Comments of the
National Retail Federation
to the
Federal Trade Commission
and Department of Justice
regarding
Patent Assertion Entities

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Introduction

The National Retail Federation (“NRF”) appreciates the opportunity to respond to the request for comments by the Federal Trade Commission (“Commission”) and Department of Justice (“Department”) regarding the impact of patent assertion entity activities on innovation and competition and its implications for antitrust enforcement and policy.

As the world’s largest retail trade association and the voice of retail worldwide, NRF represents retailers of all types and sizes, including chain restaurants and industry partners, from the United States and more than 45 countries abroad. Retailers operate more than 3.6 million U.S. establishments that support one in four U.S. jobs – 42 million working Americans. Shop.org, a division of the National Retail Federation, is the world's leading membership community for digital retail. Founded in 1996, Shop.org’s 600 members include the 10 largest online retailers in the U.S. and more than 60 percent of the Internet Retailer Top 100 E-Retailers. Contributing $2.5 trillion to annual GDP, retail is a daily barometer for the nation’s economy.

Comments

Members of the National Retail Federation appreciate the examination the Commission and the Department are leading to address the rapidly growing problem of patent assertion entities, also known as “patent trolls,” and their harmful effect on competitiveness and innovation. Many retailers are using capital resources to settle with or fight patent trolls’ infringement claims that they would otherwise use to invest in their businesses, including jobs, innovation and refurbishment of their stores.

Retail, at its core, is a highly competitive industry, and many retailers are using innovative technology creatively to expand and grow their businesses. Patent trolls’ tactics cut to the heart of this growth and ingenuity.

In recent years, over 200 retailers have contacted NRF about this issue because they have been, or are currently, the target of patent trolls’ abusive litigation practices. The threat typically comes from firms whose business model is buying obscure patents which are about to expire and then either licensing the patents to retailers through the threat of litigation or filing lawsuits in an effort to force a settlement. Often retailers will choose to pay the licensing fee because patent litigation is exorbitantly expensive.

Patent trolls employ a strategy that focuses on end-users such as retailers because end-users are more numerous. One manufacturer or vendor may supply a product or service to thousands of retail end-users. Thus, there are many more entities from which to demand a royalty. The end-user retailers are also easy prey because they lack the legal resources and in-house expertise to fight complex patent infringement claims. Compared to high tech companies, retailers typically operate on thin profit margins. Patent trolls, knowing that retailers lack technical expertise, retail stores operate on thin margins, and patent litigation is exorbitantly expensive, will often price a settlement demand (which may still be in the millions) below the cost of litigating, effectively blackmailing a retailer into settlement. This is an abuse of the system.
Patent trolls assert infringement claims covering the use of technology in all areas of e-commerce and mobile retailing because their claims are based on broad concepts and a general way of doing something rather than specific software innovations. This approach is especially damaging to retailers, who are embracing new technology and groundbreaking innovation to better serve their customers.

MacroSolve Inc. has filed numerous suits related to violating U.S. Patent No. 7,822,816, which is a method patent covering the process that many businesses have used to develop their mobile apps. They have sued technology companies, service providers and end users, including retailers. Over half of the defendants have settled, and the details have not been released. MacroSolve claims their patent covers thousands of apps as well as those yet to be developed.¹ This is of great concern to the retail community, who increasingly rely on mobile apps as part of their omnichannel presence in the marketplace.

The trolls’ claims not only affect e-commerce applications but also affect the operations of traditional “brick and mortar” retail stores. Some examples of the latter are claims that purport to cover the printing of receipts at cash registers, the sale of gift cards, and the connection of any product such as a computer or printer to an Ethernet network.

These cases rarely go to trial because the damages claims are so exorbitant, and the prospect of relief through litigation so time-consuming, that retailers make a business decision to settle, rather than litigate. It has been reported that trolls lose 92 percent of cases that do go to trial, but again it is so infrequent that a defendant has the fortitude to litigate. Smaller retailers may find themselves particularly ill-equipped legally or financially to defend themselves from abusive claims, and dealing with these claims certainly inhibits their ability to innovate and grow.

The exorbitant costs associated with seeing a court case through to final adjudication are startling for retailers, especially small businesses. Even settling claims can be very expensive for retailers; we have heard from our members that they spend as much as one million dollars annually on patent troll-related expenses and settlement agreements. These expenditures and the employee hours diverted to fighting patent trolls are precious capital resources that retailers would rather reinvest in their businesses.

The recent case of Soverain v. Newegg demonstrates the many costly steps involved in litigating a patent case and the enormous economic impact that just one patent troll can wreak on an industry. Beginning in 2004 and continuing up through 2012, Soverain has filed numerous suits against dozens of retailers alleging that the basic check-out technology used by nearly all websites infringe its patents². One large retailer is reported to have settled the first suit for $40 million because of the fear of jury verdicts in that era in the Eastern District of Texas. Numerous

other settlement amounts are unreported, but in a subsequent suit, an Eastern District of Texas jury awarded damages of almost $18 million against two other national brands.

In 2007 Soverain sued Newegg, which decided to fight back. The case went to trial three years later in April of 2010 and resulted in a judgment of $2.5 million against Newegg. But Newegg decided to appeal to the Federal Circuit, and on January 14, 2013, more than five years after the suit against it was first instituted, it obtained a judgment in its favor, reversing the lower court judgment and declaring the patents invalid due to obviousness. Although Newegg has won, it took more than five years and millions of dollars in attorneys’ fees. And the saga is not over yet because Soverain still has pending before the Federal Circuit a petition for re-hearing of the case en banc by the full court, as opposed to the panel of three judges that rendered the current decision.

The Newegg case is just one example of the broad infringement claims trolls are asserting against retailers. There are over one million software patents in the United States. Many software patents contain broad concepts dealing with Internet functionality and have extraordinarily vague claims. Past asserted patents include activities as mundane as (1) a retailer’s mobile application linking to their website, (2) using a search function as part of the retail website, or even (3) scanning a document to PDF and then emailing the file.

NRF is engaged in discussions with Members of Congress to address the abusive litigation practices patent trolls utilize. The Saving High Tech Inventors from Egregious Legal Disputes (SHIELD) Act is one potential solution retailers support. By requiring the patent troll to pay the defendant’s attorneys fees and costs, the SHIELD Act would help deter frivolous litigation.

Retailers are also considering a legislative proposal which would limit the scope of discovery requests in patent litigation to “core documents” to help drive down the excessive costs associated with patent trolls’ current model of abusive and endless discovery requests. These abusive discovery requests are another expensive tactic used by trolls to drive up the costs of litigation in order to compel retailers into early settlements.

Other legislative solutions could include a requirement that patent trolls articulate, with documentary evidence, how the defendant is violating the patent. In addition, limiting damages to actual and direct damages, as opposed to the current licensing model which allows patent trolls to extort significant settlement monies, would serve as a deterrent to their litigation.

While all of the proposals are laudable, retailers are also interested in finding a solution that provides immunity from patent trolls altogether. As we stated earlier, patent trolls target retailers and other end-users because they are numerous and are easy prey. But as end-users of

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much of the technology being disputed broadly and vaguely, they should not be the principal
targets of these far-reaching lawsuits.

**Conclusion**

By papering retailers with broad and vague demand letters and filing an endless series of
lawsuits against retail end-users alleging the same patent infringement claims alleged against
manufacturers and service providers of a particular device or technology, patent trolls are able to
cast a very wide net that hauls in a lucrative catch. They have proven that many of the
companies they target will settle given the extraordinarily high demands they make and the costs
those companies know it will take to fight even the most frivolous of alleged claims. Addressing
this abusive and growing patent litigation problem will help release retailers from the controlling
grip on their industry that patent trolls currently enjoy. Because the retail industry contributes
$2.5 trillion to our nation’s annual GDP, removing or even loosening this grip on retailers will
allow innovation and growth to flourish, and undoubtedly benefit the overall U.S. economy.

NRF would like to thank the Commission and the Department for the opportunity to
comment and is happy to meet to discuss this issue.