

EXPERT ANALYSIS

Managing Risk in The Age of The Patent Troll (Part 1)

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Patent assertion entities, commonly known as “patent trolls,” have become a harsh reality for business owners and intellectual property professionals. PAEs do not make or sell products but instead generate revenue by encouraging businesses, or practicing entities, to take license to patents or risk patent infringement litigation. PAE activity has exploded in recent years, with approximately two-thirds of all patent litigation being brought by PAEs in 2012, according to the American Intellectual Property Law Association.

In fact, if a business is sued for patent infringement, the odds are that the plaintiff is a PAE. To stop PAE activity, Congress and President Barack Obama have proposed multiple legislative and administrative “solutions.” However, none of the proposed measures removes the threat of patent infringement litigation by PAEs.

Given the likelihood that the risk posed by PAEs will remain prevalent, it is imperative that corporate America take steps to mitigate PAE-associated risk, lest corporations be blindsided with the potentially business-ending threat of patent infringement litigation.

Fortunately, businesses have the ability to take proactive measures to manage PAE-associated risk and challenge existing PAE portfolios. However, potential PAE threats must first be identified in order to develop a successful risk-mitigation strategy available under current U.S. patent law.

UNDERSTANDING THE PAE THREAT

PAEs generally offer patent licenses only after infringement occurs. In other words, PAEs wait for practicing entities to lock-in a product design and enter the marketplace before filing a patent infringement suit. The cost of exiting the market and designing around an allegedly infringed patent is typically trumped by the relatively low cost of taking a license. In practice, once a company achieves a sufficient revenue stream, a PAE alleges that a target product infringes one or more patents held by the PAE. Communications to this effect often include offers to extend a license to the company in order to forgo further legal litigation.

The rise of PAE activity is due primarily to the fact that patent litigation is very expensive, and the cost burden heavily disfavors practicing entities. For example, a PAE whose only business is analyzing products for potential patent infringement and drafting complaints against said products may file a patent infringement lawsuit for a fee of \$500 in the Eastern District of Texas.

In contrast, a business that does not wish to take a license from the PAE is forced to hire an expensive legal team in order to mount a defense. The cost of mounting a patent infringement defense ranges from \$350,000 to \$5 million, depending on how much revenue is at stake, according to the American Intellectual Property Law Association.



Given the likelihood that the risk posed by PAEs will remain prevalent, it is imperative that corporate America take steps to mitigate PAE-associated risk.

Further, there is no guarantee of a successful defense against a PAE, and a company may have to pay the license fee anyway. PAEs also structure their licensing agreement so that the royalty is well below the cost of mounting a patent infringement defense. It is, therefore, not surprising that many practicing entities opt to license PAE-held patents up front rather than pursue an expensive, uncertain legal challenge to patent infringement.

To avoid being forced to choose between taking a license or mounting an expensive patent infringement defense requires that companies conduct sufficient due diligence before and during product development. Conducting due diligence, which includes examining PAE threats, allows practicing entities to reduce the risk of becoming PAE targets, while improving negotiating positions if confrontation with a PAE is unavoidable.

ADVANCE WARNING

Before any steps can be taken to reduce the risk posed by PAE-held patents, a company must first actually identify the patents at issue. This is no simple proposition, and no formulaic methods exist to identify all dangers. However, general strategies allow companies to locate PAE patents that may pose a risk.

Industry monitoring

PAEs often use a strategy of suing multiple companies within a technology sector (such as producers of printers, cellphones or mobile apps). Patent infringement complaints, however, are rarely filed simultaneously against all defendants in a business sector; instead, the PAE files complaints against batches of defendants within the same technology sector over a course of months or years. Monitoring PAE litigation filings provides companies with one of the most reliable tools to identify the potential risk of a PAE complaint or license offer.

Companies that monitor litigation within their technology sector are aware of first-wave patent infringement litigation within that sector. These extra months may prove invaluable to the company by providing time to prepare by constructing non-infringement/invalidity positions or by actively attacking the validity of the PAE's portfolio. Then, when the license offer or complaint arrives, the company may not be caught off-guard.

One viable option for a company is to conduct periodic litigation monitoring. Every month or quarter, a company may perform a search to locate new complaints filed against the other players within the company's technology sector. Then, the company may analyze each patent that has been asserted within the industry for non-infringement or invalidity positions, with the added understanding that the claims may be asserted according to a very broad interpretation. Armed with these positions, the practicing entity may be better equipped to negotiate favorable terms with the PAE or to challenge a PAE's patents by seeking re-examination or a declaratory judgment that the PAE's patents are invalid and unenforceable.

Clearance searching

It is often standard practice to perform a "clearance" or "freedom to practice" search as part of due diligence early during a product life cycle. By conducting a focused search for patents and pending applications that cover a proposed product, a company may avoid infringing some patents altogether by adopting a non-infringing alternative. Conducting due diligence early in a product life cycle allows companies to design around product features that are covered by existing patents held by a PAE or other companies.

PAEs, however, often use very broad interpretations of their patents to encompass many types of technology, so that standard clearance searching is unlikely to identify PAE activity. Therefore, companies performing only standard pre-commercialization clearance searches without an eye toward identifying PAE activity overlook or dismiss patents that pose a risk in the hands of a PAE.

Companies aiming to specifically manage a PAE are well served by modifying their conventional clearance strategy to incorporate strategies to identify PAE risk as well. In addition to locating

patents that are directed to features of the specific product being cleared, the clearance search may also seek to identify patents and applications that are likely to be asserted in a broad manner. Characteristics of patents and patent applications that fall within the PAE purview and potential PAE candidates include

- Claims that appear to be overly broad on their face.
- Claims that include ambiguous terms.
- A specification that confuses more than clarifies.
- Ownership by a single inventor or small company that is unlikely to possess the means to enforce the patent.

This additional PAE focus for clearance searching operates irrespective of the product to which the clearance search is actually directed. Each clearance search performed in the normal course of operations is, in effect, leveraged to identify any patents and applications that are candidates for PAE acquisition. Separate from the individual product clearance searches, the company is then able to build a company-wide PAE “portfolio” that may then be monitored and analyzed to identify potential patents and applications that may be challenged.

It is unlikely that search strategies primarily focused on identifying potential PAE patent applications is feasible. With any clearance search, there is always the possibility that relevant results will be overlooked because of the sheer number of patents and applications in the system. Identifying potential PAE acquisitions is an art, not a science, and the difficulty is compounded by the fact that PAE patents often hail from technology classifications unrelated to the product in question. Instead, it is probably more cost-effective to track potential PAE patent acquisitions identified during the course of normal clearance searching, whether or not they actually pose a threat to the specific product being cleared.

PAE monitoring

PAEs often operate with a limited portfolio of one or more issued U.S. patents. However, other PAEs actively prosecute continuing patent applications related to the parent patent that they are attempting to monetize. This gives the PAE the benefit of flexibility; if the patents that have already issued prove difficult to enforce against a particular technology or product, the PAE may amend the claims of a pending application to encompass the intended target and, once the application is about to issue as a patent, file yet another continuing application.

In this concept of “keeping a continuation pending,” which was pioneered by Jerome Lemelson, changes to the patent term were required to curb the abuse of this strategy. Yet, the strategy remains effective within the patent term window that is now 20 years.

Because of this strategy, it is not sufficient to merely address the claims of issued patents once a PAE has been identified through methods such as clearance searching or industry monitoring. Addressing pending claims of applications provides an added degree of confidence, but it is still not a complete assessment of the threat posed by the PAE, because the pending claims can (and in many cases are likely to) change. Thus, a thorough investigation into a specific PAE profile must take into account the uncertain scope of pending applications.

A first method for taking into account pending PAE applications involves “monitoring” the PAE’s portfolio. This method essentially defers analysis until the claims of pending applications are actually allowed or until there are other milestones along the way. Periodically, the practicing entity checks for changes to the identified PAE’s portfolio: newly assigned patent applications, newly filed continuing applications associated with known applications, amendments to claim scope in pending applications, and notices of allowance from the U.S. Patent and Trademark Office indicating that a new patent will soon issue. Once the claims of an application are narrowed or allowed, the practicing entity may actually engage in an analysis of those claims and assess risk at that point.

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Although monitoring the pending application of the PAE is crucial, an additional, more proactive method of risk assessment evaluates not only what the claims currently cover but also what they could be amended to cover during prosecution. If it appears that the specification of the application could support claims encompassing the practicing entity's products, additional non-patentability analysis may be performed or design-around options may be considered. Addressing a risky PAE application this early can also afford the practicing entity an opportunity to actually drive prosecution of the application away from its products with the use of pre-issuance third-party submissions.

CONCLUSION

Whether a practicing entity becomes aware of a PAE threat because it received a demand for license fees or through one of the proactive strategies discussed above, the next step in managing the risk is to challenge the PAE's patent portfolio. The next part of this two-part commentary will outline the various options under U.S. patent law to provide leverage at the negotiation table or to attack PAE patents directly in order to eliminate the risk entirely.



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