Patent Best Practices: What Entrepreneurs and Investors Need To Know Now

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Patent Kinetics specializes in patent portfolio strategies and in evaluating enforcement opportunities.

Bob Weber, its Managing Director, is not an attorney.

Nothing in this presentation is, or shall be construed under any circumstances, by implication or otherwise, as the giving of legal advice and/or the practice of law.

Always consult a registered patent attorney.
About Patent Kinetics and Bob Weber

- Based on more than two decades of practical experience, Patent Kinetics, LLC helps patent owners, inventors and investors get a financial return on their substantial investments in R&D. We specialize in patent portfolio strategy and implementation and in enforcement opportunity evaluation in the electrical and mechanical technology domains.

- Bob Weber is an intellectual property professional, inventor, serial entrepreneur, senior executive, and management consultant. Weber is an inventor with 27 issued US patents and a number of foreign counterparts. Weber has been a member of the Silicon Valley Chapter of the Licensing Executives Society since 2010 and presently serves on the chapter’s Board of Directors and Program Committee. In Boston, he serves on the Advisory Board of the IEEE Boston Entrepreneurs Network (“ENet”) where he has organized and moderated ENet’s “Legal Issues for Entrepreneurs” annual meetings. Weber also served on the organizing committee for the successful ConnectedThings2015 and ConnectedThings2016 IoT conferences produced by the MIT Enterprise Forum of Cambridge.
Basics: A Utility Patent

- Gives the owner the right to exclude others from making, using or selling, offering for sale, or importing his/her invention. **Utility Patent → 20 years from filing date**

- Does not give its owner the right to make, use, sell, offer to sell, or import. *(Common misconception)*

- The right to make, use, etc. is the absence of unlicensed patents of others that the manufacture, use, etc. would infringe.
Best Practice: Patents Are Business Documents

- What will be the return on investing in patents?
  - Are you better off instead with an additional developer / engineer to get to revenue faster?

- Return on Investment (capital, people, and time to hockey stick inflection point)
  - Try to anticipate where the market will be in 3-5 years
  - Estimate how big the market might become
  - Are there substitutes that are almost as good?
  - Can competitors easily move into your “space?”
  - If you are successful, do you need patents to be acquired? For defensive purposes? For offensive purposes?
Surprise!

MOST PATENTS ARE WORTHLESS!
Some Assumptions Underlying Best Practices

- Weak patents are not worth having
  - Investors are better at discerning crap patents
  - An excellent waste of resources

- 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
  - See below

- Entrepreneurs and investors need to educate themselves
  - Or have a trusted advisor

- Patent attorneys need to be managed
Increasingly Difficult To Monetize U.S. Patents

- Changes in the law resulting from court decisions and the American Invents Acts ("AIA") (2012)

- For patent owners, these changes have negatively affected:
  - Patentable subject matter – what’s eligible
  - 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”
    - District court and the Patent Trial and Appeal Board (where IPRs are heard)

- The proverbial pendulum may be swinging back toward patent owners – more on this later
Patentable Subject Matter

● A variety of court decisions have affected nearly all areas of invention, for example:
  – Software and computers
  – Financial services
  – Business methods
  – Medical diagnostics
  – DNA sequences
  – Methods of treatment

● Software and Computers
  – Simply doing things that were done without a computer now with a computer – dead in almost all cases at either the USPTO or in the relevant courts
  – 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. 13-1505s)

● Consult a registered patent attorney regarding all patentability questions

Damages When Infringement Proven

- **Old “rules of thumb” for calculating damages are now usually inapplicable**
  - Examples include the Entire Market Value Rule (damages based on the value of the whole product), 25% (of marginal profits) rule, Nash Bargaining (see the movie “A Beautiful Mind”)
  - The law on damages calculations continues to evolve

- **Apportionment of damages for complex products**
  - Damages calculated on the “smallest saleable infringing unit”
  - Example: if the microprocessor infringes, damages are typically based at most on the value of the microprocessor rather than of the whole smartphone or computer of which it’s a component

- **Much harder to get treble damages for willful infringement**
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 more difficult – it takes more than just having a patent to justify the injunction
  - Result of a Supreme Court case - *eBay Inc. v. MercExchange, L.L.C.*, 
  - A patent owner who practices the invention is more likely to get an injunction against a competitor than one who does not

- Patentees sometimes are forced to license for damages plus reasonable royalties rather than keeping infringing products off the market
**Loser Pays Costs In “Exceptional Cases”**

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

- Defining “exception case” remains an ongoing process in the courts

- Makes it slightly more difficult to get trial attorneys to take weaker infringement cases on contingency
  - May inhibit litigation financing
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 asserted patent
  - Even a prevailing patent owner faces added delay and uncertainty, making assertion a lot more challenging

- Multiple challenges at the PTAB to a small portfolio
  - Zond-371 claims cancelled by the PTAB after 125 IPR Petitions.
  - By the end, no claims were judged to be valid.

- So what: high case costs, prolongs the infringement suit, assuming that claims survive the IPR process
Reasons For Cautious Optimism (which will take time)

- The “patent troll” narrative is dead – emerging memes:
  - Bad patents – patents asserted against large companies
  - Illegitimate competitors – smaller entities with patents

- The new Director of the USPTO recognizes that change is required
  - New rules now in force making the claim construction standard used in IPRs the same standard as used in district court infringement cases
    - the narrower “Phillips criteria” rather than “Broadest Reasonable Interpretation”
    - Phillips v. AWH Corp., 415 F.3d 1303 (Fed. Cir. 2005)
  - Updating examiner guidance on eligible and patentable subject matter
    - Goals include greater consistency between the examiners and the PTAB and incorporating recent guidance from the courts

- Real patent reform bill(s) may be introduced this term
  - At least 2 were introduced last term and died with the new Congress.
The 6 Main Reasons Why Most Patents Are Worthless

1) Market didn’t go there

2) Claims badly drafted or not drafted with damages in mind
   1) Wrong targets (e.g., users rather than competitors), wrong type of claims, divided infringement, failing to target split US/foreign practice, “greedy” claims

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
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)

- The products evolved and the claims did not

  - Chalk it up to experience and move on
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 infringement claims”
    - A+B+C+D practiced by one entity, E practiced by another
    - Usually solved by better claim drafting
Didn't Research Prior Art
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 **not** 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
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

- (See next slide)
“Intelligent automated assistant for TV user interactions”
Title: “Classifying digital media based on content”

- Apple seems to put fewer resources into patents that appear to be non-strategic
- For its time, the original iPod patent had a large number of prior art citations, for example, suggesting its strategic importance to Apple
Best Practice: 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
  - (True that this patent combines many complex technologies, hence in part the large number of references)

- Patent more likely to stand up if litigated

- More likely to survive Inter Parties Review

- In computer related inventions, maybe 500 patent references and 100+ non-patent references are good numbers to aim for or exceed
Many Useful Free Online Tools
Some examples:

- **Google patents**
  - patents.google.com

- **The USPTO patent and pending application databases**
  - patft.uspto.gov

- **The European Patent Office database**
  - worldwide.espacenet.com/?locale=EN_ep

- **WIPO Database**
  - www.wipo.int/patentscope/search/en/search.jsf

- **Sumo Patents (charges for paper copies)**
  - www.sumobrain.com/login.html

- **The Internet Archives**
  - www.archive.org/web/web.php

- **DuckDuckGo – doesn’t record your searches**
  - www.duckduckgo.com
Best Practice: Keep the File Open at the Patent Office With A Continuation

- Before an allowed patent issues, file a continuation application based on the same specification
- Allows one to tailor claims to evolving (competitor) 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 😊
Best Practice: Avoid Prior Disclosure – On-sale Bar

- Disclosing your invention without an NDA before filing a patent application: you lose your foreign patent rights immediately and your US patent rights in many scenarios.

- Offering your invention for sale or license – even under an NDA – before filing a patent application: subsequently issued patent likely invalid.

- Still evolving areas of US patent law.
Best Practice: File A Provisional Patent Application

- A provisional application (a US-only feature) in most circumstances will protect you from premature disclosure and the on-sale bar
- A provisional application is never examined and only published after a utility application that claims priority to the provisional is published by the USPTO.
- Gives the patent owner a year to file a utility application based on the provisional
  - Allows one to talk with investors who typically won’t sign an NDA/Non-use Agreement
- Crappy provisional applications that do not disclose the invention details -including any “secret sauce”- aren’t worth the effort
- May file multiple provisional applications during the 12 months as the ideas are developed
Best Practice: Consider Foreign Filings

- The US patent system may not be fixed anytime soon

- Consequently, filing abroad is becoming an important patent strategy for large companies and some smaller entities, despite costs
  - Filings in Germany, the UK, and China may be more attractive than filing only in the USA
    - A patent owner can get an injunction in Germany, the UK and maybe in China
  - Raises portfolio development costs substantially
  - China expensive because of translation costs
  - Going international clearly raises cost-benefit issues, especially for startups

- If resources are available, consider filing more broadly
  - Countries in which competitors do business
  - Countries with the largest markets for your products / services
Best Practice: Work With A Registered Patent Attorney

- Even if you draft a patent application yourself, don’t file without having a registered patent attorney read it and provide feedback.
- Better to have the patent attorney draft the final version and handle interactions with the USPTO.
Some Patent Attorneys Are Part Of The Problem, However

- 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”

- Patent attorneys are increasingly being judged internally on their efficiency in obtaining a patent
  - Analytical systems are providing comparisons of large law firm efficiency

- **Patent quality is key to higher patent value**
Best Practice Recommendations

- Try to anticipate where the market will be in 3-5 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.

- Draft claims with potential damages in mind
  - Might prefer apparatus claims to method claims

- Make sure it’s possible and likely for one party (a competitor) to infringe the claims

- Search extensively, especially for computer and communications related patent applications

- Replace any patent attorney who recommends not searching the patent and non-patent prior art

- Keep the file open with continuing applications
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Muchas gracias

Domo arigato

Dank u

Danke schoen

Thank you
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