

Did high-tech titans win the US patent war?

A series of developments over recent years, culminating in the signing of the America Invents Act into law, have significantly shifted the balance of power in the patent marketplace to operating companies with large portfolios. Whether this is a good thing remains to be seen

By **Charles Neuenschwander**

*When the tip of the spear reaches the heart,
The length of its shaft and the method of
application*

Are no longer important
Don Jardine, SORC

After five years of arguing in the United States over the role of patents in high-tech – a process that has involved the legislature, the courts and the US Patent and Trademark Office (USPTO) – major change has come to the sector. The efficacy of portfolios has seemingly shifted from monetising innovation to creating massive arsenals held by superpowers. But why has this happened and does it actually matter?

Looking at the US patent marketplace in early 2012, there is little doubt that big high-tech companies the world over have successfully managed to reorientate the landscape for utilising patents. In their mind, patents should be within their province to negotiate for peace with like-minded superpowers or to fight major wars over very large markets. And they have succeeded in persuading important legislative and judicial decision makers that their view is the right one.

These companies know that they can

breathe easier now. Their flanks are better protected from attacks by the little guys – individual inventors, small and medium-sized enterprises (SMEs), corporations with orphan technologies and universities. The fate of aggregator non-practising entities (NPEs) may be less clear.

The US\$612.5 million problem

... and the US\$521 million, US\$388 million, US\$368 million, US\$307 million, US\$277 million problems, to name a few of the large patent judgments/settlements in the United States over the past 10 years. When Research In Motion grudgingly forked out more than US\$600 million to eliminate a likely injunction, eyebrows shot up.

After the shock of jackpot jury awards and unprecedented settlements, a look at the underpinnings for valuing intellectual property took on greater importance. The patent community placed special focus on a particular class of patent holders: the trolls. Cisco, Samsung, Microsoft, Google, Apple, Intel and others like them understand that the patent exposure they face from the broader community – like the trolls – requires a different response from how they react to threats from direct competitors. Many of these companies openly made the case that something had to change.

The outcries led to a systemic review of both patents and, perhaps more importantly, the characteristics of patent owners; the latter factor not being mentioned in the law. From this review came important changes. For the most part, the changes are what the titans wanted.

Real issues and sound bites

We should be able to differentiate the nature of patents from how they are used. While there have been problems with both, the press largely reported the proffered

President Obama signs the America Invents Act into law, 16th September 2011



sound bites from the attacked and from others that increasingly began with ‘bogus patents’ and ‘overly broad claims’, as if all patent disputes are based on junk science. Supporters of Article 1, Section 8 of the US Constitution failed to mount an effective rebuttal. No one did a very good job of arguing whether patents should be treated the same as or differently from other forms of property.

At the same time, Intellectual Ventures was beginning to look formidable and there were more like it on the way. A worldwide increase in patent owners asserting their rights added further fuel to the fire.

Two factors set the stage for what was to come. Traditionally, the United States has an underfunded patent office which makes it difficult to restrict issuing only ‘perfect’ patents. And the process for asserting patents (both good and bad) is open to being controlled by well-funded parties whose only purpose is to exact tribute; and that tribute is anything but inconsequential. Something needed to be done.

The result is that today, if you are anyone other than a high-tech titan and you assert your patent rights, you are a pox on the house of business. Even as an individual inventor with patents of sufficient quality to be judged valid and infringed, you are a troll, and National Public Radio (NPR) might show up to ask

why there is a need for patents at all.

Efforts in the courts, the USPTO and the US Congress attacked both the quality of patents and the monetisation of patent rights. With the exception of funding fights for the USPTO, it was monetisation that received the most focus. High-tech titans did a pretty good job of controlling the debate.

With each passing year came solutions that compressed the risk for high-tech superpowers. One result of recent changes is that there is now little incentive for a titan to negotiate an early settlement. The accused infringer has little reason to do anything other than respond, “We don’t infringe, your patent is invalid, and we’re looking into how you conducted yourself,” and then do the best it can to make things painful for the small plaintiff.

The reason there is so little incentive for the small plaintiff is a series of decisions that lowered the risk to all in high-tech that make, use or sell potentially infringing products. Added to these decisions is the prospect of calls for another change in patent enforcement methodology that might add to the problems.

A fork in the road

In the last five years, decisions in the US Court of Appeals for the Federal Circuit and the US Supreme Court, with a major exception (*i4i v Microsoft*), improved the

position of large high-tech companies. They, along with Congress and the USPTO, chose between maintaining the bargaining position of small NPEs and removing much of the risk to high-tech manufacturers. NPEs lost.

Limited injunctive relief

Four important changes increase the difficulty for NPEs to monetise patents as before. Chief among the changes is their diminished opportunity to receive injunctive relief. For this chosen sub-set, it is no longer just about what you invent and how you claim it. Decisions about your IP rights are also based on who you are, and if the court believes that you can be monetarily compensated for a fundamental – even essential – invention, it is going to let you and the defendant know that an injunction is off the table.

The high-tech superpower has the luxury of understanding that it has a chance of getting rid of the lawsuit and, failing that, the final deal might not be much worse than what it can immediately negotiate.

So, where is a titan's incentive to enter into an agreement? Not a free shot, by any means; but nonetheless, a delay and bleeding strategy spread over many 'little guy' negotiations carries little, if any, risk.

Of course, there is the International Trade Commission (ITC), where an exclusion order will prevent the sale of products. However, if federal court is intimidating to some, think of how the ITC appears to an individual inventor.

Changes to apportionment

The second important change is that courts are much more diligent in tying the importance of the invention/patent to the worth allowed to be argued by the plaintiff. The unpredictability of apportionment doctrines for estimating the value of individual inventions gives pause to anyone that wishes to pursue monetising an invention or a small portfolio.

Arguing against apportionment is futile, because tying the worth of an invention to the cost of the right to use it is the correct thing to do. The difficulty comes when you consider how to demonstrate this unambiguously to the judge who struggles with this problem.

In most cases, can you realistically connect the value of each included invention to the reasons for the demand for the product or service? In some instances the existence of the invention is not known by the buyer, but it can be very important (not the same as 'essential') in achieving

the desired result. Are surveys accurate enough, or are they simply the best we know how to do – and we'll call it a good day and move on?

Attempts to quantify something based on junk assumptions would seem to be worse than tying a royalty demand to simple correlations found in the past (ie, royalty rates times sales dollars). Defence attorneys must be anticipating the fun they will have shooting at plaintiff damage experts' theories. Perhaps this should be the top priority for the courts: help all of us to establish easily understood and reasonably managed platforms that are acceptable in determining the value of an invention.

Limiting the possibility of multiple defendants

Joinder of parties is another change that radically alters the risk/reward ratio for the little guy. Multiple defendants are allowed only when the alleged violation is the same transaction or occurrence relating to one accused product or process (America Invents Act: addition to 35 USC, new Section 299). One question not yet answered is determining the boundaries defining an accused product or process.

This means that when faced with multiple infringers, entities large and small may have to fund an equal number of lawsuits with one defendant each. While injunction and apportionment force down what the titans are willing to pay, this change raises the patentee's cost to get them to pay anything – or even to negotiate seriously.

The rise of re-examination

The fourth important change affecting the little guy is that we now find that if a defendant throws a patent into re-examination, it can have a reasonable degree of confidence that something good will happen. Even if the claims are left unscathed, merely arguing for the claim can trigger intervening rights which might make the case for damages moot. With no injunctive power, what is left? (At the time of writing it appears that the Court of Appeals for the Federal Circuit will take a look at this issue.)

A shifted landscape

Looking at the changes one at a time masks what is happening. It is the weight of all four that shifts the landscape. Where is the business case for the small patent owner to defend a patent before the court?

Potentially adding to the problems, Judge Rader at the Federal Circuit floated an

The main chamber of the US Supreme Court

Along with the Court of Appeals for the Federal Circuit, the Supreme Court has heard a series of cases that have pitted the interests of big operating companies against NPEs. In most instances, the operating companies have won



idea to gain control of litigation and litigation expenses (“The State of Patent Litigation”, Eastern District of Texas Judicial Conference, 26th September 2011). “The court does have one remaining option to control trolls and squash grasshoppers – reverse the fees and costs. . . I strongly advocate full-scale reversal of attorney fees and costs!” he stated. The judge tempered this by saying: “The case must qualify as exceptional.” He advocates doing so where “the court can identify a troll or a grasshopper”, and goes on to state that the suggestion does not discard “the American rule that each party pays its own attorney”. Nonetheless, until we gain experience with this idea, can anyone believe that a righteous inventor will be confident of avoiding being labelled a troll? The inventor’s attorney, at a minimum, will say that there is some level of risk.

Where’s the baby?

The bathwater has been thrown out on the back stoop. We have attempted to get rid of the problems from out-sized NPE awards and to reduce the nuisance of the school of piranhas that every superpower attracts. But at what cost?

Taken together, these changes, along with others in the last five years, will reduce the number of instances where the little guy can afford to do something about presumed infringement. Even if an invention is useful to the supplier of a product or service, if the return from taking enforcement action falls

below the cost to act, the little guy cannot afford to do anything beyond going hat in hand to potential infringers and asking for a donation, acknowledgement or reward. It is logical to believe that there will be inventiveness that will go unrewarded even when the apportioned value is something greater than zero.

Unintended consequences

Is this what we set out to do? Is this what will unleash creativity and increase US jobs? The America Invents Act was sold as such.

If you are an individual inventor or SME knowing that, where you find others trespassing on property that you constitutionally own, you will have little power to protect it, have you lost some incentive to break new ground or improve on the work of others? Knowing that titans have less reason to be concerned about you, will you bother? It is hard to believe that your motivation will increase, and nothing in the world stays the same.

One must look carefully at the effect on universities – the high-tech portion of their research. Tech transfer programmes should motor on as before, but what to do about instances of infringement? If disincentives to researchers extend only to patenting, and not to their labs, we may get along fine, albeit with reduced income to universities. But if high-tech superpowers decide that they have little to fear from universities, it is another unintended consequence that we must live with until the next paradigm shift.

Action plan



The licensing environment for the little guy has been altered – not because he changed, but because the rules are not the same as they were a few short years ago. To be rewarded for inventiveness, small non-practising entities are going to have to adapt. As for national policy, if the pendulum has swung too far, we must figure this out and rein it back.

Small NPEs should:

- Understand that the fact that a patent is valid and infringed is no longer all that matters. Now, the way that you – the owner of the patent – can be characterised is also important. For some, contributing patents to aggregating NPEs and sharing the rewards of trolls might be the best bet.
- Realise that accused large infringers can wage wars of attrition. For example, re-examinations can be righteous or can be nothing more than attempts to delay. If you commit to monetising intellectual property, be very, very patient.
- Know that you still have leverage at the International Trade Commission (ITC). If your patent is valid, the ITC can exclude infringing technology from the United States. This increases incentives for an infringer to negotiate with you.
- Consider adding leverage by filing foreign patents to go along with your US

patent. Germany is not averse to injunctions. If what you have is important, go for it. However, this is a game for which you will need very large markets and the help of the best law and licensing firms.

To our politicians, judicial community and, yes, some of the titans:

- With the four important changes discussed here – taken as a whole – is the bar so high that the incentive is lower for the little guy to work as hard as before? What if it is? Consider the implications of relying on high-tech titans to produce a larger proportion of truly ground-breaking technology.
- Titans also exist on the other side of two oceans. Some respect and abide by rules of intellectual property better than others. With the changes in recent years, did the barriers to bad guys move higher, stay the same or fall? Contemplate the importance of individuals, small and medium-sized entities and universities in protecting the industrial base.
- If the original intention was to gain the upper hand over trolls, will that happen? Really? Think about whether you have incentivised legions of little guys to drop ammunition on Acacia's doorstep. If that happens, it is another shift of benefits to those that have from those that do.

If you are a patent aggregator, your best response is to become too big to be ignored by the titans. While not identical to them, you have the capability to amass a sufficient number of patents to become a shark and the titans will treat you differently from the little guys.

Between titans and aggregators, the negotiating dynamics are different from those which the little guy faces. Now the count of inventions holds more importance than the value of the invention(s) in determining the amount of royalty. It's about leverage. The negotiation begins to look more like what happens between titans – without, of course, the threat of a district court injunction.

It is hard to believe that they can be happy with aggregators, but the titans might prefer negotiating with highly visible sharks rather than being surrounded and bitten in

blind spots by fast-darting piranhas.

Aggregators have long positioned themselves as champions of the little guy. Recent changes have done nothing to diminish that claim. In fact, they may become the only option for the little guy who wants redress for unauthorised usage of his intellect and effort. It is difficult to believe that this is what we set out to do.

Is it good policy?

Nothing written here says that if all of this is true, it is bad policy (defined as the cost of the policy being higher than the rewards it generates). If advancing national interests is best served by concentrating patent wars on battlefields entered by high-tech titans, then maybe that is what we should do. It was for reasons of enhanced US competitiveness that we pursued the America Invents Act in the first place, wasn't it?

A result of the courts' proactivity is to ease the burden on the titans; to offer some relief from the piranhas. Every nation needs strong titans to be able to protect its products and markets against other titans flying a different flag. At least the titans' costs should be lowered, so maybe there is more investment available for inventing (by them). Maybe it makes sense.

But some are left thinking that in our attempt to realise a better system, the pendulum might have swung further than it should have done. We may have reduced the incentive for inventiveness outside the silos owned and controlled by the titans. If that is true, will the amount of innovation actually be reduced instead of increased? Can negative consequences overtake the benefits from the last five years of change? It seems reasonable to ask: in the attempt to integrate the characteristics of patent owners into determining the justifiable use of patents, should we have considered treating patent-aggregating NPEs differently from individual inventors, SMEs and universities? Would it have been better if

besieged titans and legal due process in the United States promulgated different rules for patent-aggregating NPEs and vested NPEs? Are the vested NPEs left with one option: run to the patent-aggregating NPEs as fast as possible and take whatever you can get?

Good move or bad, it appears for the foreseeable future that the ability of the little guy to receive fair and reasonable compensation – however that may be defined – is going to be more difficult than before. So, yes: the titans seem to have won. *iam*

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