

# PATENT TROLL WARS EPISODE IV: A NEW HOPE

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Lee Cheng and Newegg's approach to Patent  
Infringement Litigation

# Patents

- A patent is a form of intellectual property pertaining to inventions
- **It is the Right** to exclude others from producing or importing the patented invention
- It can be granted nationally or internationally
- Patent durations vary between countries, 20 years in US
- Enforceable in the US by civil lawsuits seeking compensation or injunction

# Patents: Current Issues

# Plaintiff's Advantage... Rise of the Trolls

- In the USA there is no obligation to defend a patent immediately, damages can be collected for up to 6 years in the past :  
Often a patent holder will wait to file suit, causing the infringer to become more invested.
- US patent law does not contain a “Working Provision”. Therefore unlike other countries it is not required that a company exploit a patent through manufacture in order to hold it and file infringement claims :  
This has led to an industry of patent infringement litigation where attorneys purchase patents and set up LLCs specifically to profit by filing suits.

# Plaintiff's Advantage... Rise of the Trolls

- In the USA parties traditionally bear their own expense of litigation regardless of who wins, difficult to meet the requirements of frivolity:

Unrecoverable costs of defending a patent infringement lawsuit approximately \$1M pretrial, \$2.5M complete defense and jury trials are unpredictable.

Plaintiffs offer settlements at a fraction of the costs of litigation - settlements range from \$10-\$50K for small companies \$100K-Millions for larger companies.

“Because the costs and risks are high, defendants may settle even non-meritorious suits they consider frivolous...” (Wikipedia)

# What is a Patent Troll?

- The term is loosely defined
- The lack of a “Working Provision” has led to the proliferation of entities whose sole task is to acquire and enforce patents e.g. patent holding company (PHC), patent assertion entity (PAE), and non-practicing entity (NPE), additionally when a company is no longer profitable it may restructure itself as an entity that solely enforces its IP
- A profitable business model: relying on the cost advantage of settlement and unpredictable nature of jury-trials, entities often receive settlement payments by threatening to “enforce” **overly-broad patents** against **non-infringers**

# Lee Cheng and Newegg

- Newegg's Chief Troll Hunter
- Advocates for fighting against companies that are known trolls abusing patent laws.



3 Cases - Won by One Newegg



# Soverain Software v Newegg

- Open Market obtained patents of the concept of an 'online shopping cart' in 1998.
- Soverain acquired patents, sued Amazon.com and GAP.

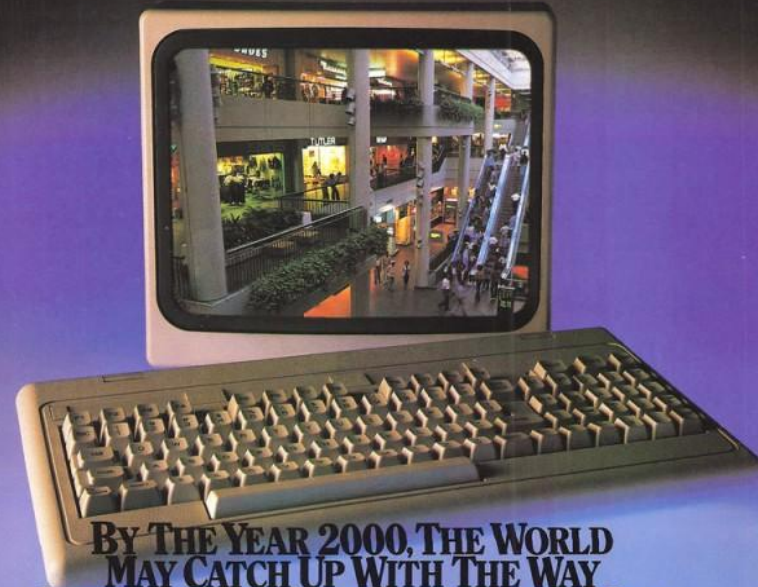
The Amazon logo is displayed in white lowercase letters on a black background. Below the text is a curved orange arrow pointing from the letter 'a' to the letter 'z'.

# Soverain Software v Newegg

- In 2010, Newegg decided to fight the case.
- Newegg lost, but the damages were small.
- Appealed, produced prior art and got all the patents invalidated.



- The patent is called the online shopping cart patent
- The case became important as it threatened online retail as a whole



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### Introducing the first computer shopping service that brings you convenience, savings and enjoyment.

Here's your chance to expand the practical uses of your personal computer. Sign up for CompuServe and shop in our new Electronic Mall. It's easy to use. It tells you more about the products you're buying. It lets you order faster. And it's totally unique.

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~ It's enormous! So it gives you in-depth information on thousands of goods and services, and lets you buy even hard-to-find merchandise. ~ Its unique "Feedback" service lets you ask the merchants themselves specific questions. ~ It's incredibly efficient in ordering the products and services you want.

~ Its special discount opportunities make it economical purchases after purchase. ~ And its name-brand merchants assure you of top-quality merchandise.

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  - Pick one and enter the order command.
  - Check complete descriptions of places to stay on your next vacation.
  - Pick several and request travel brochures.
  - Access a department store catalog and pick out a wine rack, tools, toys...any thing!
  - Place your order.
- What you can do in 15 minutes shopping the old way:*
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CompuServe's Consumer Information Service brings you shopping information, entertainment, personal communications and more.

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Columbus, OH 43229  
**800-848-8199**  
In Ohio call 614-457-0802

# Soverain Software v Newegg

- We would classify Soverain as a troll
- Soverain filed for bankruptcy soon after their patents were invalidated

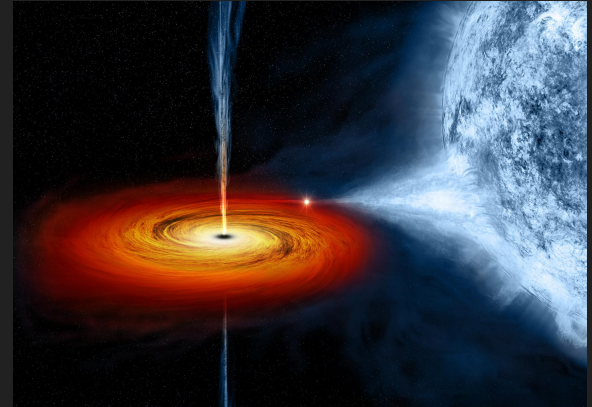
**Don't Settle.**



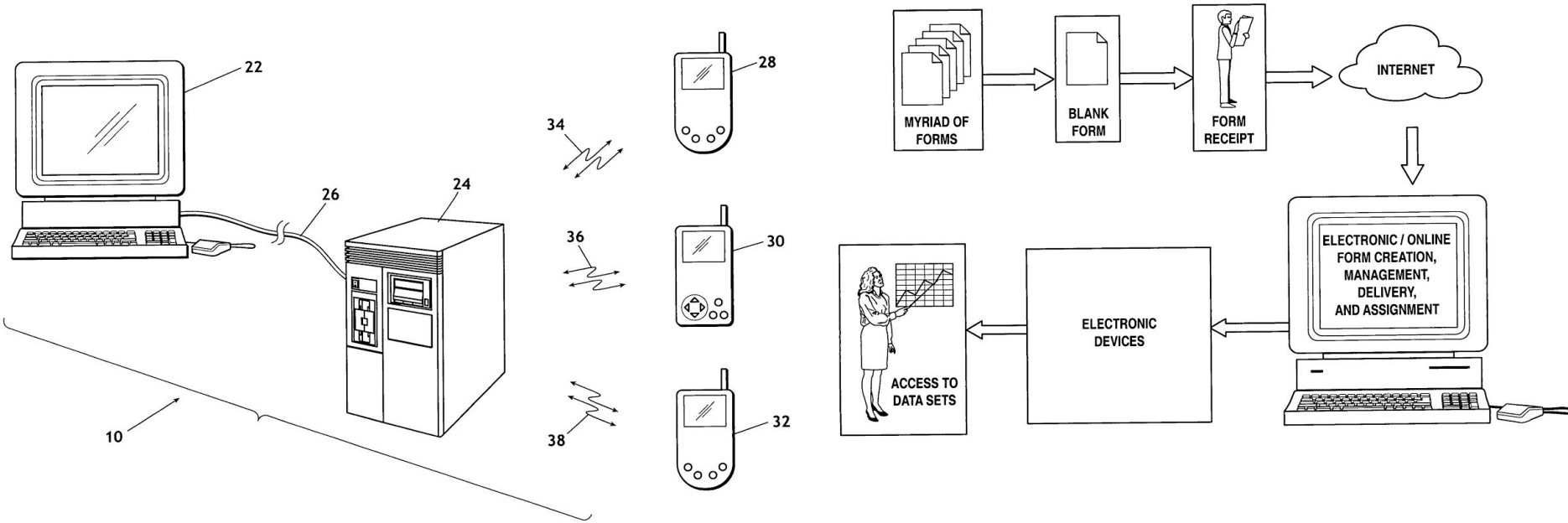
**Settling Feeds Trolls.**

# MacroSolve v. Newegg et al.

- Like Soverain, MacroSolve started in the 90's (1997) as a legitimate business working on software for the company Palm, which had the first PDA devices
- In 2002, the original founder of the company filed for a patent, but left the next year. The patent wouldn't be awarded until 2010
- By the year 2010 the PDA business was all but dead, so MacroSolve immediately began to take advantage of the new patent - now as a licensing company



# The “Questionnaire” Patent

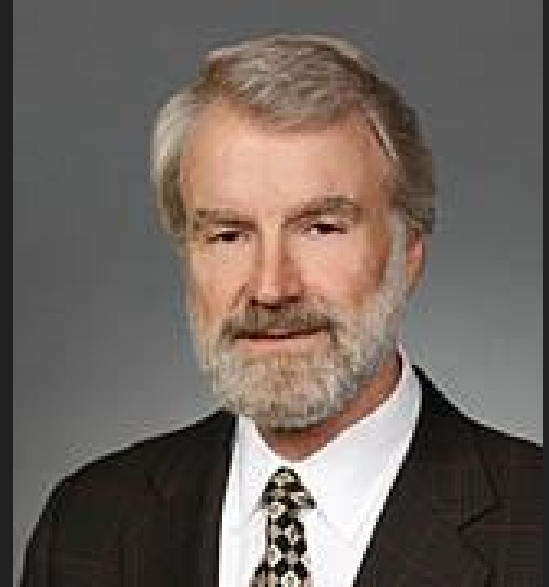


# MacroSolve Partners with Trump Corporation (2011)



# MacroSolve shows their true colors (Late 2012)

- “MacroSolve **sold off its app-making capabilities** and went from **dozens of employees to just three** — Jim McGill, chairman; Clint Parr, CEO; and Kendall Carpenter, CFO — as it focused on **patent suits.**”





## MacroSolve Chairman Jim McGill - 2012

"We're just enforcing our rights under our patent and we have tested the waters with various types of companies...I'm comfortable we could probably identify **700 to 1000 infringing parties.** Right now we're just taking our time and **working our way through the names.**"

# Together with Geico and others, Newegg fights back

- “Cheng encouraged the remaining defendants to band together into a **joint defense group**, keep their expenses low, and stop paying.”
- “Geico filed an **ex parte reexam**, one of two challenges to MacroSolve at the patent office.”



# Afterwards

- Over the course of their campaign, MacroSolve would "extort over \$4M from over 60 defendants"
- Newegg would sue MacroSolve back for attorney's fees; they would be denied by the District Courts and Newegg is appealing to the Supreme Court

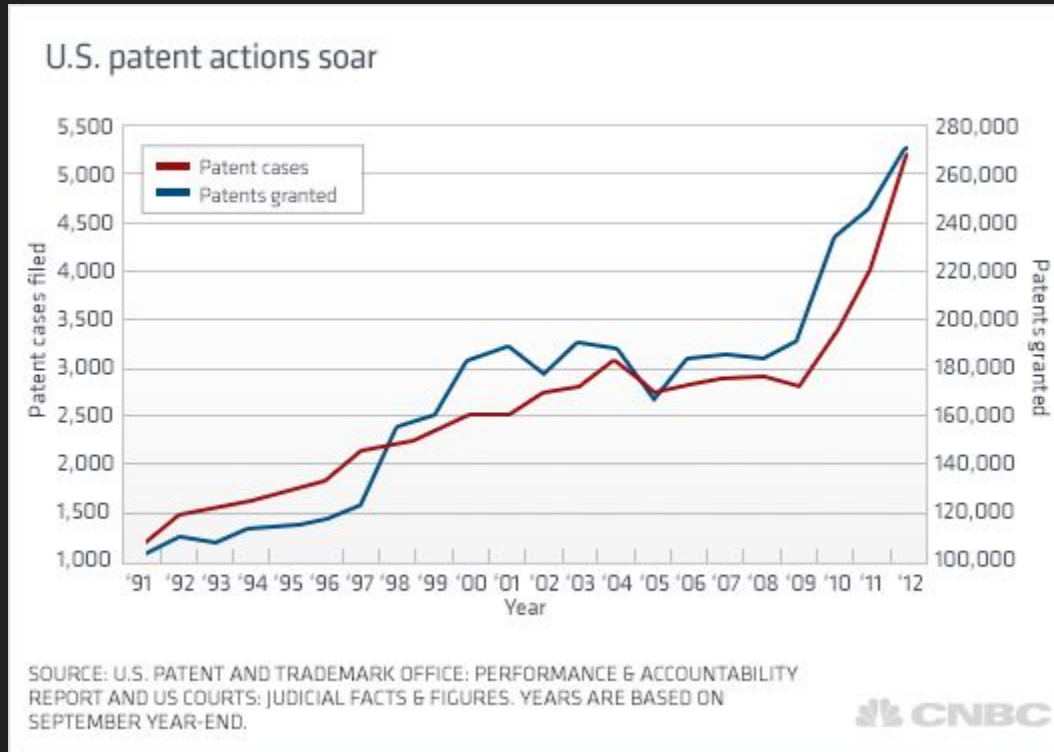


# Minero v. Rosewill et al. (2015)

- Minero - no website, no phone number, an NPE that acquired a patent from IV
- Minero sued Rosewill not knowing they were owned by Newegg
- Newegg responded on behalf of Rosewill, **Minero dismissed Newegg the next day**
- Some other defendants settled
- Newegg filed a lawsuit (Rosewill v. Minero 2016) on behalf of itself and business partners named in the original suit (Walmart, Office Depot, and Amazon) seeking injunction, fees and relief
- Parties reached stipulation, in favor of Rosewill including declaration of non-infringement, but no fees or penalties

# Troubling Trends In Today's Patent Landscape

# Patent Lawsuits And Patents Issued Are Rising



# Especially Lawsuits from NPEs

Figure 19: Plaintiffs Filing Most New Cases<sup>†</sup>

Rank	Plaintiff	Cases
1	Melvino Technologies/ArrivalStar	137
2	Wyncomm	131
3	Thermolife International	117
4	Eclipse IP	67
5	Innovative Wireless Solutions	63
6	UbiComm	61
7	Long Corner Security	53
8	Princeton Digital Image	49
9	e.Digital	47
10	Data Carriers	47

All top 10 plaintiffs are patent monetization entities (PMEs).

# Shortcomings of Current Law - The Patent Database

- Big companies spend millions or billions to mine patent database for competitive advantage and to minimize legal risk
- For Small and Medium-sized companies, the patent database represents an infringement risk, and they instruct employees not to read patents that might improve their products or services **defeating the purposes of disclosure and commercialization** (since willful infringement allows the judge to award additional damages of up to 3x compensatory)



# Identifying Trolls

# Observations

- Although some are obvious, there is no way of differentiating between a patent troll or a legitimate patent owner enforcing their rights without considering the patent in question
- The system has patents in place to help the inventor, but due to certain restrictions, some individuals and organisations are taking advantage of the otherwise just system
- One of the main reasons for this is the fact that litigation costs are higher than a fee that such organisations ask, making it smart to just pay the fee instead of fight and have a chance of losing big. These smart people/orgs realise that

# Observations

- Although wise to just pay the fee instead of litigation, certain companies are standing up against such trolls
- Many large companies spend a large amount of time and money just to acquire patents so that they can defend themselves from trolls
- In our views, we appreciate these companies since they have the resources and the risk appetite for litigation, in turn defending not just other firms but other startups and smaller companies who don't have a choice in such cases
- Many of the trolls even target independent developers

What Can Companies Do?

# Patent Trolls Extortion May Seem Reminiscent of the Italian Mafia



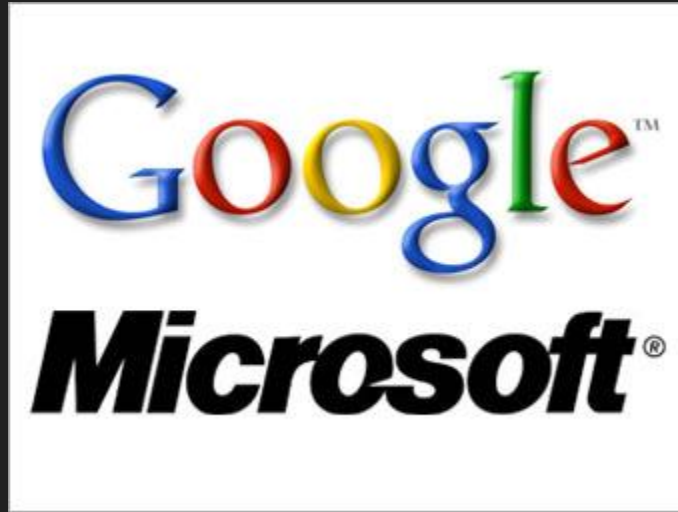
But Their Economic Business Model is Closer to the  
Schoolyard Bully



As Newegg Demonstrates with Geico, Teamwork Is  
a great solution!



Over 300 smaller companies were protected by these two companies working together Vs. GeoTag





What Can Congress do?

# How Do We Fix It?

- Change Patent Litigation

- Innovation Act (passed by House 2013, stalled by Senate)
  - Increase specificity of claims in accusations of infringement
  - Make it easier for judges to award fees in cases of patent infringement
- Demand Letters - reduce overly vague and deceptive demand letters (bills have given FTC more enforcement authority)

- Change Patent Process

- Reduce duration of software patents to 10 years to match the pace of innovation
- Reduce functional claiming in software patents, structural claims that were perhaps relevant 20 years ago “implemented by circuit, with a computer processor” are now overly vague
- Require detailed algorithms or code implementation should be required

# Conclusion

- Failed innovators vs trolls
- Currently, because certain patents are too broad, and litigation charges are high which is the main reason for such activities. The only cost effective answer to this is asking the USPTO to reexamine the patents.
- The above hasn't proven to be very effective.

# Conclusion

- One thing that companies could do is identify other organisations that can be potentially sued based on the patent and team up together to fight if the patent is not innovative
- Another suggestion is to modify the way software patents are treated. For example, the structure in the Google v Oracle case
- Also, the damages should reflect what the company lost, rather than basing it on what the accused made. For example, a researcher can demonstrate time and resources, a troll would have just the cost of acquiring the patent

Thank You!

Q & A

# References

- “Inventing the Future” WIPO  
[http://www.wipo.int/edocs/pubdocs/en/sme/917/wipo\\_pub\\_917.pdf](http://www.wipo.int/edocs/pubdocs/en/sme/917/wipo_pub_917.pdf)
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