



Mitigating Risk in the Age of the Patent Troll

New Orleans, Louisiana: May 29, 2013

The Troll Problem

Video: Help Startup Beat Patent Trolls

https://www.youtube.com/watch?feature=player_embedded&v=VeF7CRUAX-o



Take-Aways

- ▶ Classic troll/NPE?
- ▶ 1-800-CONTACTS
- ▶ Resource allocation
- ▶ SHIELD Act

The PAE Problem

- ▶ Startups are a favorite target and particularly vulnerable
 - ▶ Lack capital to defend in court
 - ▶ Lack diversity of revenue sources
 - ▶ Lack experience with patent law
- ▶ Startups willingly take a license when offered instead of fighting in court



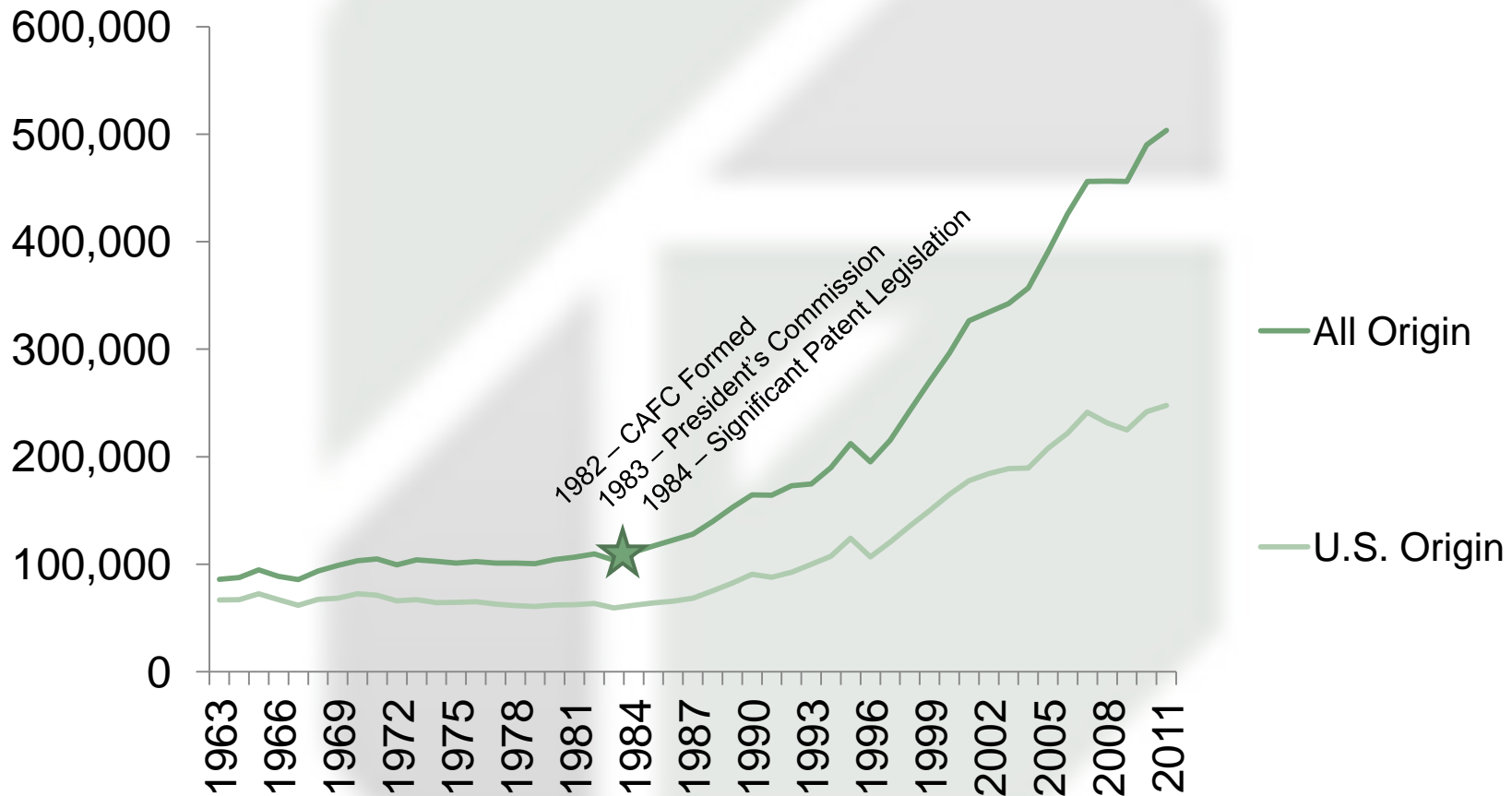
Where do PAEs come from?

What is the value of patents?

- ▶ Two business approaches to utilizing the patent system
 - ▶ Defensive
 - ▶ Obtain patents to keep competitors from copying
 - ▶ Disclose inventions to prevent others from patenting
 - ▶ Promote cross-licensing of portfolios and reduce the number of patent litigations
 - ▶ Aggressive
 - ▶ Obtain patents to be licensed or sold to other entities
 - ▶ View IP as a profit center

Evolution of Patent Value and The Rise of PAEs

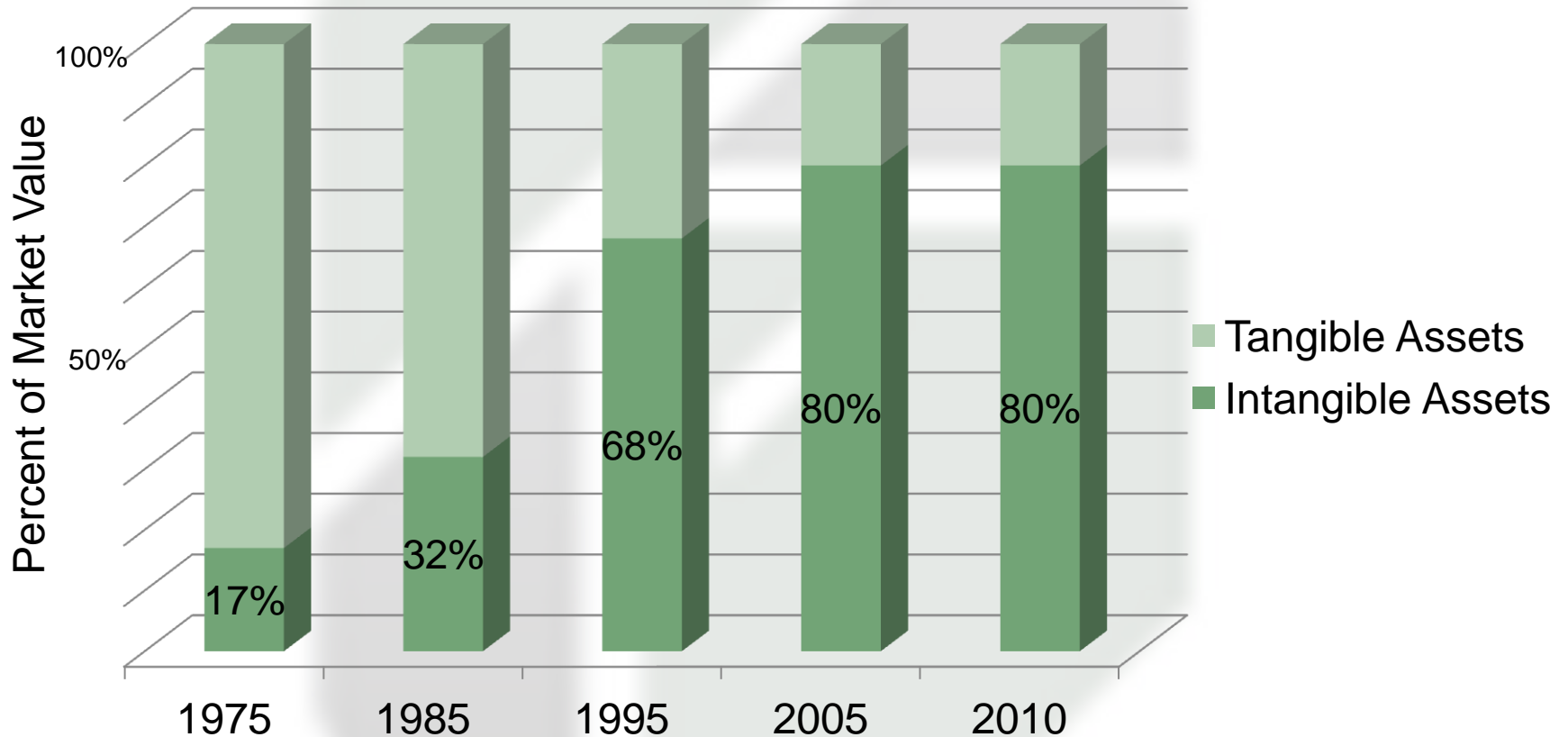
U.S. Utility Patent Application Filings



Source: http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm

Evolution of Patent Value and The Rise of PAEs

Division of S&P 500 Market Value Components

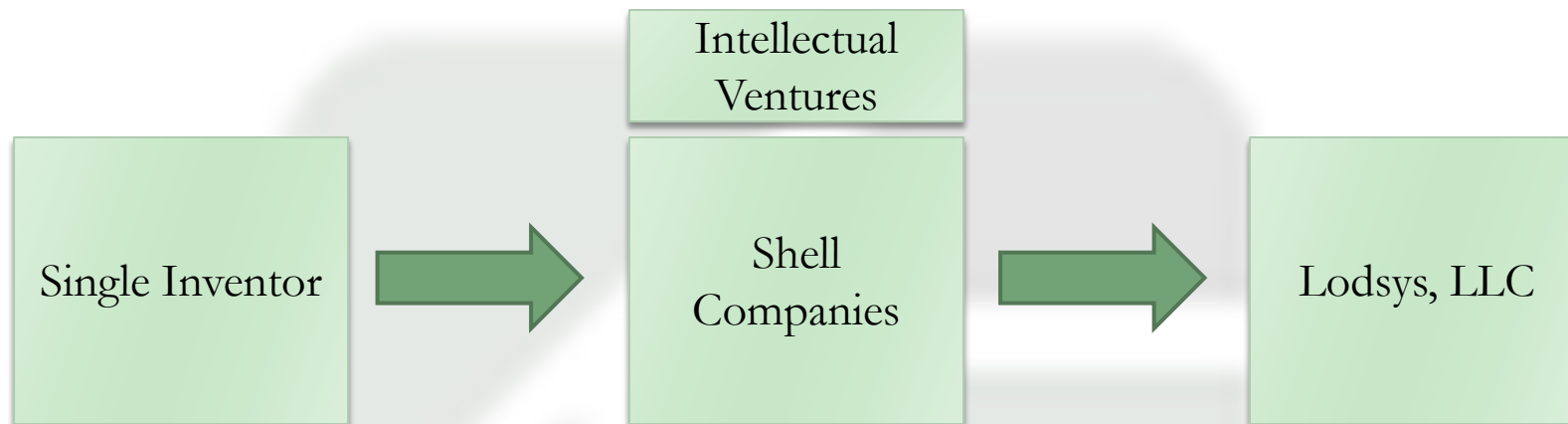


Source: <http://www.oceantomo.com/productsandservices/investments/intangible-market-value>



Snapshot of a PAE
Lodsys, LLC

Lodsys, LLC: Company Overview



- ▶ **U.S. Patent Portfolio**

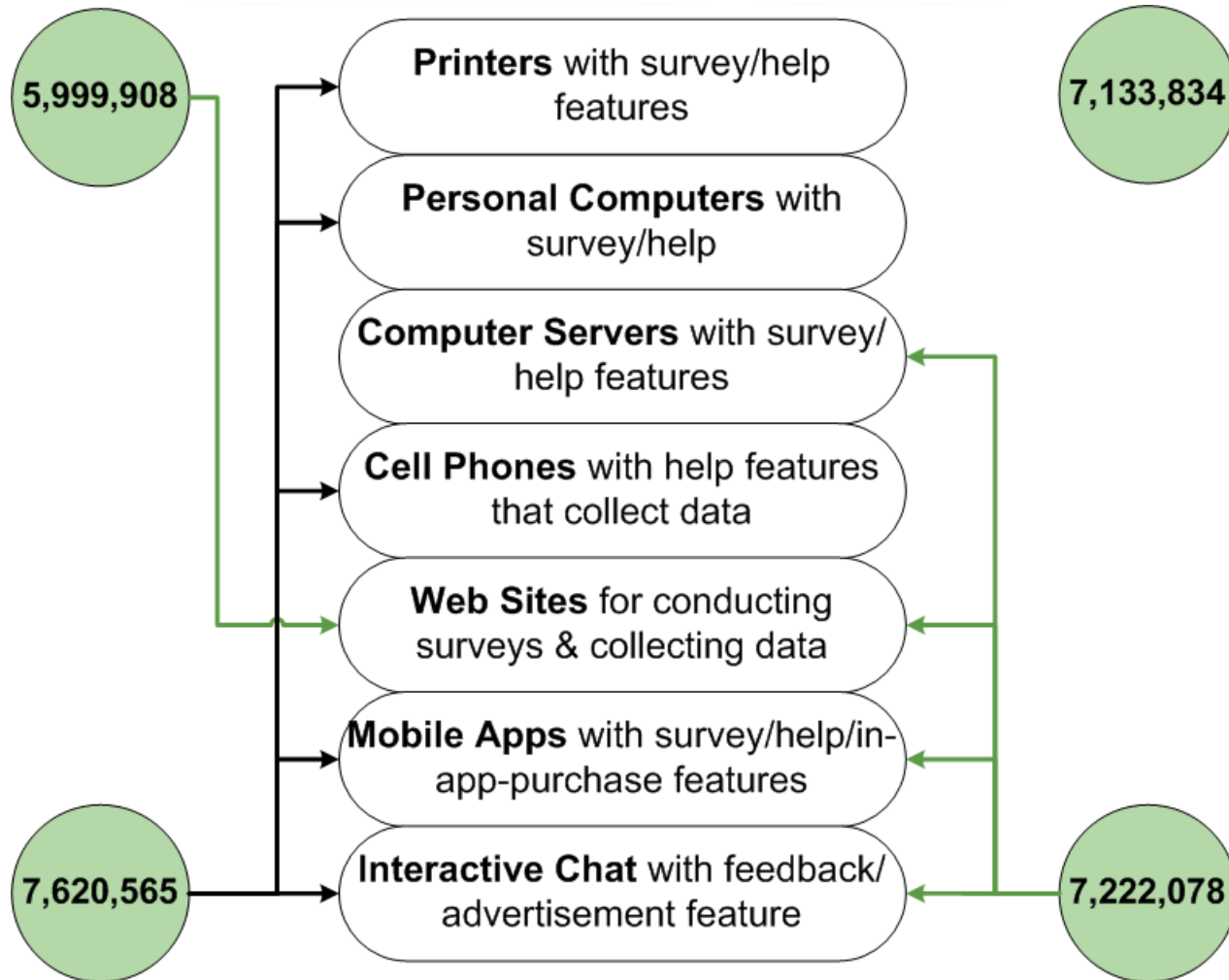
- ▶ 5,999,908 7,133,834
- ▶ 7,222,078 7,620,565

- ▶ **Lodsys begins bringing lawsuits in 2009**

- ▶ **Strategically Low License fee**

- ▶ E.g. mobile app makers charged 0.575% of product revenue

Lodsys, LLC: Partial Enforcement History





Mitigating the Risk

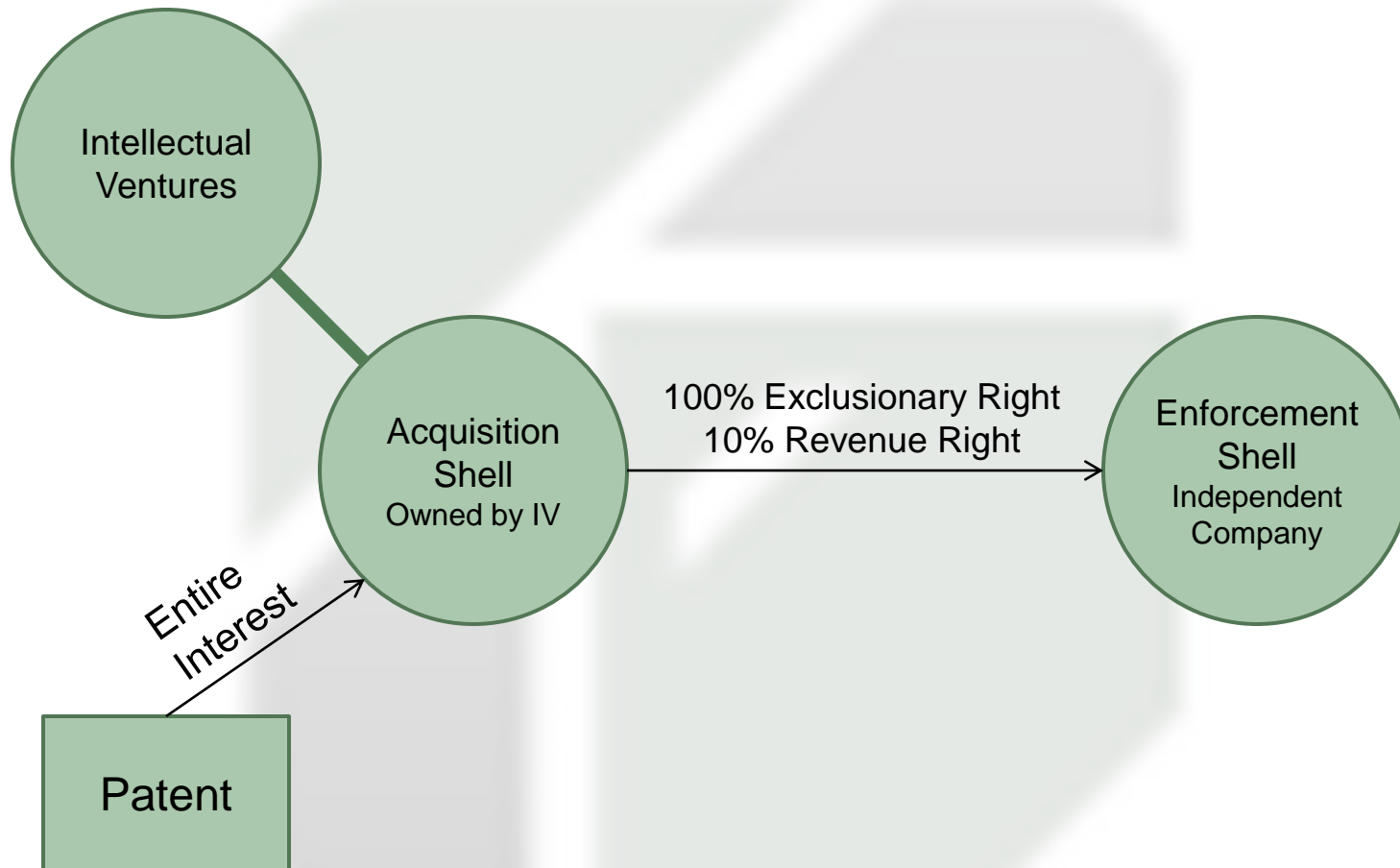
S.H.I.E.L.D. Act of 2013

- ▶ Proposed legislative solution to combat frivolous lawsuits brought by PAEs
- ▶ If the PAE plaintiff loses in its lawsuit, the PAE pays the defendant's attorney fees
- ▶ However:
 - ▶ Constitutionality questions
 - ▶ Easy for PAE to circumvent
 - ▶ Does nothing to address the threat of litigation

End Anonymous Patents Act – *May 17, 2013*

- ▶ “Real party in interest” must file disclosure to USPTO
- ▶ Real party in interest is:
 - ▶ (a) any entity that has a legal right to enforce a patent;
 - ▶ (b) ultimate parent entity of (a); and
 - ▶ (c) entity with controlling interest in the enforcement of the patent
- ▶ Damages may only be collected from the date that full assignment is recorded with USPTO

End Anonymous Patents Act – *May 17, 2013*

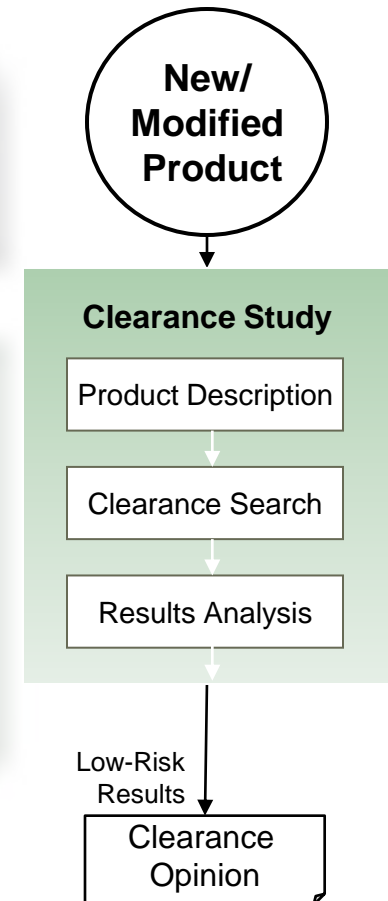


Active Mitigation

- ▶ What is more costly: active mitigation or six years of royalties and possible litigation expenses?
- ▶ Two-Pronged Mitigation Approach
 - ▶ Identify the risk
 - ▶ What PAEs pose a risk to your business?
 - ▶ What patents pose a risk to your business?
 - ▶ Reduce the risk
 - ▶ Avoid the PAE patents
 - ▶ Attack the PAE patents

Identifying the Risk: Clearance Searching

- ▶ Standard practice to identify patent risks in general
 - ▶ Product-centric search for patents that pose a problem for product in development
 - ▶ Enables redesign during product development to avoid problem patents
- ▶ Additional focus on PAE patents (and potential PAE acquisitions) regardless of product being searched
 - ▶ Analyze search results for patents and applications matching PAE trends
 - ▶ Flag PAE patents for present and future consideration

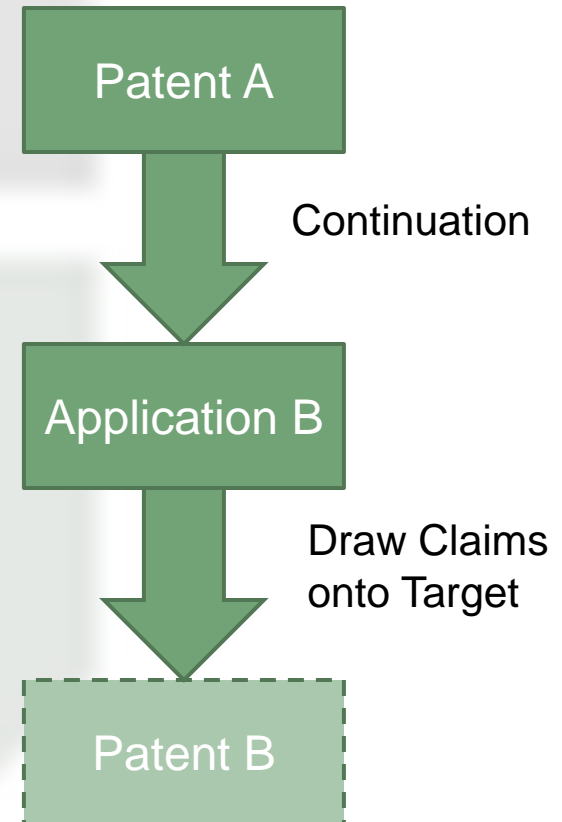


Identifying the Risk: Industry Monitoring

- ▶ PAEs tend to cluster litigation within technology sectors
- ▶ Monitor other practicing entities in your industry to see PAE litigation on the horizon
- ▶ If you aren't caught in the first wave, you may be slated for the second or third wave

Identifying the Risk: PAE Monitoring

- ▶ PAEs often prosecute applications at the same time they enforce issued patents
 - ▶ If an issued patent does not capture you, the PAE can try to write claims that do in the pending applications
- ▶ After identifying a PAE, monitor prosecution of pending applications
 - ▶ Analyze specification for *possible* claim scope
 - ▶ Consider more proactive action



Attacking the Portfolio

Third Party Pre-Issuance Submissions

- ▶ Submit prior art and claim charts to the Examiner for use in rejecting a patent application
- ▶ Generally available until the application is first rejected
- ▶ Anonymous submission
- ▶ No fee for 3 or fewer references

Attacking the Portfolio

Third Party Pre-Issuance Submissions

Estimated Duration of Pre-Issuance Submission Window for Selected Technology Centers

Technology Center	Average Pendency to First Action	Average Time between Eighteen-Month Publication and First Action	Estimated Duration of Window for Pre-Issuance Submission by Third Party
Biotechnology & Organic Chemistry	23.8	5.8	6 months
Chemical & Materials Engineering	26.0	8.0	8 months
Computer Architecture, Software & Information Security	30.9	12.9	13 months
Networks, Multiplexing, Cable & Security	33.6	15.6	15-16 months
Communications	31.4	13.4	13-14 months
Semiconductor, Electrical, Optical Systems & Components	26.5	8.5	8-9 months
Transportation, Construction, Agriculture, & Electronic Commerce	26.0	8	8 months
Mechanical Engineering, Manufacturing & Products	29.6	11.6	11-12 months

Source: Trout & King, AMERICA INVENTS ACT: PREISSUANCE SUBMISSIONS, available at http://krameramado.com/PDF/AIA_preissuancesubmissionsbythirdparties.pdf

Reducing the Risk: Reexamination

- ▶ Requesting the U.S.P.T.O. reconsider patent issuance
 - ▶ Institute additional examination including potential claim narrowing
- ▶ Anonymous request
- ▶ Substantial New Question of Patentability Required
 - ▶ Based on prior art (invalidity search)

Reducing the Risk: U.S.P.T.O. Trials

- ▶ AIA provides two new methods for challenging patent validity at U.S.P.T.O.
 - ▶ *Inter partes* review
 - ▶ Available for all applications starting 9 months after issuance
 - ▶ Challenges based on patents and publications only
 - ▶ Post-grant review
 - ▶ Available for applications filed after March 15, 2013
 - ▶ Only available until 9 months after issuance
 - ▶ Challenges on all grounds
- ▶ No anonymity

Reducing the Risk: Covered Business Method Review

- ▶ **Allows for Petition before USPTO for review of business method patent validity**
 - ▶ Petitioner must have been sued for infringement of a business method patent
 - ▶ Petition may only be filed 9 months after patent issuance

- ▶ **Petitioner must :**
 - ▶ Identify how claimed business method is not a technological invention
 - ▶ Provide a claim-by-claim explanation of the challenge

Multi-Company Cooperation

- ▶ Leveraging pooled resources to prevent outsider PAEs from impacting an industry of partnered practicing entities
 - ▶ Crowd-sourcing
- ▶ Unified Patents
 - ▶ Google, NetApp, and startups
 - ▶ Early warning system = Industry Monitoring
 - ▶ Separate entity for challenging patent validity
- ▶ Potential for New Orleans Anti-PAE Consortium?

Question & Answer

