



Opinion Poll

California Small Business Owners Support Legislation Reforming Patent System

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Small Business Majority

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Executive Summary

Small business owners across California are doing everything they can to fortify their businesses in our slowly recovering economy. In communities across the state, it is the jobs small businesses provide and the consumers they serve that keep our recovery moving. However, this recovery is threatened when small businesses are faced with costly and frivolous lawsuits brought on by patent assertion entities—commonly referred to as patent trolls. According to a scientific opinion poll conducted for Small Business Majority, small businesses support patent reform legislation that would help prevent patent trolls from targeting small businesses.

Patent assertion entities are companies that don't make or sell anything of their own; they purchase relatively ambiguous patents and then demand royalty payments for use of their technology, or immediately file lawsuits against firms they believe are infringing on their intellectual property. This situation is not just faced by companies that manufacture or sell technology: it also affects end users of common technologies, such as a coffee shop offering WiFi to their customers. And it's impacting our state's job creators.

Small business owners understand that in order to prevent these attacks, reform is needed to strengthen the U.S. patent system. Our polling found that for those respondents who have an opinion about the bill, by a 4:1 margin, California small employers support the Innovation Act—legislation that would change the rules and regulations surrounding patent infringement claims to reduce frivolous lawsuits brought by patent trolls. It would require, among other things, more specificity in patent lawsuits and more transparency in patent ownership, and protect end users of commonly used technologies from being targeted by patent trolls. When small employers learned more about the provisions within the bill, their support grew even stronger.

For example, small businesses believe they should be protected from patent trolls by requiring them to sue the party that is actually responsible for infringement, not the end users who had no input into the product. Seventy-two percent of entrepreneurs support this provision. Additionally, more than three-fourths (76%) of small business owners believe patent trolls should be deterred from attacking small businesses in the first place by penalizing them for filing fraudulent patent assertions or sending abusive demand letters. Seventy-three percent believe courts should impose financial sanctions against patent trolls that file baseless lawsuits.

In the case that a small business must go to court to fight a patent troll, nearly 6 in 10 (57%) support a provision that would allow courts to require the loser in a frivolous patent case to pay the winning side's fees and costs. What's more, 71% support a provision that would require more transparency in patent lawsuits by requiring plaintiffs to disclose who the owner of a patent is before litigation, so that it is clear who stands to benefit financially from the lawsuit.

Small employers also showed particularly strong support for a provision that would reduce the cost of discovery in patent lawsuits. Eighty-one percent of entrepreneurs support the creation of new judicial rules to reduce the costs of discovery in patent litigation, so that high legal fees do not force small businesses and entrepreneurs to settle out of court when they don't need to.

Small employers also agree that improvements should be made to the U.S. Patent Office in order to help prevent abuse of the system. A vast majority (69%) believes the U.S. Patent Office should be fully funded so there is closer scrutiny of patent applications. What's more, nearly two-thirds (64%) support expanding patent review opportunities to prevent patent trolls from threatening small businesses with patents that were questionable in the first place. Six in 10 support creating a system to trigger automatic reviews of patents that are commonly exploited by patent trolls.

It's important to note the respondents were politically varied and don't see this issue through an ideological lens – with 40% of small business owners identifying as Republican, 43% as Democrat and 15% as independent.

Main Findings

- **Small employers support legislation that seeks to reform the patent system. It would require, among other things, more specificity in patent lawsuits and more transparency in patent ownership, and protect end users of commonly used technologies from being targeted by patent trolls:** By a 4:1 margin, small employers support the Innovation Act—legislation that would change the rules and regulations surrounding patent infringement lawsuits to reduce frivolous lawsuits brought by patent assertion entities. When small employers learned more about the provisions within the bill, their support grew even stronger.
- **Small businesses agree the loser in a frivolous patent case should pay the winner's fees:** Nearly 6 in 10 (57%) support a provision that would allow courts to require the loser in a frivolous patent case to pay the winning side's fees and costs.
- **The vast majority of California entrepreneurs believe end users should be protected from frivolous patent lawsuits:** 72% of small businesses believe they should be protected from patent trolls by requiring them to sue the party that is actually responsible for the infringement, not the end users who had no input into the product. Four in 10 (40%) of respondents *strongly support* this provision.
- **Small businesses agree patent trolls should be penalized for fraudulent patent assertions or abusive demand letters:** More than three-fourths (76%) of small business owners believe patent trolls should be deterred by penalizing them for filing fraudulent patent assertions or sending abusive demand letters. Seventy-three percent believe courts should impose financial sanctions against patent trolls that file baseless lawsuits.
- **Small business owners support more transparency in patent lawsuits:** 71% of small employers support a provision that would require more transparency in patent lawsuits by requiring plaintiffs to disclose who the owner of a patent is before litigation, so that it is clear who stands to benefit financially from the lawsuit.
- **Entrepreneurs overwhelmingly support a provision that would reduce the cost of discovery in patent lawsuits:** 81% of entrepreneurs support the creation of new judicial rules that would reduce the costs of discovery in patent litigation, so that high legal fees do not force small businesses and entrepreneurs to settle out of court when they don't need to.
- **Small employers support making improvements to the U.S. Patent Office:** A vast majority (69%) believes the U.S. Patent Office should be fully funded so there is closer scrutiny of patent applications.
- **Entrepreneurs support expanding review opportunities for patents:** Nearly two-thirds (64%) support expanding patent review opportunities to prevent patent trolls from threatening small businesses with patents that were questionable in the first place. Six in 10 support creating a system to trigger automatic reviews of patents that are commonly exploited by patent trolls.
- **Respondents were politically diverse:** 40% identified as Republican, 43% as Democrat and 15% as independent or other.

Entrepreneurs Support Legislation to Reform the Patent System

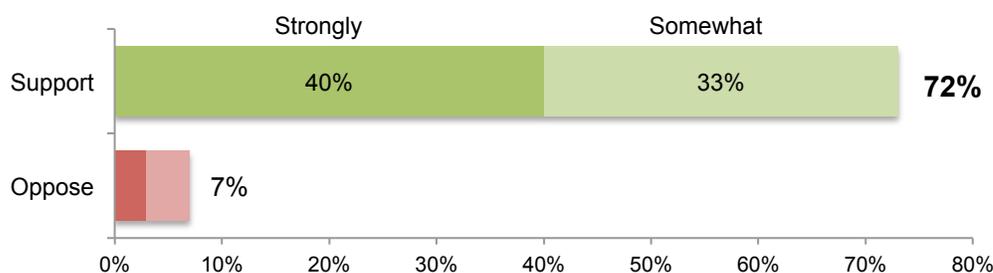
Our polling found that by a 4:1 margin, California small employers support the Innovation Act—legislation that would change the rules and regulations surrounding patent infringement claims to reduce frivolous lawsuits brought by patent trolls. It would require, among other things, more specificity in patent lawsuits and more transparency in patent ownership, and protect end users of commonly used technologies from being targeted by patent trolls. When small employers learned more about the provisions within the bill, their support grew even stronger.

Small Employers Strongly Support Provisions Within Patent Reform Legislation

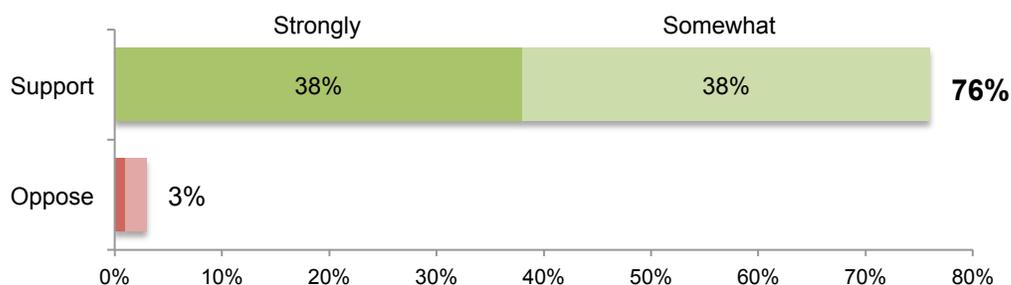
Small businesses' support for proposed patent reform legislation increased once they knew more about specific provisions that would help improve the patent system.

Small businesses believe they should be protected from patent trolls by requiring them to sue the party that is actually responsible for infringement, not the end users who had no input into the product. Seventy-two percent of entrepreneurs support this provision, with four in 10 (40%) who *strongly support* this. What's more, more than three-fourths (76%) of small business owners believe that patent trolls should be deterred from attacking small businesses in the first place by penalizing them for filing fraudulent patent assertions or sending abusive demand letters. Seventy-three percent believe courts should impose financial sanctions against patent trolls that file baseless lawsuits.

■ **Figure 1: Entrepreneurs agree end users of common technologies should be protected from patent infringement lawsuits**

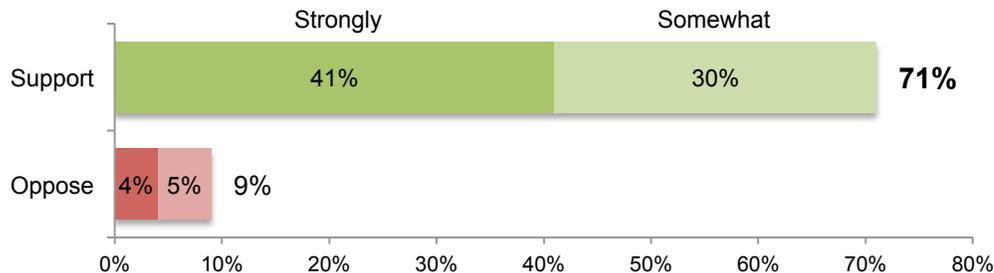


■ **Figure 2: Small business owners believe patent trolls should be deterred from filing fraudulent patent assertions or sending abusive demand letters**



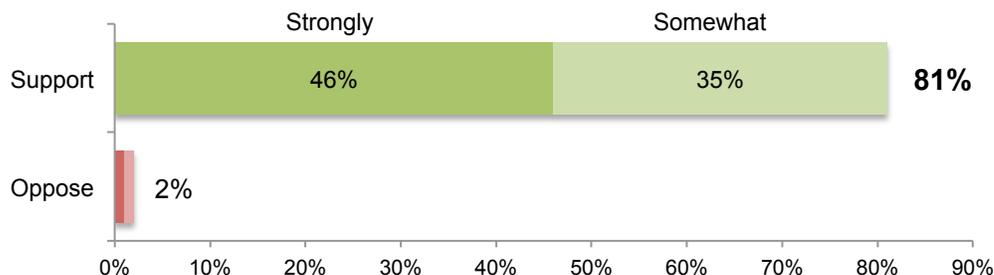
In the case that a small business must go to court to fight a patent troll, 71% support a provision that would require more transparency in patent lawsuits by requiring plaintiffs to disclose who the owner of a patent is before litigation, so that it is clear who stands to benefit financially from the lawsuit.

Figure 3: Small employers support more transparency in patent lawsuits by requiring plaintiffs to disclose information about the patent's owner



Small employers also showed particularly strong support for a provision that would reduce the cost of discovery in patent lawsuits. Eighty-one percent of entrepreneurs support the creation of new judicial rules to reduce the costs of discovery in patent litigation, so that high legal fees do not force small businesses and entrepreneurs to settle out of court when they don't need to.

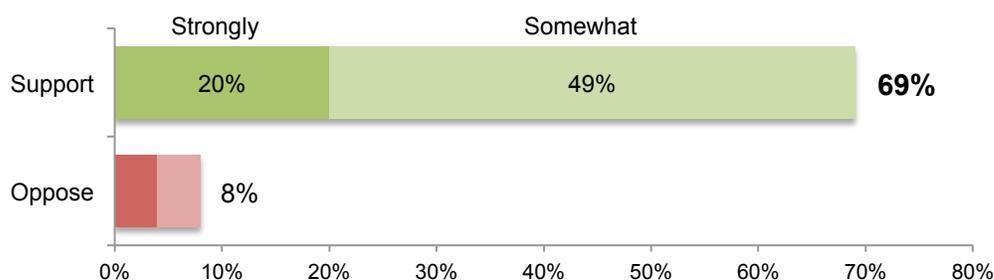
Figure 4: Entrepreneurs support rules to reduce the costs of discovery in patent litigation, so high legal fees do not force them to unnecessarily settle out of court



Small businesses also agree the loser in a frivolous patent case should pay the winner's fees. Nearly 6 in 10 (57%) support a provision that would allow courts to require the loser in a patent case to pay the winning side's fees and costs.

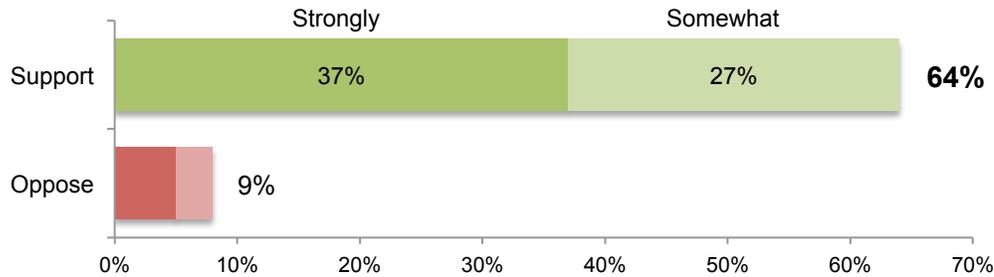
Small employers believe improvements should be made to the U.S. Patent Office in order to help prevent abuse of the system. A vast majority (69%) agrees the U.S. Patent Office should be fully funded so there is closer scrutiny of patent applications.

Figure 5: California small businesses support improving the U.S. Patent System to help prevent abuse of the system



What's more, nearly two-thirds (64%) support expanding patent review opportunities to prevent patent trolls from threatening small businesses with patents that were questionable in the first place. Six in 10 support creating a system to trigger automatic reviews of patents that are commonly exploited by patent trolls.

■ **Figure 6: Small business owners believe the patent review system should be expanded to prevent patent trolls from threatening small firms**



Conclusion

Small businesses are the backbone of our state's economy and create the vast majority of new jobs. As these poll findings make clear, they believe patent trolls take advantage of the patent system and support reform that would help prevent this type of abuse.

Small businesses support specific provisions within patent reform legislation because they believe it would improve the system by making patent lawsuits more transparent, protect end users of common technologies from frivolous lawsuits and deter patent trolls by penalizing them for sending abusive demand letters. California entrepreneurs support patent reform legislation because it would help protect the small business community and allow them to continue to grow and create jobs, therefore helping to strengthen our economy even more.

Methodology

This poll reflects a telephone survey of 100 California small business owners, conducted by Lake Research Partners and Chesapeake Beach Consulting for Small Business Majority with a margin of error of +/-9.8. The survey was conducted from April 7-23, 2014.

Poll Toplines

Small Business Majority
 Technology and Patent Poll
 100 California Small Business Owners

1. Just to confirm, are you the owner of a for-profit small business, who handles operations of the business or manages the employees?

Owner-operator	41
Owner-manager	34
Both	25
Neither	TERMINATE
Don't know	TERMINATE

2. Approximately how many people work 30 or more hours per week at your company, including yourself? Please don't include contractors.

1-9 Employees	62
10-19 Employees	16
20-49 Employees.....	18
50-99 Employees.....	4

3. Which of the following categories best describes your business?

Non-retail services	19
Retail.....	13
Construction	14
Manufacturing.....	13
Restaurant	6
Real Estate	10
Information Technology	2
(Other: SPECIFY)	23
(Don't know/Refused)	0

4. What is the zip code of your business?

Region

Northeast.....	0
Midwest.....	0
South	0
West.....	100
New England.....	0
Middle Atlantic	0
East North Central	0
West North Central	0
South Atlantic	0
East South Central	0
West South Central	0
Mountain.....	0
Pacific, except California	0
California.....	100

5. Have you heard anything about the Innovation Act – a bill that would change the rules and regulations surrounding patent infringement lawsuits to reduce frivolous lawsuits brought by patent assertion entities¹ by requiring, among other things, more specificity in patent lawsuits and more transparency in patent ownership, and protect end users of commonly used technologies from being targeted by PAEs– which was passed by the U.S. House of Representatives in December 2013 and is now under consideration by the Senate?

Yes 16
 No 80
 (Don't know/Refused).....4

6. Based on what you know or anything you've heard, do you support or oppose the Innovation Act?

[IF UNDECIDED]: Would you say you lean toward supporting it or opposing it?

Support33
 Undecided lean support 8
 Undecided lean oppose3
 Oppose7
 (undecided/don't know) 49

Support 41
 Oppose10

7. Now, I'm going to read you several specific patent reform proposals. For each, please tell me if you strongly support, somewhat support, somewhat oppose, or strongly oppose that particular proposal. Here's the first one.

RANDOMIZE LIST

Sorted by "Strongly support"

10a. Require plaintiffs to disclose who the owner of a patent is before litigation, so that it is clear who stands to benefit financially	41
10d. Create new judicial rules to reduce the costs of discovery in patent litigation, so that high legal fees do not force small businesses and entrepreneurs to settle out of court when they don't need to	46
10i. Require courts to impose financial sanctions against PAEs that file baseless lawsuits	43
10c. Expand patent review opportunities to prevent PAEs from threatening small businesses with patents that were questionable in the first place	37
10f. Penalize fraudulent patent assertions or abusive demand letters	38
10h. Protect end users from lawsuits by requiring PAEs to sue the party that is actually responsible for infringement, not the end users who had no input into the product	40
10g. Create a system for triggering automatic reviews of patents that are commonly exploited by PAEs	32
10b. Improve patent quality by fully funding the U.S. patent office so there is closer scrutiny of patent applications	20
10e. Allow courts to require the loser in a patent case to pay the winning side's fees and costs ...	24

- a. **Require plaintiffs to disclose who the owner of a patent is before litigation, so that it is clear who stands to benefit financially**

Strongly support.....	41
Somewhat support	30
Somewhat oppose.....	5
Strongly oppose.....	4
(Don't know)	20
Support.....	71
Oppose.....	9

- b. **SSA: Improve patent quality by fully funding the U.S. Patent Office so there is closer scrutiny of patent applications**

Strongly support.....	20
Somewhat support	49
Somewhat oppose.....	4
Strongly oppose.....	4
(Don't know)	23
Support.....	69
Oppose.....	8

- c. **SSB: Expand patent review opportunities to prevent PAEs from threatening small businesses with patents that were questionable in the first place**

Strongly support.....	37
Somewhat support	27
Somewhat oppose.....	3
Strongly oppose.....	5
(Don't know)	28
Support.....	64
Oppose.....	9

- d. **SSA: Create new judicial rules to reduce the costs of discovery in patent litigation, so that high legal fees do not force small businesses and entrepreneurs to settle out of court when they don't need to**

Strongly support.....	46
Somewhat support	35
Somewhat oppose.....	1
Strongly oppose.....	1
(Don't know)	16
Support.....	81
Oppose.....	2

e. **SSB:** Allow courts to require the loser in a patent case to pay the winning side's fees and costs

Strongly support.....	24
Somewhat support	34
Somewhat oppose.....	12
Strongly oppose.....	6
(Don't know)	24
Support.....	57
Oppose.....	18

f. **SSA:** Penalize fraudulent patent assertions or abusive demand letters

Strongly support.....	38
Somewhat support	38
Somewhat oppose.....	2
Strongly oppose.....	1
(Don't know)	21
Support.....	76
Oppose.....	3

g. **SSB:** Create a system for triggering automatic reviews of patents that are commonly exploited by PAEs

Strongly support.....	32
Somewhat support	29
Somewhat oppose.....	4
Strongly oppose.....	8
(Don't know)	28
Support.....	60
Oppose.....	12

h. **Protect end users from lawsuits by requiring PAEs to sue the party that is actually responsible for infringement, not the end users who had no input into the product**

Strongly support.....	40
Somewhat support	33
Somewhat oppose.....	4
Strongly oppose.....	3
(Don't know)	20
Support.....	72
Oppose.....	7

i. **Require courts to impose financial sanctions against PAEs that file baseless lawsuits**

Strongly support.....	43
Somewhat support	30
Somewhat oppose.....	6
Strongly oppose.....	3
(Don't know)	19
Support.....	73
Oppose.....	8

The few remaining questions are for statistical purposes only.

8. Generally speaking, do you think of yourself as a Republican, a Democrat, an independent, or something else? **IF INDEPENDENT:** Would you say that you lean more toward the Republicans or more toward the Democrats?

Republican.....	34
independent - lean Republican	6
Republican.....	40
independent	15
Democrat	43
independent - lean Democratic.....	3
Democrat	40
(Don't know/Refused).....	3

9. What is your age?

18-24	1
25-29.....	5
30-34	5
35-39.....	10
40-44	15
45-49.....	14
50-54.....	16
55-59.....	15
60-64	11
65-69.....	3
70-74.....	2
75 and over	1
(Refused)	2

10. (RECORD GENDER)

Male	64
Female	36

11. For statistical purposes only, which of these categories best describes the gross revenue of your business in 2013?

Less than \$100,000	7
\$100,000 to under \$250,000	11
\$250,000 to under \$500,000	17
\$500,000 to under \$1 million	18
\$1 million to under \$2 million	7
\$2 million or more	21
(Don't know/Refused).....	18

12. For how many years have you been the owner of your current business?

Less than 1 year	4
1-2 years.....	5
2-5 years	20
6-10 years	27
11-20 years.....	21
More than 20 years	21
(Don't know/Refused).....	1