuisance-value patent plaintiffs rely by allowing patent defendants to concentrate their resources on invalidity defenses while holding off the burdensome and unequal expenses of infringement discovery.

I. WHAT IS NUISANCE-VALUE PATENT LITIGATION?

Two major deficiencies handicap any analysis of nuisance-settlement behavior in private civil litigation. First, there is a lack of publicly available information about settlements. A vast majority of litigants agree to confidentiality agreements that prevent dissemination of financial details. Second, there is difficulty in making an ex post determination of what constitutes a nuisance settlement, even when financial details are forthcoming. As a result of these analytical handicaps, this Article will be primarily theoretical, placing greater emphasis on economic models than on statistical observation.

A. A Working Definition

This Article relies on nuisance-value patent litigation having three specific and necessary definitional conditions.

1. First, the patent holder offers a settlement (or license) figure which is significantly less than the cost of defending the suit through the discovery phase of a trial.

---


---
2. Second, this settlement amount does not correspond to traditional measures of patent damages, i.e., reasonable royalty or lost profits.\(^3\)

3. Third, the plaintiff seeks to avoid litigation because of a sufficiently high probability that the asserted claims are a) invalid, or b) not infringed by the defendant's products.

This definition recognizes that a suit is not necessarily a nuisance suit just because the offered settlement amount is less than the cost of defense. For example, the second prong of the definition excludes situations where a defendant's infringement may have been so minor that a license would have been worth less than the cost of asserting the patent in litigation.\(^4\) Similarly, the third prong of the definition leaves out scenarios where a plaintiff's validity and infringement contentions are meritorious, but a steep discount may have been given to the defendant for any number of reasons.

B. Insights from an Economic Model

Let us assume a hypothetical plaintiff and defendant. Define the following variables:

- \(V\): The maximum amount of damages that Plaintiff can hope to reap from Defendant for infringement of Plaintiff's patent.
- \(p\): The probability (0<\(p\)<1) that both a) Plaintiff's patent will withstand Defendant's challenges to the patent's validity,\(^5\) and b) Defendant infringes Plaintiff's patent.\(^6\)
- \(C_P\): Plaintiff's prospective cost of litigation, including attorney's fees, court costs, expert fees, internal litigation costs, etc.
- \(C_D\): Defendant's prospective cost of litigation, including attorney's fees, court costs, expert fees, internal litigation costs, etc.

---


4. I refer to "minor" infringement here as a situation where a patent right is legitimately infringed, but where the resultant damages are so small that litigation is not worthwhile. This contrasts with nuisance suits, where, as per our definition, infringement and/or validity is questionable.


6. Probability \(p\) is a compound figure, arrived at by multiplying the probability of infringement by the probability of validity.
NS: The nuisance amount which Plaintiff can offer Defendant to resolve/prevent litigation.

From the plaintiff's perspective, it is economically worthwhile to bring suit if:

1. $C_P < pV$

That is, if the expected value of the litigation ($p$ multiplied by $V$) is greater than the plaintiff's litigation costs, it stands to gain from the lawsuit. Put differently, the plaintiff's expected outcome from this lawsuit will be:

2. $pV - C_P$

Seen from the defendant's perspective, the suit bears an expected value (a loss) of:

3. $p(V+C_D) + (1-p)(C_D)$

Accordingly, for a settlement or license amount, NS, to be economically attractive to the defendant, the following relationship must hold true:

4. $NS < [p(V+C_D) + (1-p)(C_D)]$

Where,

5. $\lim_{p \to 0} \{pV - C_P\} = -C_P$

Therefore, as a patent’s chance $p$ of withstanding invalidity and noninfringement attacks gets lower, the plaintiff’s expected value of litigation reaches the cost of litigation, $C_P$, even when potential damages $V$ are large.° As a result, nuisance patent plaintiffs generally prefer not to litigate. From this fundamental insight, we can make several additional observations.

1. Maximizing the Defendant’s Cost of Defense

Referring to equation 3, which expresses the expected outcome of litigation for the defendant, we can observe:

6. $\lim_{p \to 0} \{p(V+C_D) + (1-p)(C_D)\} = C_D$

As $p$ approaches zero, the expected value of the litigation for the defendant effectively boils down to the cost of defense, $C_D$. In other words, as it becomes more and more unlikely that the asserted patent is either infringed or valid, the defendant is less likely to be required

° $p$ is rarely, if ever, actually zero. The reasons for this fact, as well as its implications, are discussed infra in Part I.B.3.
to pay damages, and the expected loss amounts primarily to the cost of defense. Applying this to equation 4, we can observe:

7. \( \lim_{p \to 0} NS = C_D \)

As \( p \) approaches zero, the nuisance amount \( NS \), which the plaintiff can demand to make the dispute go away, is bounded only by \( C_D \), the cost of defense.\(^8\)

This bound on \( NS \) has one clear implication; a nuisance patent plaintiff has every incentive to increase \( C_D \), for doing so directly increases \( NS \). No doubt, in all litigation, a plaintiff has an incentive to maximize \( C_D \), but the effect of doing so is peculiarly important in nuisance cases where \( p \) is low. This can be seen by considering cases where \( p \) is higher, i.e., non-nuisance cases, where we can observe:

8. \( \lim_{p \to 1} \{ p(V+C_D) + (1-p)(C_D) \} = V+C_D \)

When \( p \) gets higher, \( C_D \) becomes less important since \( V \), the maximum amount of damages, often dwarfs the cost of defense in patent cases.\(^9\) It follows that \( NS \) in non-nuisance patent cases is not bound by \( C_D \), as it is in nuisance cases, which is why nuisance-value settlements are not expected in non-nuisance patent cases.

Nuisance patent plaintiffs can increase the cost of defense in a number of ways. First, they can take advantage of the liberal standard for discovery in the Fed. R. of Civ. P. by aggressively demanding discovery on a broad range of topics.\(^10\) As long as discovery requests appear "reasonably calculated to lead to the discovery of admissible evidence,"\(^11\) they are permissible, and the defendant must produce evidence under penalty of contempt.

Plaintiffs can also assert infringement of multiple patents to inflict high litigation costs on defendants. When nuisance plaintiffs

---

8. The fact that \( S \) is bound by \( C_D \) instead of \( V \) explains the second prong of my definition of nuisance plaintiffs. See supra Part I.A. Only where the value \( p \) is sufficiently low can one expect settlement demands to correspond not to traditional measures of patent damages, but merely to the cost of defense.

9. For example, the median damages award in patent cases in 2005 was approximately $9 million. See ARON LEVKO ET AL., A CLOSER LOOK: 2008 PATENT LITIGATION STUDY: DAMAGES AWARDS, SUCCESS RATES, AND TIME-TO-TRIAL 2 chart 2A (2008), available at http://www.pwc.com/exitweb/pwcpublications.nsf/docid/EBC144CF6220C1E785257424005F9A2B/SFile/2008_patent_litigation_study.pdf. For a discussion of the typical (lower) costs of defense in patent litigation, see infra Part III.A.

10. FED R. CIV. P. 26(b)(1) ("Parties may obtain discovery regarding any nonprivileged matter that is relevant to any party's claim or defense . . . ").

11. Id.
own several patents, but only a few are particularly relevant to the
business of the defendant, they can nonetheless assert all patents that
are remotely relevant as long as they satisfy the minimum pre-filing
investigation requirements of Fed. R. of Civ. Pro. 11.\footnote{12} Each
additional patent-in-suit requires the defendant to expend more money
and effort in interpreting the claims, searching for invalidating prior
art, and hiring experts to opine on non-infringement.

Another notable nuisance technique is choosing to file suit in a
jurisdiction that is inconvenient for the defendant. Under the federal
patent venue statute, a plaintiff can bring an infringement suit either
"in the judicial district where the defendant resides, or where the
defendant has committed acts of infringement and has a regular and
established place of business."\footnote{13} The federal general venue statute
provides that a corporate defendant is deemed to reside in "any
judicial district in which it is subject to personal jurisdiction."\footnote{14} The
Court of Appeals for the Federal Circuit has interpreted these statutes
to allow patent infringement suits to be brought in any jurisdiction
where the defendant has sufficient contacts under the Constitution—a
traditionally low threshold.\footnote{15} By bringing suit in far-flung,
perceivably-plaintiff-friendly "magnet jurisdictions,"\footnote{16} nuisance
plaintiffs can satisfy the minimum Constitutional venue requirements
while subjecting defendants to the cost and inconvenience of having
to litigate in a distant location.

2. Minimizing the Plaintiff's Litigation Costs

Since both plaintiffs and defendants face prospective litigation
costs, to the extent that a plaintiff can minimize $C_p$ in ways that a
defendant cannot minimize $C_D$, a unique tactical advantage can be
reaped. Indeed, in nuisance suits, where $p$ is low by definition,
plaintiffs must minimize $C_p$ in order to maximize their expected value of litigation.\footnote{The expected value of litigation for a plaintiff is $pV-C_p$, from Equation 2, supra Part I.B.}

One way plaintiffs minimize $C_p$ is by using contingency fee arrangements. A contingency fee arrangement is one in which an attorney does not charge legal fees to a plaintiff until and unless a favorable outcome is reached.\footnote{See generally, Herbert M. Kritzer, The Wages of Risk: The Returns of Contingency Fee Legal Practice, 47 DEPAUL L. REV. 267, 270 (1998).} A typical solicitation by a firm which uses contingency fees appears as follows:

Your patent is your property; it's your right to defend it. The problem is, most legal firms will make you pay all of the upfront costs to take your case, regardless of the outcome . . . . Our firm takes a different approach to defending your patent rights. We'll offer our legal services to you on a value-billing basis, which means we will pay the costs upfront and charge you only if we win your case . . . . Don't be intimidated if you feel someone—whether it is an individual or a large company—has violated your patent. Our resources and experience in patent cases allows us to defend your patent against offenders of any size.\footnote{Posting of Peter Lattman to WALL ST. J. LAW BLOG, http://blogs.wsj.com/law/2007/11/09/law-blog-advertisement-of-the-day-trolling-for-patent-plaintiffs/ (Nov. 9, 2007).}

Standard contingency fees are sizeable, typically at least one-third in cases settled before trial and often more than one half of the net recovery in cases which go to trial.\footnote{Lester Brickman, ABA Regulation of Contingency Fees: Money Talks, Ethics Walks, 65 FORDAM L. REV. 247, 268 (1996).} Nonetheless, contingency arrangements are critical to the success of nuisance plaintiffs. For one, they allow a plaintiff to defer costs. A nuisance plaintiff who has agreed to a contingency fee enjoys an obvious tactical advantage over its adversary, the accused infringer, who must stay current with expensive legal fees. Contingency arrangements also allow nuisance plaintiffs to mitigate the grim reality of a low $p$ value, since the plaintiff will not have to pay an excessive legal bill if it loses in litigation.

Another strategy used to minimize $C_p$ is the practice of suing a large number of defendants together in the same action. By naming multiple defendants in the same complaint, nuisance patent plaintiffs can lower their average cost, $C_p$, per suit. Although defendants can
band together to amortize certain costs, most costs of litigation, such as responses to discovery requests and preparation of witnesses relating to infringement contentions, are not divisible from the perspective of accused infringers. From the standpoint of the nuisance patent plaintiff, however, many litigation costs are substantially the same whether there is one defendant or many.

Immunity to countersuit is yet another tactical advantage enjoyed by nuisance plaintiffs. When making projections regarding the expected outcome of bringing a patent suit, most plaintiffs must account for the cost of having to litigate counter allegations of patent infringement brought by the defendant. Nuisance plaintiffs, however, who almost always exist solely for the purpose of enforcing a patent portfolio, have no ongoing business operations which subject them to the risk of a countersuit. Thus, when forecasting a prospective figure for \( C_p \), nuisance plaintiffs need not account for any projected expenses associated with defending against patent countersuits.

3. Maximizing the Value of \( V \) to Increase \( NS \)

In equation 7, we observed that a defendant’s expected outcome approaches the cost of defense, \( C_D \), as \( p \) approaches zero, as it does in nuisance cases. It is important to note, however, that \( p \) never actually reaches zero. As further discussed above in Part III, the statutory presumption of validity combined with the flexible nature of claim scope interpretation, means that even the worst patents have a fighting chance in court. Accordingly, the value of \( V \) is still important in determining the upper limit of \( NS \), the nuisance amount which a plaintiff can demand. To use a numerical example, let us assume a situation where the following values are true:

\[
p = .1 \\
C_D = \$2 \text{ million} \\
V = \$10 \text{ million}
\]

---

21. Defendants in patent cases often create “Joint Defense Groups” or “Common Interest Groups” to share in certain costs, such as expert witnesses, prior art searches, etc. See Howard M. Erichson, Informal Aggregation: Procedural and Ethical Implications of Coordination Among Counsel in Related Lawsuits, 50 DUKE L.J. 381, 403 (2000).

Applying these numbers to equation 4 above, we derive the following:

\[ NS < 0.1(10M + 2M) + (1 - 0.1)(2M) \]
\[ NS < 3M \]

Since the expected value to the defendant is $3 million, the nuisance plaintiff can offer any amount up to $3 million for the defendant to obtain an efficient resolution.

If we keep all other values the same, but now double the potential damages, \( V \), to $20 million, the following holds true:

\[ NS < 0.1(20M + 2M) + (1 - 0.1)(2M) \]
\[ NS < 4M \]

Doubling \( V \) in this example, results in an increase in the upper bound of \( NS \) of $1 million. Generally, increasing a defendant's projected estimate of \( V \) palpably escalates the price at which a defendant is willing to agree to a nuisance settlement.

Plaintiffs can increase a defendant's estimate of \( V \) by accusing a defendant's entire system of infringement, rather than merely the relevant component within that system. This strategy has received doctrinal sanction from the Federal Circuit by way of the "entire market value rule." The rule permits recovery of damages "based on the value of the patentee's entire apparatus containing several features when the patent-related feature is the 'basis for customer demand.'" As one Silicon Valley executive describes it, patent plaintiffs often take great liberty with the rule, phrasing settlement offers "in terms of a percentage royalty based on the total selling price of [our] products, even when the scope of the patent or patents extends to only a relatively insignificant feature of the device."

Moreover, nuisance plaintiffs take advantage of the entire market value rule by suing end-user device makers rather than original equipment manufacturers (OEM's). For example, a nuisance plaintiff who holds a patent on a hard-drive component will be able to implicate a higher \( V \) if it pursues the computer maker who bundles the

24. Id.
hard drive into a deliverable system, rather than the OEM who actually manufactured the hard drive.  

II. NUISANCE-VALUE PATENT SUITS UNDERMINE INNOVATION AND THE PATENT SYSTEM  

To a company facing a patent infringement suit in which the plaintiff offers a settlement for less than the cost of defense, disposition of the matter may well be a mere nuisance. To the patent system and the market for innovation as a whole, however, nuisance-value patent settlements have a cumulatively negative effect that should not be overlooked.  

A. Discouragement of beneficial litigation  

As academic commentators have observed, the U.S. Patent and Trademark Office (PTO) is too understaffed and overworked to adequately scrutinize each patent application in the examination phase. By late 2007, the PTO had a backlog of 760,000 patent applications to review, and the average time it took to address those filings ranged from 25 months to more than 32 months. Assigned production quotas for applications put increased pressure on PTO patent examiners to review and complete applications quickly. As a result, their review of applications is often less than thorough, and the PTO routinely issues bad patents.  

Given the flawed nature of patent examination, the litigation process is the real crucible in which to test a patent's validity and scope. Once litigation begins, a defendant has a powerful economic

26. The "entire market value rule" is a prominent target of reform in the ongoing Congressional patent reform debate. See infra Part IV.A.  
30. Mark Lemley has argued that strengthening the examination process at the PTO would be inefficient, since such a small percentage of patents end up becoming the subject of litigation. Instead, Lemley argues, since litigated patents are the patents that really matter, strengthening judicial inquiry into validity during litigation is more worthwhile. See Mark A. Lemley, Rational Ignorance at the Patent Office, 95 NW. U. L. REV. 1495, 1501-02 (2001). On
incentive to unearth evidence that would invalidate the patent in question; a far greater incentive than the PTO employee who examined a patent application before issuance.\textsuperscript{31} Litigation is thus one of the main gatekeepers of patent quality.

A defendant's natural economic incentive to engage in this gatekeeping function is turned upside down when a patent plaintiff offers a nuisance-value settlement. Typically speaking, a defendant's cost of discovering invalidating evidence and presenting it to the Court, though high in absolute terms, is small compared to the potential liability of an adverse verdict. In terms of the model above:

\[ C_D < V \]

This means a defendant typically has an incentive to spend \( C_D \) (i.e., to litigate) to avoid the possibility of paying \( V \). However, when a defendant is presented with a nuisance-value settlement, it can limit its liability to \( NS \). Since \( NS \) is bounded by \( C_D \),\textsuperscript{32} however, a defendant has a strong incentive to merely pay \( NS \) (i.e., to not litigate) rather than spend \( C_D \). A low-cost settlement can be far more attractive than a prolonged legal battle, despite the defendant's meritorious arguments of an invalid or impermissibly broad patent.

Nuisance settlements have implications for future litigants as well.\textsuperscript{33} Since the landmark case of \textit{Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation},\textsuperscript{34} the Supreme Court has held that an accused infringer can non-mutually plead collateral estoppel when facing an infringement claim on a patent already declared invalid in a proceeding against another defendant.\textsuperscript{35} Accordingly, a defendant with strong invalidity defenses who nevertheless succumbs to a nuisance-value settlement deprives all prospective future defendants who might have benefited from a preclusive invalidity finding.


\textsuperscript{32} See supra Part I.B, Equation 7.


\textsuperscript{34} Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found., 402 U.S. 313 (1971).

\textsuperscript{35} Id. at 350.
B. Effect on Accurate Valuation of Intellectual Property Rights

A patent is an exclusionary grant, providing to its holder the right to "exclude others from making, using, offering for sale, or selling the invention." Thus, to the extent a patent can be valued, that value reflects the patent holder’s ability to prevent others from practicing the patent’s claims. The patent statute requires an adjudged infringer to place a value on the exclusionary scope of a patent by paying "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." In the economic model in Part I, a defendant's projection of this value was labeled as $V$.

When an accused infringer disposes of litigation for a nuisance amount, $NS$, it frustrates the statutory metric of patent valuation. As seen above in Equation 7, nuisance settlements correlate primarily to the cost of defense, $CD$. Thus, when a plaintiff extracts a nuisance settlement from an accused infringer, the infringer has not valued the patent according to the monetary value of the patent's exclusionary scope, $V$. According to first principles, a patent's value ought not be controlled by the auxiliary metric of how much it costs to defend against it in an infringement suit. The framers of the U.S. Constitution envisioned the patent system as securing exclusive patent rights for inventors "[t]o promote the Progress of Science and useful Arts." Thus, at its core, every patent reflects a quid pro quo between society, who grants the exclusive patent right, and the inventor, who provides a useful and novel innovation. Nuisance-value patent settlements, where dubious patents are rewarded according to a calculus divorced from the patent's useful worth, frustrate the very statutory and Constitutional bases of the patent grant.

Nuisance patent plaintiffs exploit the flawed valuation inherent in nuisance settlements in two primary ways. The first is by sending not-so-subtle signals to future accused infringers. Consider one notable plaintiff’s press release after its 40th successful settlement:

[Accused infringer’s] purchase of a MMP license is yet another example of the widespread use of MMP Portfolio technology . . . All producers of microprocessor-based products and dependent services should be placing high priority on the purchase of a license for the fundamental MMP Portfolio technologies to reduce

related financial exposure. The sweeping scope of applications using MMP Portfolio design techniques continues to encourage the world’s leading manufacturers of end user products from around the globe to become MMP Portfolio licensees.\textsuperscript{39}

By touting the success of their enforcement efforts on their websites and issuing press releases each time a defendant agrees to a settlement, nuisance plaintiffs inform future accused infringers that the patents in question are potent and not worth litigating against.

A second way in which nuisance plaintiffs capitalize on flawed valuations involves established law regarding reasonable royalty damages. As discussed above, the patent statute mandates that an adjudged infringer must pay, at a minimum, a “reasonable royalty” to the patent holder.\textsuperscript{40} In a decades-old line of precedent emerging from a New York district court case, courts consider a set of fifteen factors in determining an appropriate reasonable royalty, the very first of which is “the royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.”\textsuperscript{41} Since courts place emphasis on the “going rate,” as it were, accused infringers cannot ignore the effect of prior nuisance settlements. Thus, nuisance settlements boost a plaintiff’s minimum demand in future negotiations, further inflating the value of the bad patent in question.

III. ASPECTS OF PATENT LAW THAT ENCOURAGE NUISANCE-VALUE SETTLEMENTS

The previous sections have established a working definition and economic model of nuisance patent suits and have analyzed the negative effects of these suits using that model. This section examines the unique background conditions that enable nuisance patent plaintiffs to extract their tolls.

A. The High Cost of Patent Litigation

Perhaps the greatest factor contributing to the existence of nuisance-value patent suits is the high cost of patent litigation. The greater the cost of defending a suit, the more a company will pay to


\textsuperscript{40} § 284.

avoids litigation altogether. In 2001, the median cost to litigate a patent case with $1 million to $25 million at risk was almost $1.5 million.\textsuperscript{42} By 2003, this amount had increased to $2 million.\textsuperscript{43} As the amount at risk increases, litigation becomes more expensive. In cases with more than $25 million at risk, the litigation costs were almost $4 million in 2003.\textsuperscript{44}

The pre-trial discovery process in patent litigation, in particular, is both technically complex and expensive. Discovery in patent matters proceeds simultaneously on two primary fronts: validity and infringement. With regard to validity, both parties must develop their respective cases as to whether the patents are valid in light of prior inventions which were publicly known prior to the date of invention.\textsuperscript{45} Both parties must conduct extensive searches, often on a global scale, for articles and witnesses that can establish the validity or invalidity of the patents in suit. Both parties must retain experts to opine on the level of ordinary skill in the art of the invention, the scope and content of relevant prior art, and the validity of the claims in light of these factors.

However, the onus of discovery production, with regard to infringement, is largely on the defendant in nuisance suits. Under Fed. R. of Civ. Pro. 34, a party may serve unlimited requests to "produce and permit the requesting party or its representative to inspect, copy, test, or sample . . . documents or electronically stored information" or "tangible things."\textsuperscript{46} For example, a patent plaintiff may request the following for production with regard to the issue of infringement:

All documents reflecting the research, design, development, and manufacture of the accused infringing product; All engineering specifications, memoranda, reports and evaluations of the accused infringing product or methods; All flow charts, pseudo code and computer source code for the [relevant] features of the accused product or method; All documents reflecting the advertising, marketing and sale of the accused infringing documents; All documents filed with Government agencies regarding the accused

\textsuperscript{42} \textit{AIPLA, REPORT OF THE ECONOMIC SURVEY 2001}, 84 tbl.22 (2001).
\textsuperscript{43} \textit{AIPLA, REPORT OF THE ECONOMIC SURVEY 2003}, 93 tbl.22 (2003).
\textsuperscript{44} \textit{Id.} at 94 tbl.22.
\textsuperscript{46} \textit{FED. R. CIV. P.} 34(a).
product or method, including any SEC, FDA or other regulatory filings.\textsuperscript{47}

Indeed, a defendant’s entire business can be implicated by broadly crafted discovery requests. The cost of finding such documents, collecting them, and analyzing them for possible privilege can be astronomical. Since the infringement phase of a patent case deals nearly exclusively with the defendant’s actions and products, the plaintiff enjoys being in the position of demanding instead of producing discovery.

In the words of one district court judge whose docket is heavy with patent nuisance suits, “burgeoning litigation costs have distorted patent markets by significantly discouraging potential patent challenges, hence distorting competition to a degree beyond that justified by the intrinsic strength or merit of the patent.”\textsuperscript{48} The direct effects of these “burgeoning” costs can be seen by referring to our economic model from Part I. In Equation 7, we observed that the value that a nuisance plaintiff can demand of an accused infringer, $\text{NS}$, is bounded only by $\text{CD}$, the cost of defense. Any increase in $\text{CD}$ accrues directly to the nuisance plaintiff in the form of a higher value for $\text{NS}$.

\textbf{B. The Statutory Presumption of Patent Validity and the High Burden of Proving Invalidity}

The very language of the U.S. Patent Act establishes that once a patent has been granted by the PTO, a) “a patent shall be presumed valid”\textsuperscript{49} and b) “the burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.”\textsuperscript{50} The Court of Appeals for the Federal Circuit, which hears all appeals from patent suits, has consistently interpreted this statute as requiring a challenger to furnish “clear and convincing evidence” that a patent was improperly granted.\textsuperscript{51} With such a high burden for a patent

\begin{thebibliography}{99}
\bibitem{pd} \textit{Id}.
\bibitem{pfizer} Pfizer, Inc. v. Apotex, Inc., 480 F.3d 1348, 1359 (Fed. Cir. 2007). For a history of federal courts’ interpretation of the standard of establishing invalidity, see Doug Lichtman &
defendant to prove invalidity, *all* patent defendants begin the litigation process disadvantaged.

The presumption of validity and the clear and convincing standard can have a compelling effect on both judges and juries. As one commentator has noted, jurors "see the seal on the patent, they hear clear and convincing [evidence], and their likelihood of going for the defendant is much slighther than it is for the patentee." The presumption and standard thus tell a jury that "unless we find something devastating[ly] effective against it, we're going to affirm it." As a result, a defendant can never truly rely on a patent being found invalid. As one patent litigator described, "Patent litigation is still a pretty uncertain process . . . You're never really more than 80 percent sure you're going to win."54

Referring to the economic model of Part I, the statutory presumption and the high burden of proving invalidity have an inflationary effect on the variable \( p \), the probability that the patent is both infringed and valid. In equation 4, we observed that a nuisance-value settlement must bear the following relationship to \( p \), \( V \), and \( C_D \):

\[
NS < [p(V+C_D) + (1-p)(C_D)]
\]

Which can be simplified to:

\[
NS < pV + CD
\]

Let us assume a situation where the following values are true:

\[
p = .1 \\
C_D = $2 million \\
V = $10 million
\]

In this case, the upper limit of \( NS \) is $3 million. If \( p \) increased to .2, to account for the presumption and burden, \( NS \) increases to $4 million. Therefore, the higher the value of \( p \), the higher one can expect \( NS \) to be.

C. *The Indeterminate Nature of Claim Construction*

Interpretation of the scope of patent claims is a notoriously indeterminate process. Accordingly, whether or not a defendant's products actually infringe a patent cannot be known with certainty.

---


53. Id. at 40.

until litigation is underway. Even in the 19th century, a jurist had observed:

[N]o property is so uncertain as "patent rights"; no property more speculative in character or held by a more precarious tenure . . . it is only after a patentee has passed successfully the ordeal of judicial interpretation that he can speak with any real certainty as to the scope and character of his invention.\(^5\)

In particular, the principle known as the doctrine of equivalents causes great uncertainty regarding the meaning of patent claim terms. According to this doctrine, "[t]he scope of a patent is not limited to its literal terms but instead embraces all equivalents to the claims described."\(^5\) Since the scope of a patent's claims extends beyond their literal elements to include unstated equivalents, a defendant who does not literally infringe a claim may still be liable if the accused device performs "substantially the same function in substantially the same way to obtain the same result."\(^5\) Determining what "substantially" may mean has made contention a permanent fixture of any allegation of infringement.

Uncertainty in a patent claim's meaning is further aggravated by an extraordinary rate of reversal of lower court claim constructions by the Court of Appeals for the Federal Circuit. Scholarly analyses of the Federal Circuit's review of lower court claim constructions place the rate of reversal between 35% and 44%.\(^8\) As one Federal Circuit judge has commented, "the meaning of a claim is not certain (and the parties are not prepared to settle) until nearly the last step in the process."\(^5\)

The ambiguous nature of patent claim scope is a boon for nuisance-value patent plaintiffs, because it allows them to file suits

\(^{55}\) E. Bement & Sons v. La Dow, 66 F. 185, 190 (C.C.N.D.N.Y. 1895).


which, though not meritorious enough to prevail at trial and through appeal, are sufficient to comply with the pre-filing requirements of Fed. R. of Civ. Pro. 11(b). According to the Federal Circuit, the "key factor" in determining whether a patentee has conformed with 11(b) is "the presence of an infringement analysis . . . [which can] simply consist of a good faith, informed comparison of the claims of a patent against the accused subject matter." The flexibility and ambiguity of claim interpretation, along with the liberal requirements of Rule 11(b), allow nuisance plaintiffs to cast a wide net to ensnare a broad range of devices and products.

IV. APPROACHES TO THE NUISANCE-VALUE SETTLEMENT PROBLEM IN THE TORT CONTEXT

The nuisance-value settlement phenomenon in the tort law context has been recognized in various studies. This section draws upon this work and explores the applicability of prior proposals to the nuisance settlement problem in patent litigation.

A. Damages Caps

Caps on damages have been the most widely discussed tort reform proposal in the last few decades. In the field of medical malpractice for example, several states have enacted the Medical Injury Compensation Reform Act (MICRA), which was envisioned to decrease the prevalence of frivolous suits filed against doctors by capping the amount a medical malpractice plaintiff may collect in non-economic (pain-and-suffering) damages at $250,000. MICRA
legislation has been met with a large amount of criticism—much of it centered around the contention that caps have simply not been effective in reducing insurance premiums for doctors.\textsuperscript{65}

Regardless of the success in the medical malpractice context, however, the idea of capping damages is worth considering in the patent context. As discussed in Part I.B.3, the greater the potential exposure, $V$, in a lawsuit, the larger the nuisance settlement, $NS$, a defendant will be willing to accept. Conversely, limiting the extent of $V$ should theoretically decrease the amount $NS$ that a nuisance plaintiff can demand.

The current Senate and House patent reform bills, S. 1145 and H.R. 1908, contain "apportionment" provisions aimed at limiting patent damages awards.\textsuperscript{66} Specifically, the bills propose that a) reasonable royalties must be applied only to that economic value properly attributable to the patent's specific contribution over the prior art\textsuperscript{67} and b) unless the patentee shows that the patent's specific contribution over the prior art is the predominant basis for market demand for an infringing product or process, damages may not be based upon the entire market value of that infringing product or process.\textsuperscript{68} These measures, if enacted, could reduce $V$ in nuisance patent cases, thereby reducing $NS$. In particular, this proposal might limit the practice discussed in Part I.B.3 whereby nuisance plaintiffs target device aggregators rather than device OEM's in order to implicate a greater royalty base for prospective damages.

One potentially fatal problem with apportionment, however, is that it may burden litigants and courts with impossibly complex damages calculations. As Chief Judge Paul Michel of the U.S. Court of Appeals for the Federal Circuit has observed:

[T]he provision on apportioning damages would require courts to adjudicate the economic value of the entire prior art, the asserted patent claims, and also all other features of the accused product or process whether or not patented. This is a massive undertaking for which courts are ill-equipped. For one thing, generalist judges tack


\textsuperscript{67} Id. § 5(a)(2).

\textsuperscript{68} Id. § 5(a)(3). Such provisions would limit the effect of the "entire market value rule" discussed \textit{supra} in Part I.B.3.
experience and expertise in making such extensive, complex economic valuations, as do lay jurors. For another, courts would be inundated with massive amounts of data, requiring extra weeks of trial in nearly every case. Resolving the meaning of this novel language could take years, as could the mandating of proper methods.  

Another problem with apportionment is that it is unlikely that a defendant faced with a nuisance settlement offer can accurately make the projections necessary to discount $V$ so as to reduce $NS$. Apportionment requires an in-depth analysis of the prior art and the scope of the asserted claims—an analysis which cannot be completed until litigation is well under way. Moreover, since business managers often look at decisions in terms of their worst case scenarios, a prudent risk analyst will be very cautious about reducing $V$ in light of apportionment. As a result, any reduction in a defendant’s calculation of $V$ will be conservative at best, thereby resulting in very little discounting effect on the amount, $NS$, which a nuisance plaintiff can demand.

### B. Fee Shifting

Proponents of tort reform in America often tout the “English rule” as a means to discourage frivolous nuisance suits. Under this rule the non-prevailing party pays the winner’s attorney’s fees, as well as his own. The “American rule,” by contrast, generally requires each side to bear its own attorney fees. The arguments for implementing a “loser pays” English rule are manifold, including basic fairness, incentives for economically reasonable settlements, and, most importantly, deterrence of non-meritorious nuisance litigation.

---


For this reason, some have argued in recent years that the English rule should be applied to patent litigation. For example, Solveig Singleton argues that the English rule in patent suits might reduce nuisance suits, and “lead patent claimants to be more careful in filing patents to research non-patent prior art or otherwise bolster the quality of their claims.” Most notably, Jay Kesan has proposed “one-way, pro-defendant patent fee shifting,” which would penalize patent plaintiffs “when their patent claims are invalidated or revoked in a litigation or opposition proceeding based on prior art that should have been discovered by them through a reasonable prior art search.”

Such fee shifting proposals would undoubtedly create incentives for greater caution before bringing suit on patents of questionable merit. However, advocates of the American rule put forth two main rationales for resisting the English rule. According to the fairness rationale, the justice system should be open to all, and fee shifting discourages non-wealthy litigants from vindicating their rights. According to the administrative complexity rationale, the English rule is disfavored because of the high administrative costs of determining the expenses payable by a losing party, the complexity of apportioning costs when there are multiple defendants, and the difficulty of allocating responsibility when the party with the actual financial interest in a losing plaintiff’s case is an insurance company.

There are reasons other than fairness and avoidance of administrative complexity to suspect the efficacy of the English rule in curbing nuisance patent litigation. We know from Part III that the statutory presumption of validity, the high evidentiary burden for invalidating a patent, and the innately unpredictable nature of claim interpretation are unique features of patent law. Thus, unlike other legal claims where a plaintiff can know a priori that a claim has no merit, one can never be equivalently certain that a patent is invalid or

NUISANCE-VALUE PATENT SUITS

not infringed until the litigation process is complete.\textsuperscript{77} Stated in the contrapositive, a legitimate (non-nuisance) patent plaintiff simply cannot know \textit{a priori} whether a patent is valid or infringed with certainty. Thus, a policy that punishes nuisance plaintiffs when a patent is invalidated or not infringed is over-inclusive because it punishes legitimate non-nuisance plaintiffs.

Attempts to mitigate the side effects of such over-inclusiveness are likely to be unfruitful. For example, Kesan suggests that attorney’s fees should only be awarded to defendants when the “plaintiff is attempting to enforce a patent that he would have realized is invalid had he conducted a diligent prior art search.”\textsuperscript{78} The determination of what constitutes a diligent prior art search is a highly subjective inquiry that would introduce additional uncertainty into the already-uncertain process of patent litigation. Thus, Kesan’s approach is unlikely to be broadly accepted.

\section*{C. Option to Bar Settlement}

David Rosenberg and Steven Shavell have proposed an “option to bar settlement” as a novel solution to the problem of nuisance litigation.\textsuperscript{79} Under this proposal, defendants are granted the right to request a court not to enforce a settlement agreement between the parties.\textsuperscript{80} Once the defendant exercises this option, any subsequent settlements will be unenforceable.\textsuperscript{81} The effect of this option plays out as follows: if a defendant knows it is facing a plaintiff who would not be willing to go to trial (i.e., a nuisance plaintiff), the defendant exercises the option to bar settlement, which forces the plaintiff to either pursue the case (and lose) or withdraw. As Rosenberg and Shavell argue, because a nuisance plaintiff can anticipate this sequence of events, it will not bring suit in the first place.\textsuperscript{82}

There are several problems with applying the option to bar settlement to the patent context.\textsuperscript{83} First, the proposal depends on the

\begin{itemize}
\item \textsuperscript{77} In our model, this means that $p$ is never zero.
\item \textsuperscript{78} Kesan, \textit{supra} note 74, at 796.
\item \textsuperscript{79} David Rosenberg & Steven Shavell, \textit{A Solution to the Problem of Nuisance Suits: The Option to Have the Court Bar Settlement}, 26 INT’L. REV. L. & ECON. 42 (2006).
\item \textsuperscript{80} \textit{Id.}
\item \textsuperscript{81} \textit{Id.} at 43.
\item \textsuperscript{82} \textit{Id.}
\item \textsuperscript{83} A thorough critique of the option to bar settlement has been provided in Ted Sichelman, \textit{Why Barring Settlement Bars Legitimate Suits: A Reply to Rosenberg and Shavell}, CORNELL J.L. & PUB. POL’Y (forthcoming 2008), \textit{available at
defendant recognizing it is facing a plaintiff who is "unwilling to pursue . . . to trial." \textsuperscript{84} In all litigation, it is difficult to anticipate a patentee’s motivations and strategies. As Lucian Bebchuk observed in a seminal paper regarding nuisance settlements, "the success of many [nuisance] suits may be explained . . . by defendant uncertainty as to whether or not the suit is a [nuisance suit]." \textsuperscript{85} In patent litigation, it is particularly difficult for a defendant to recognize that a plaintiff is not willing to go to trial because even patents with suspicious validity and claim scope enjoy the benefits of a statutory presumption of validity, a high evidentiary burden for proving invalidity, and an indeterminate claim construction process. \textsuperscript{86}

Moreover, unlike other types of suits where defendants may know with relative ease that a plaintiff’s suit has little merit, \textsuperscript{87} a determination that a patent is invalid and/or not infringed is a process that can involve great time, effort, and expense. Even if defendants were hypothetically able to make this determination, they would have to simultaneously cope with an inundation of discovery requests that demand a large expenditure of time and money. At this point, a defendant must choose between a nuisance-value settlement on the one hand, and an expensive, though righteous, up-hill battle to establish patent invalidity and/or non-infringement on the other. Inevitably, most moderately risk-averse companies would choose the nuisance settlement rather than the option to bar settlement.

\textit{D. Other Proposals}

Scholars and policy makers have put forth an astonishing number of proposals to deal with the problem of frivolous nuisance litigation. Considering each of these is outside the scope of this paper. The proposals above are, in my opinion, the most relevant to the nuisance patent context, but there are a couple of others to which I will give brief mention.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=986234. Sichelman focuses on how this proposal is over-inclusive, discouraging small-stakes, high-cost, but socially beneficial suits. I refer the reader to this critique, but do not comment at length about it since my intent is to focus on the specific applicability of Rosenburg and Shavell’s proposal to patent litigation, which Sichelman does not address.

\textsuperscript{84} Id. at 4.

\textsuperscript{85} Bebchuk, \textit{supra} note 63, at 439.

\textsuperscript{86} See \textit{supra} Part III.

\textsuperscript{87} Imagine, for example, a case where a company is sued for breach of contract where it knows it had a legitimate reason for its actions and the aggrieved party is only bringing the case for its nuisance value.
Some advocates have proposed that defendants use the antitrust laws (including state unfair competition claims) to fire back counterclaims against nuisance patent plaintiffs.\textsuperscript{88} Although the antitrust laws provide potentially powerful weapons to control socially harmful litigation, they are unsuitable to target nuisance suits. As Michael Meurer has noted, "\[a\]ntitrust law does not reach opportunistic litigation because the purpose of such litigation is to extract a settlement payment, not to exclude a rival. In antitrust parlance, there is no antitrust injury and no attempt to monopolize a market."\textsuperscript{89} Moreover, since Section 2 of the Sherman Act,\textsuperscript{90} which prohibits monopolization of trade, requires market power in the relevant product market as a prerequisite to a finding of antitrust injury,\textsuperscript{91} nuisance plaintiffs, who most often have no ongoing business operations,\textsuperscript{92} cannot implicate antitrust scrutiny.

Randy Kozel and David Rosenberg have proposed a solution called "mandatory summary judgment," (MSJ), which "preclud[es] the parties from entering into an enforceable settlement prior to filing a motion—together with requisite arguments, discovery results, and other supporting documentation—for merits review on summary judgment."\textsuperscript{93} According to the authors, MSJ "eliminates the potential payoff from nuisance-value strategies, removing any incentive to employ them."\textsuperscript{94}

Lance McMillan has provided a thoughtful critique of MSJ, in which his main argument is that "not all cases are suitable for MSJ. A great many cases, probably the vast majority, are litigated without ever going through the summary judgment process (e.g., the standard auto wreck lawsuit)."\textsuperscript{95} In the context of patent litigation, McMillian's point resonates even stronger. Approximately 95% of all patent suits

---


\textsuperscript{91} See Eastman Kodak Co. v. Image Technical Servs., 504 U.S. 451, 481 (1992) (enumerating prerequisites to a Section 2 violation).

\textsuperscript{92} See supra Part I.B.2.


\textsuperscript{94} Id. at 1853.

settle either before or during trial, 78% settle even before the pre-trial hearing, 16% settle before trial, and 1% settle during trial. A sweeping policy such as MSJ would thus preclude efficient settlement far too often. By subjecting all patent defendants to the costs of vigorous litigation on all triable issues, the non-specificity of MSJ makes it an unworkable option.

V. A NEW PROPOSAL–LEVELING THE PLAYING FIELD ON DISCOVERY COSTS

A. A Common Flaw in the Tort Approaches

The tort law approaches considered in the previous section are all premised upon a common assumption, that a nuisance plaintiff believes its case cannot prevail at trial. Ergo, rational plaintiffs will be less likely to bring suit if they are penalized for losing (English rule), if their rewards are minimized (caps on damages), and if the case is forced to go to trial (option to bar settlement).

The background conditions of patent law impose a different reality. As observed in Part III, a patent holder is less likely to believe that its cause of action is entirely frivolous. Nuisance patent plaintiffs may be highly dubious of infringement and validity, but because of patentee friendly aspects of the law, they are not entirely unwilling to proceed to trial. I call this the “hybrid frivolousness” of nuisance patent suits. Any solution to the problem of nuisance-value patent litigation thus cannot rely on a plaintiff believing his case will be entirely unsuccessful at trial. Therefore, a proper proposal to combat nuisance patent litigation should include provisions which deal with “hybrid frivolousness.”


97. See, e.g., Kozel & Rozenberg, supra note 93, at 1851 (“[W]e specifically define a ‘nuisance-value settlement’ as a payoff extracted by a threat to litigate a meritless claim or defense that both parties know the court would readily dismiss as ‘untriable’ or otherwise legally untenable . . . .’); Rosenberg & Shavell, supra note 79, at 1 (“[I]n which the plaintiff’s case is sufficiently weak that he would be unwilling to pursue it to trial.”); McMillian, supra note 95, at 254 (“Nuisance cases are defined in this article as any action that the plaintiff knows to be frivolous yet brings anyway in order to extort a settlement less than the defendant’s cost to defend.”).

98. From our definition in Part I, nuisance patent plaintiffs avoid litigation because of a “sufficiently high probability” that the asserted claims are invalid or not infringed. Compare this to the definitions of nuisance suits provided supra in note 97.

99. In terms of our economic model from Part I, one can imagine that \( p \) is somewhere less than 50%, but not quite zero.
Beyond the need to cope with the "hybrid frivolousness" of nuisance patent suits, at least three additional criteria should be satisfied by proposals to combat nuisance patent litigation. First, policy solutions should be minimally complex to implement. Patent litigation is already complex, and proposals like apportionment and fee shifting, which require additional layers of complexity or judicial intervention, will defeat the compelling interests in judicial economy. Second, policy solutions should be narrowly tailored so as to not prevent efficient settlement in non-nuisance cases. Finally, proposals should not undermine the substantive rights of patent holders. Proposals that affect the substantive rights of patent holders, history shows, will be vigorously opposed and often defeated.  

B. The Need to Level Specific Imbalances Between $C_D$ and $C_P$

The fundamental imbalance which favors nuisance plaintiffs over nuisance defendants is plaintiffs' markedly lower projected cost of litigation. As observed in Part I, nuisance plaintiffs are able to maximize defendants' litigation costs while minimizing their own, making $C_P$ smaller than $C_D$. This disparity can be dissected further by comparing litigation costs in the two main phases of a patent case: validity and infringement.

With regard to the validity portion of a patent case, nuisance plaintiffs do not enjoy any overwhelming advantages in cost. Just as a defendant must retain expert witnesses to opine as to why particular prior art renders the asserted claims invalid, a plaintiff must retain experts to opine the opposite. Moreover, when multiple defendants are sued together they are able to band together in arrangements known as "common interest groups" or "joint defense groups" in order to share costs such as the fees of invalidity experts and searches for prior art.

The infringement portion of a patent case is where nuisance plaintiffs win their advantage. A patent plaintiff is entitled to request factual discovery regarding any portion of the defendant's business operations which might infringe the asserted claims. As discussed above in Part III.A, the cost of corralling voluminous amounts of information about allegedly infringing business activities and responding to broad discovery requests can be staggering. Since

100. See, e.g., Tafas v. Dudas, 511 F. Supp. 2d 652 (E.D. Va. 2007) (granting preliminary injunction to block the Patent Office's implementation of rules which would curtail inventors' ability to file continuations during patent applications).
factual issues relating to infringement are usually not common to multiple defendants, this cost cannot be amortized in joint defense agreements. By contrast, nuisance patent plaintiffs rarely have any business operations of their own, making their exposure to factual discovery on this front comparably limited.

C. Staying Non-infringement Pending Early Summary Judgment Motions on Validity

In order to undercut the economic leverage enjoyed by nuisance plaintiffs, I propose the following: upon motion by a defendant, a district court will stay all aspects of the case that pertain to infringement and require the parties to agree to an expedited schedule for motions on summary judgment of invalidity. Staying the infringement portion of the case gets to the heart of the advantage enjoyed by nuisance-value patent plaintiffs because it requires all parties to focus first on validity, where neither plaintiffs nor defendants enjoy a particular cost advantage. If a defendant prevails on summary judgment of invalidity, the case is disposed of, and the defendant will have avoided the time and expense of discovery relating to infringement.

Under this proposal, when a defendant is confronted with a nuisance suit, it will have stronger incentives to quickly examine the prior art, the prosecution history, and any other evidence that might invalidate the patent. To the extent that such evidence is unavailing and the defendant estimates a high likelihood that the asserted claims are relevant to its business operations, this proposal does not begrudge settlement as an efficient alternative to litigation. However, in cases where a defendant gauges that there are strong invalidity arguments, whether or not its operations might infringe, this proposal emboldens defendants to litigate rather than accept a nuisance settlement. Most importantly, because of the stay of discovery on issues relating to infringement, the defendant can reduce its projected cost of defense, $C_D$, by conducting its invalidity case unfettered by the simultaneous costs of responding to discovery requests regarding infringement.

101. Of course, if the plaintiff seeks an appeal and is successful in reversing summary judgment, the defendant will not be able to avoid infringement discovery costs. But in that situation, where the Federal Circuit would find that summary judgment of invalidity was inappropriate, it is questionable whether the case would actually present a true nuisance suit, as per the definition in Section 1A.
One primary advantage of the option to stay infringement discovery pending validity determinations is that it accounts for "hybrid frivolousness," discussed above. Unlike other approaches which rely on the plaintiff knowing its case is meritless (or, worse, the defendant or judge knowing that the plaintiff thinks it is meritless), this proposal recognizes that nuisance patent plaintiffs often have inflated views of their case and thus avoids any need for the defendant to analyze the plaintiff's state of mind. Rather, the focus of this proposal is the defendant's state of mind regarding the merits of the suit. A defendant invokes a stay of infringement only if it is sufficiently confident the case can be disposed of on summary judgment of invalidity.

Part II discussed how nuisance suits harm the patent system by preventing bad patents from being vigorously challenged. This proposal creates the right incentives to combat that harm by allowing defendants to dispose of a suit without incurring the crippling costs related to factual discovery on infringement. In terms of the economic model from Part I, a defendant confronted by a nuisance patent can lower its estimated cost of defense, $C_D$, thereby reducing the amount $\mathbb{NS}$ which nuisance plaintiffs can demand. As $\mathbb{NS}$ gets lower, the defendants' willingness to litigate against meritless patent claims gets proportionately higher and the attractiveness to plaintiffs of bringing nuisance suits gets proportionately lower.

Implementation of this proposal is trivial. Once courts become aware of the advantages to this approach, they are already procedurally empowered to liberally grant such stays.\footnote{Landis v. North Am. Co., 299 U.S. 248, 254 (1936) ("[T]he power to stay proceedings is incidental to the power inherent in every court to control the disposition of the causes on its docket with economy of time and effort for itself, for counsel, and for litigants.").} Requiring the validity phase to proceed ahead of the infringement phase is merely a matter of procedure as far as the patent right is concerned. Thus, since patent holders' substantive rights are not affected by staying the infringement phase of a case, courts will be able to grant such stays as a matter of right. Moreover, if the district court finds that the defendant's motion to stay the infringement phase is entirely non-meritorious,\footnote{For example, if the district court concludes, after examining the defendant's motion to stay, that the defendant is unlikely to be able to lay out a prima facie case of invalidity, it can deny the motion and proceed with a normal discovery schedule.} dilatory, or otherwise improper, the court may exercise its discretionary powers to deny the motion.
This proposal is narrowly tailored. In Part III, we discussed several aspects of the patent system which allow nuisance suits to proliferate. If Congress were to alter the statutory presumption of validity, the high burden for proving invalidity, or the doctrine of equivalents with the specific intent of preventing nuisance suits, legitimate suits would be affected as well. Changes to these fundamental doctrines should be accomplished while considering patent litigation as a whole, not merely with an eye to nuisance patent litigation. Further, from a practical standpoint, attempts to alter fundamental aspects of patent law will have to overcome stiff opposition from proponents of strong patent rights.\textsuperscript{104} Since staying infringement issues pending validity determinations is purely procedural, minimal opposition from patent holders can be expected and adoption of the proposal could be relatively immediate.

VI. CONCLUSIONS AND CAVEATS

Legal systems are built to encourage settlement. As one scholar has observed, "lawyers, judges, and commentators agree that pretrial settlement is almost always cheaper, faster, and better than trial. Much of our civil procedure is justified by the desire to promote settlement and avoid trial."\textsuperscript{105} Any proposal to reduce settlements in favor of litigation will thus be met with a great deal of institutional suspicion.

Furthermore, there should be no illusion that any proposal can entirely eliminate the problem of nuisance settlements in any field. Corporate defendants are notoriously risk averse, and nuisance settlements may always be easier to stomach for many companies than the uncertainty of litigation. In addition, even though courts can create incentives to litigate against bad patents, innate aversion to trial attorneys, legal fees, and publicity cannot be lightly disregarded.

The proposal of this Article aims merely to reduce a nuisance defendant's prospective defense cost estimation, which in turn

\textsuperscript{104} For examples of pro-patent-rights arguments that oppose comprehensive patent reform, see John M. Golden, Commentary, "Patent Trolls" and Patent Remedies, 85 TEX. L. REV. 2111 (2007) (arguing that categorical approaches to patent reform which discriminate against patent holders will undermine the patent system); James F. McDonough III., The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy, 56 EMORY L.J. 189 (2006) (arguing that "patent dealers" play a vital role in innovation and that the Congressional patent reform measures will do gravely affect this role).

reduces the amount it is willing to accept to settle. As long as nuisance patent plaintiffs offer small enough settlements, they will always find takers. However, to the extent that this proposal can reduce the ability of plaintiffs to extract settlements for bad patents, it will have achieved its intended goal.