

EXPERT ANALYSIS

Managing Risk in The Age Of The Patent Troll (Part 2)

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STEP 2: ATTACKING THE PORTFOLIO

Patent assertion entities (PAEs, or “patent trolls”) are becoming increasingly active, and businesses cannot afford to ignore the reality that PAEs looking to secure licensing fees by threatening litigation are a part of the current business environment. However, as detailed in the first part of this two-part series, businesses or “practicing entities” need not simply wait for a PAE to put them on the defensive; instead, practicing entities may use multiple strategies to proactively identify and address PAE threats.

In fact, proactively challenging PAE patents that are identified as a risk could make more financial sense for practicing entities than earmarking revenue to pay PAE licensing fees. Fortunately, U.S. patent law provides multiple mechanisms for challenging PAE portfolios tailored to different strategies for avoiding the necessity of relinquishing large portions of revenue to avoid costly litigation. Once a PAE threat has been identified with the use of the strategies discussed in the first part of this series, proactive risk management begins.

PRE-ISSUANCE SUBMISSIONS

Patent examiners are charged with searching the published literature in order to evaluate pending patent claims on the basis of an understanding of a theoretical person of ordinary skill in a specific technology area. However, searches conducted by patent offices around the world often fail to identify relevant prior art. Accordingly, it is common for patents to issue covering subject matter that is anticipated or obvious to a person of ordinary skill in the art.

To address the problem of patents issuing without consideration of the closest prior art, the patent reform legislation known as the Leahy-Smith America Invents Act enables third parties to submit prior art for consideration by an examiner during prosecution. As implemented by the U.S. Patent and Trademark Office, the third party may make these submissions at little or no cost, anonymously so as to not draw the attention of the PAE, and even accompanied by a claim chart explicitly mapping the submitted references onto the pending claims. Using this tool, the practicing entity can help steer prosecution of a PAE’s patent application away from the practicing entity’s products, thereby reducing or eliminating the possibility that the eventual patent can be asserted against the practicing entity. Thus, third-party submissions allow direct challenge to pending PAE patent claims, and where successful, such challenges may guide prosecution of PAE patent portfolios.

The primary shortcoming with this approach is that it may be difficult to identify applications at an early enough stage to take advantage of the pre-issuance submission program. The approach requires the identification of problem claims before the patent even issues, and the America Invents Act only allows for pre-issuance submissions to be filed within a limited window of time after the



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application is originally filed. Provided that a notice of allowance has not already been submitted, the third party must submit prior art for consideration before the first rejection of the application or six months from publication, whichever occurs later. Depending on the technology center examining the patent, this means that the practicing entity has a window of between six and 16 months from the publication date of a patent application to submit prior art.

There are two main contexts in which pre-issuance submission might be a viable option for stemming the PAE risk despite the narrow window for submission. First, when the potential target is already aware of a PAE operating within the target's technology sector, the potential target is able to monitor any new filings by that PAE by periodically checking for newly available recorded assignments of patent applications and/or by monitoring already pending applications for new continuations. Once a PAE patent portfolio is identified, third-party submissions are viable for preempting pending and future claims covering commercial products that a practicing entity wishes to bring to market.

The second context in which third-party submissions are viable is when a clearance search uncovers a pending patent application that is a good candidate for later PAE acquisition. Upon identifying such a candidate application for which the submission window is still open, the potential PAE target can perform a search of prior art and then submit the search results to the PTO in an effort to extinguish the risk at the outset of prosecution.

RE-EXAMINATION

One of the most common strategies of striking back against any litigant patent owner is to place the patent into re-examination. By demonstrating a "substantial new question of patentability," a defendant can persuade the PTO to reopen prosecution of the patent. The patent owner is then placed in a position in which he or she must again answer official rejections, possibly amending the claims to differentiate over newly cited prior art, or surrender the patent entirely. If the patent owner can establish that the claims are allowable over the prior art, the PTO will issue a re-examination certificate and the claims as amended during re-examination will be in force instead of the originally issued claims.

The strategic aim with reexamination is to challenge the validity of the patent in suit and to place this question in front of a technologically savvy patent examiner instead of a federal judge or jury. For a PAE plaintiff, it is frequently the case that the patent owner has argued for a broader interpretation of the claims than anticipated during initial prosecution for the purposes of mapping the claims onto as wide an array of products and services as possible. In doing so, the patent owner also opens the claims to new fields of prior art that were not considered by the original examiner but may now be construed as invalidating the claims.

Although amendment is possible during re-examination, it is a disfavored route for the litigant patent owner. More specifically, PAEs are a special case. PAEs do not create a product or offer a service, and as such, they are unlikely to obtain an injunction against a practicing entity. Further, PAEs are usually limited to reasonable royalties for infringement that accrue after the infringing product enters the marketplace. When the certified re-examined claims substantially differ from the originally issued claims, the patent owner essentially surrenders any royalties from past infringement.¹ As soon as the re-examination certificate issues with new claims, the patent owner's only options for enforcement are an injunction (which is unavailable to PAEs) and royalties from that point onward. For a PAE that has waited to maximize the royalties on past infringements, this is an inadequate consolation prize.

In some situations, the mere threat of re-examination may be enough to settle a case with a more favorable outcome for the defendant. Once an *ex parte* re-examination request is leveraged during licensing negotiations, a PAE may be more apt to agree to favorable terms in the interest of preserving infringement claims against other potential defendants.

There are limits to reexamination, however. For one, the original patent is not surrendered when re-examination proceedings are instituted, and the original claims remain in force until the

re-examination certificate is issued. This means that during the pendency of re-examination, the patent owner is free to proceed with claims of infringement of the originally issued patent. Although some courts may stay a litigation pending resolution of the re-examination, this is not always the case. As such, depending on the length of reexamination prosecution, the litigation involving the requestor may advance well into the pleadings, deliberations and even to conclusion before the re-examination is completed, thereby nullifying much of the value in requesting re-examination in the first place.

When the prior art relied on by the requestor is distinct from the accused product, reexamination affords the patent owner an opportunity to strengthen the claims. By narrowing the claims around the prior art while focusing in on the accused product, the patent owner fortifies the claims against invalidity defenses during trial. As noted above, this might preclude royalties for past infringements, but it allows recovery of royalties for infringement after reissue. In this scenario, re-examination proves to be a double-edged sword that probably necessitates taking a license on less favorable terms against the strengthened reissued claims.

With these limitations in mind, re-examination is not a silver bullet against the PAE risk. Fortunately, the AIA adds to the toolbox for preempting infringement accusations before they are levied.

PTO PATENT TRIALS

The AIA defined two new procedures for challenging the validity of an issued patent before the PTO: post-grant review and *inter partes* review. Unlike *ex parte* re-examination, in which the challenger is not permitted any participation beyond the re-examination request, both patent trials allow challengers the opportunity to participate in the proceedings. As the patent trial proceeds, the challenger is able to continue arguing against patent validity and to rebut the arguments of the patent owner.

The patent trials both partially remedy one major shortcoming of *ex parte* re-examination. As noted above, the patent owner is free to amend the claims at any time to address rejections. Under both patent trials, the patent owner is afforded only one opportunity to amend the claims without the consent of the challenger. Thus, even though there remains the possibility that the patent owner may narrow the claims around the prior art while targeting the challenger's product, the patent owner is only guaranteed one opportunity to do so. Therefore, it is advisable that challengers submit prior art that is likely to elicit an amendment away from their products at the outset.

Patent trials may not always be an attractive option for entities that have not already been sued by the PAE patent owner. Both patent trials require that the real party in interest be identified. In other words, the challenger cannot remain anonymous. By requesting a patent trial, the challenger has identified a concern over the PAE's patent claims, and a target "is painted on the back" of the challenger. For companies that prefer to continue operations in the hopes that the PAE will not identify them as a target, requesting a patent trial would be a counterproductive measure.

Thus, the patent trials are a strong tool for parties that have been or expect to be sued by a PAE. Accordingly, *inter partes* review will probably see more use with regard to PAE litigation. Specifically, *inter partes* review is available nine months after a patent issues and before a challenger seeks declaratory judgment of patent invalidity. Most PAE litigation is likely to be commenced in this interval because of the larger size of this window as compared with that of post-grant review and because of the frequent PAE strategy to let past royalties accrue for multiple years.

Post-grant review, however, is only available in the nine months after patent issuance, and only for patents that have a filing date later than March 15, 2013. If a party locates a PAE patent during this time window and wishes to reveal itself to the PAE, post-grant review offers additional avenues for challenging validity as compared with *inter partes* review. Whereas *inter partes* review

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is restricted to arguments based on existing patents and printed publications, the scope of post-grant review allows challenges based on all statutory patent requirements. As such, post-grant review may be an effective vehicle for having a patent declared invalid on the grounds of no prior art; both “non-statutory subject matter” and “lacking enablement” are particularly applicable to broad PAE patents.

Similar to patent trials, declaratory judgment may also be sought to invalidate a PAE patent. Again, this approach would require identification of the practicing entity and would come at considerable expense. Unlike the patent trials, actions for declaratory judgment take place in federal court, rather than the PTO. Declaratory judgment actions may also be brought for a declaration that the practicing entity does not infringe a certain patent. Thus, declaratory judgment offers an opportunity to have a court consider the patent as compared with a specific product: something the PTO will not do.

Although powerful, the lack of anonymity in the patent trials will render these portions of the AIA useful only in cases in which the PAE risk has already grown to specifically threaten a challenger’s business.

MULTI-COMPANY COOPERATION

Typically, practicing entities are on their own when performing due diligence to manage patent risks. After all, it is the practicing entity’s product and associated revenues that are at risk.

Although the same patents may pose similar risks to other competitors, there is little incentive to cooperate and address the patents together. Further, the potential to avoid the risk posed by a patent while a competitor must take a license or defend against infringement allegations may offer the practicing entity a competitive edge.

When the PAE enters the equation, however, there is an additional incentive for cooperation, particularly in business sectors in which PAEs are likely to enforce their patents globally, affecting all participants. Thus, there are significant reasons for competitors within an industry to cooperate for the purpose of a common defense against a PAE.

Widespread application of strategies to monitor and challenge PAEs allows cooperation among practicing entities which benefits entire industries. For example, each practicing entity that identifies and successfully challenges a PAE patent eliminates this risk from the entire technology sector. With more practicing entities engaging in this proactive PAE risk management, greater numbers of PAE patents may be disposed of, thereby reducing the PAE threat across the entire industry.

Other entities have recently undertaken more explicit industry cooperation to manage PAE risk. One company, Unified Patents, aims to form a union of computer-technology practicing entities and implement multiple mechanisms for stemming PAE threats.² At its outset, Unified Patents boasted both Google and NetApp, Inc., as members.³ Unified Patents aims to use PAE threats to smaller members as an early warning system, notifying other members as PAEs approach.⁴ The company also plans to track PAE activity in specific industries, beginning with mobile payment and cloud storage, and institute challenges to patents deemed to pose a threat.⁵ Although due diligence ultimately remains the responsibility of each individual practicing entity, there is power in numbers.

CONCLUSION

With the multitude of strategic options available, practicing entities need not default to paying allegedly “reasonable royalties” to a PAE that threatens patent infringement litigation, particularly because challenges to PAE patents may be leveraged to negotiate a more reasonable license fee. Adoption of a forward-thinking strategy of PAE identification and intervention will not only better position the individual company, but it will also reduce the susceptibility of entire industries to PAE exploitation.

NOTES

- ¹ 35 U.S.C. §§ 307(b) and 252.
- ² Don Clark, *New Venture Enters Patent Fray*, WALL ST. J., Apr. 7, 2013.
- ³ *Id.*
- ⁴ *Id.*
- ⁵ *Id.*



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