Patents: What Entrepreneurs and Investors Need To Know Now

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Bob Weber
Managing Director
Patent Kinetics, LLC
www.PatentKinetics.com

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- Always consult a registered patent attorney

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BENITO STEFANELLI — ANGELO NOVI

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Scénario et Dialogues
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Réalisé par

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Surprise!

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My Assumptions

- Weak patents are not worth having
- Develop a patent portfolio as if you intend to enforce the patents later on
- The market increasingly understands what makes a patent valuable
- There are numerous free online tools that can help at various stages of patent portfolio development
- Entrepreneurs and investors need to educate themselves
- Patent attorneys need to be managed

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Increasingly Difficult To Monetize U.S. Patents

- **Changes in the law resulting from court decisions and the American Invents Acts (2013)**

- **For patent owners, these changes have negatively affected:**
  - Patentable subject matter – what's patentable
  - Damages – how much you can get if someone infringes
  - Injunction – keeping infringing items off the market
  - Loser pays in "exceptional cases" – you better have a good case
  - AIA – Inter Partes Review – defendants get "two bites of the apple"

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Patentable Subject Matter

- **Consult a registered patent attorney regarding all patentability questions**

- **A variety of decisions have affected nearly all areas of invention, for example:**
  - Medical diagnostics
  - DNA sequences
  - Software and computers
  - Financial services
  - Business methods

- **Software and Computers**
  - Simply doing things that were done without a computer now with a computer – dead in almost all cases
  - Still possible to get software patents provided that **the invention is a technical solution to a technical problem**.
    - *(DDR Holdings, LLC v. Hotels.com, L.P.*, CAFC No. 13-1505*s)*

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Damages When Infringement Proven

- **Much harder to get treble damages for willful infringement**
- **Old "rules of thumb" for calculating damages are now usually inapplicable**
  - Entire Market Value Rule, 25% rule, Nash Bargaining
- **Apportionment of damages for complex products**
  - Damages calculated on the smallest saleable infringing unit
  - Example: if the microprocessor infringes, damages are typically based on the value of the microprocessor rather than of the whole smartphone or computer in which it's installed.

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Injunction – Prohibits Proven Infringer From Continuing to Make, Sell, Import

- **The real threat of an injunction used to be sufficient to get an infringer to settle**

- **Getting any injunction is now much more difficult**
  - Result of a Supreme Court case - ***eBay Inc. v. MercExchange, L.L.C.***,

- **However:**
  - A patent owner who practices the invention is more likely to get a injunction against a direct competitor
  - A patent owner who does not practice the invention is much less likely to get an injunction
    - Monetary compensation only

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Loser Pays Costs In “Exceptional Cases”

- **A bit easier for winning defendants to get their legal costs paid if the infringement case is exceptionally weak**
  - *Octane Fitness, LLC v. Icon Health & Fitness, Inc.* Supreme Court

- **Makes it more difficult to get trial attorneys to take infringement cases on contingency**

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THE Big Problem: Inter Partes Review

- **The American Invents Act provides a process at the Patent Office for anyone to challenge the validity of an issued patent.**
  - Used by some hedge funds to attack the patents and value of publicly traded pharma companies
- **Many defendants routinely file IPR petitions when sued for infringement.**
  - Costs for plaintiff to defend their patents may run a few hundred thousand dollars for each patent
- **IPR Pluses: a lot of weak patents that never should have been litigated have been killed at the Patent Trial and Appeal Board (PTAB)**
- **IPR Negatives: High case costs and prolongs the infringement suit for many months**

Oil States Energy Services, LLC v. Greene's Energy Group, LLC

- Important Supreme Court case argued November 27, 2017, hearing audio here, transcript here
- Issue: Whether inter partes review, an adversarial process used by the Patent and Trademark Office (PTO) to analyze the validity of existing patents, violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury.
- NetNet: is the Patent Trial and Appeal Board constitutional??
- Lots of "friend of the court" (Amici) briefs here
- Decision expected by end of June, 2018

So What's An Entrepreneur Or Investor To Do?

How To Build Patent Value

The 6 Main Reasons Why Most Patents Are Worthless

1) Market didn’t go there
2) Claims badly drafted
3) Leaving the prior art searching to the Patent Office
4) Failure to search the patent prior art
5) Failure to search the non-patent prior art
6) Not keeping the file open with a continuation application

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1. No One Is Practicing The Invention

- **Entrepreneurial risk – happens all the time**
- **Patent owners failed to commercialize**
  - No market uptake
  - Failure to raise the next (first) round
  - Pivot, move on, etc.
- **No one else is practicing the invention(s)**
- **Chalk it up to experience and move on**

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2. The Claims Are Unenforceable

- **Claims “define, in technical terms, the extent, i.e. the scope, of the protection conferred by a patent.”**

- **Typical claim problems**
  - **Claims too narrow**
    - Claim elements A+B+C+D+E
    - Infringement requires that all claim elements be practiced
    - A+B+C+D doesn’t infringe
  - **One party does not practice all claim elements**
    - So-called “divided claims”
    - A+B+C+D practice by one entity, E practiced by another
    - Usually solved by better claim drafting

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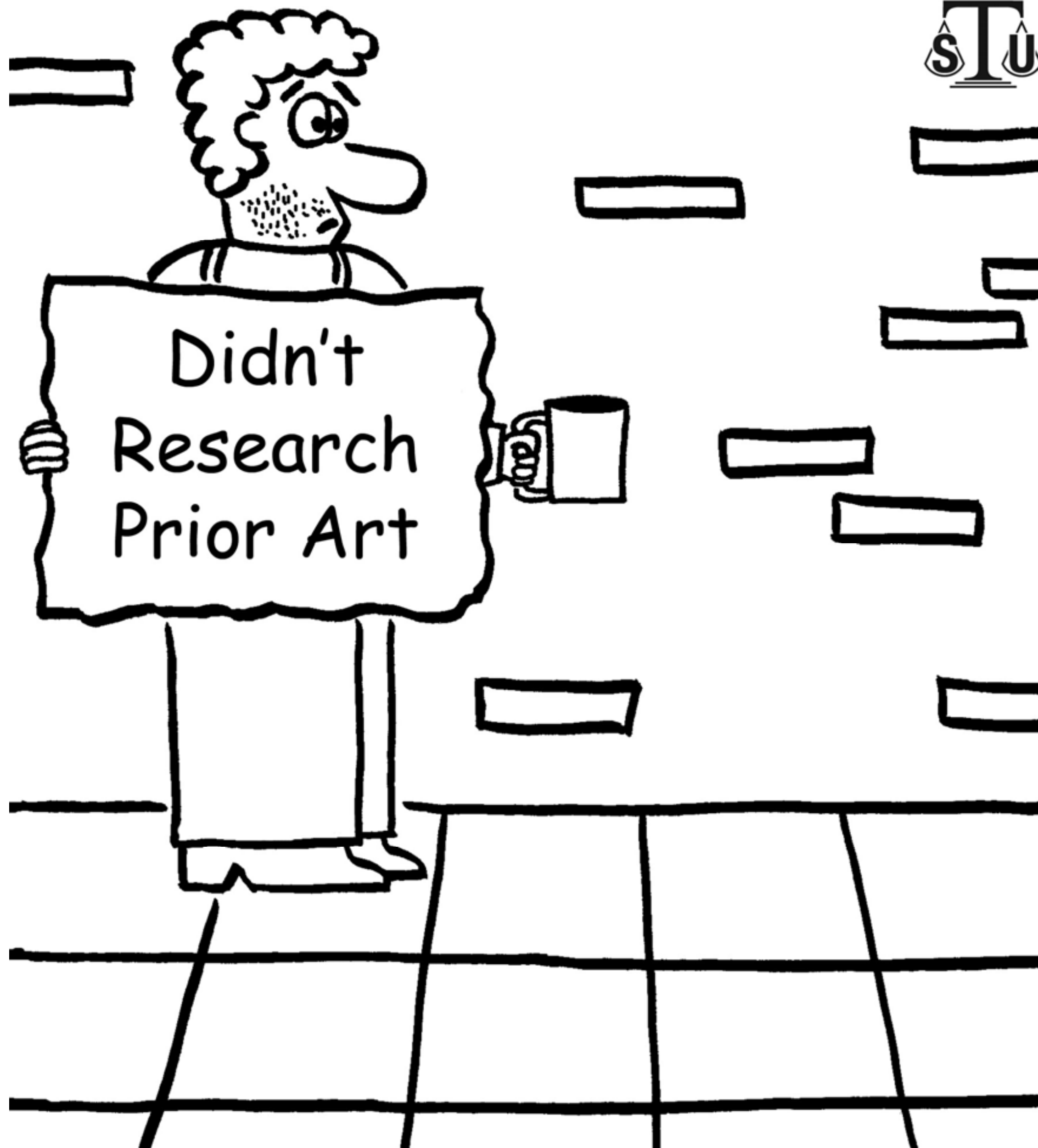

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3, 4, 5 Failure to Search the Prior Art

- **3. Leaving the searching to the patent examiner**
  - Patent dead on arrival in almost all cases
- **4. Failure to search the patent prior art**
- **5. Failure to search the non-patent prior art**

- **Inventors are <u>not</u> required to search for prior art**
- **Only required to tell the patent office about prior art that they know about**
  - Failure to do this is usually considered “inequitable conduct” and is grounds for invalidating a patent if enforced

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Searching Matters Because

- **Indicates seriousness of purpose, strategic intent**
  - Compare Apple's Intelligent automated assistant for TV - user interactions patent (US 9,338,493) with the garden variety Apple patent

Apple 9,338,493 - 46 pages of references – patent and non-patent art

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Apple 8,375,312
Example garden variety Apple Patent

US008375312B2

(12) **United States Patent**
Marinkovich et al.

(10) **Patent No.:** **US 8,375,312 B2**
(45) **Date of Patent:** **Feb. 12, 2013**

(54) **CLASSIFYING DIGITAL MEDIA BASED ON CONTENT**

(75) Inventors: **Mike Marinkovich**, Santa Clara, CA (US); **Greg Lindley**, Sunnyvale, CA (US); **Alan Cannistraro**, San Francisco, CA (US); **Evan Doll**, San Francisco, CA (US); **Gary Johnson**, San Jose, CA (US)

(73) Assignee: **Apple Inc.**, Cupertino, CA (US)

(*) Notice: Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 1228 days.

(21) Appl. No.: **11/760,720**

(22) Filed: **Jun. 8, 2007**

(65) **Prior Publication Data**

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(51) **Int. Cl.**
G06F 3/00 (2006.01)
G06F 3/048 (2006.01)

(52) **U.S. Cl.** **715/762**; 715/764; 715/804; 715/833; 715/846; 715/848; 715/768

(58) **Field of Classification Search** 715/762, 715/764, 804, 833, 846, 848
See application file for complete search history.

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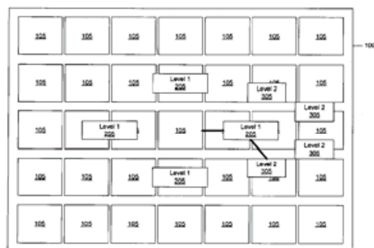
Primary Examiner — Steven B Theriault
(74) *Attorney, Agent, or Firm* — Schwegman Lundberg & Woessner, P.A.

(57) **ABSTRACT**

A computer-implemented method for classifying digital content can include displaying one or more poster frames in a user interface, wherein a poster frame corresponds to an item of digital content, displaying one or more first level classification panes adjacent to a poster frame corresponding to an item to be classified, wherein a first level classification pane is associated with a keyword, and enabling a user to associate a poster frame with a first level classification pane to cause the keyword associated with the first level classification pane to be associated with the item to which the poster frame corresponds.

22 Claims, 4 Drawing Sheets



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Searching Matters Because

- **Indicates seriousness of purpose, strategic intent**
  - Compare Apple's Intelligent automated assistant for TV user interactions patent (US9,338,493) with the garden variety Apple patent
- **Patent more likely to stand up if litigated**
- **More likely to survive Inter Parties Review**
- **In computer related inventions, 300+ patent references and 100+ non-patent references are good numbers to aim for or exceed**

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Many Useful Online Tools

Some examples:

- **Google patents**
  - http://patents.google.com
- **The USPTO patent and pending application databases**
  - http://patft.uspto.gov/
- **The European Patent Office database**
  - http://worldwide.espacenet.com/?locale=EN_ep
- **WIPO Database**
  - http://www.wipo.int/patentscope/search/en/search.jsf
- **Sumo Patents (charges for paper copies)**
  - http://www.sumobrain.com/login.html
- **The Internet Archives**
  - http://www.archive.org/web/web.php

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Keep the File Open at the Patent Office

- Before an allowed patent issues, file a continuation application based on the same specification
- Allows one to tailor claims to evolving products or services in the marketplace
- Is an implied threat since the allowed claims may not “read” precisely on an evolving product / service
- Remember to search the new claims ☺

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Work With A Registered Patent Attorney

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However, Many Patent Attorneys Are Part Of The Problem

- **Increasingly patent attorneys are being judged on efficiency in obtaining a patent**
  - Lowest cost
    - Fewest number of office actions at the patent office during prosecution
  - Analytical systems are providing comparisons of law firm efficiency

- **Numerous patent attorneys have told me that their job is getting a patent issued (regardless of quality)**
  - Creates a version of "the Dancing Dog Problem"

- **<u>Patent quality is key to patent value</u>**

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Recommendations
(Reflects my biases, of course)

- **Try to anticipate where the market will be in 5 years**
  - Envision the invention broadly
  - Think about alternative "embodiments" of the invention
  - Can tweak the claims as the market evolves through claim amendments and/or with continuation applications.
- **Make sure its possible for one party to infringe the claims**
- **Search extensively, especially for computer and communications related patent applications**
- **Fire any patent attorney who recommends not searching the patent and non-patent prior art**

The End

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Muchas gracias

Domo arigato

Dank u

Danke schoen

Thank you

Contact Information

Bob Weber

Managing Director

Patent Kinetics, LLC

Info@PatentKinetics.com

www.PatentKinetics.com