

# Patents: What Entrepreneurs and Investors Need To Know Now

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- Always consult a registered patent attorney

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# Surprise!



**MOST PATENTS ARE  
WORTHLESS!**

# 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**

# Increasingly Difficult To Monetize U.S. Patents

- **Changes in the law resulting from court decisions and the American Invents Acts (“AIA”) (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”
    - District court and the Patent Trial and Appeal Board (where IPRs are heard)

# Patentable Subject Matter

- **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. 13-1505s)*
- **Consult a registered patent attorney regarding all patentability questions**

# Damages When Infringement Proven

- **Old “rules of thumb” for calculating damages are now usually inapplicable**
  - Entire Market Value Rule, 25% rule, Nash Bargaining
- **Much harder to get treble damages for willful infringement**
- **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 in which it’s installed.



# 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
- In effect, we're now under a compulsory licensing regime

# 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

# 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
- **IPR Pluses: some weak patents that never should have been litigated have been killed at the 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 that changed the nature of patents
- Question presented: are IPRs and the PTAB constitutional?
- Answer under Oil States:
  - Patents are not for some purposes like private property (like land)
  - Instead, patents are franchises granted by the government for limited periods
    - Can the franchise be revoked by the government after grant?
- So what: IPRs that lead to cancellation of patents because of alleged invalidity are constitutional

# Why Entrepreneurs and Investors Should Care About Oil States?

- The value of all US patents has declined since the AIA was passed.
- **Consequently, filing abroad is becoming an important patent strategy for large companies and some smaller entities**
  - Foreign filings in Germany, the UK, and China are more attractive than filing in the US
    - A patent owner can get an injunction in Germany
  - Raises portfolio development costs substantially
- **US Chamber of Commerce 2018 study:**
  - The US patent system ranks 12<sup>th</sup> in the world because of IPRs and increasing limitations on what can be patented (e.g., diagnostic methods)

# 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**
  - Draft rules have been published that would require the PTAB to use the same (narrower) claim construction standard for IPRs that is used in District Court infringement cases
  - Other positive changes are expected from the USPTO
- **H.R. 6264**
  - Congressman Thomas Massie (R-KY) introduced known as the Restoring American Leadership in Innovation Act of 2018 () which would repeal the AIA and kill the PTAB/IPRs
- **H.R. 6557**
  - Congressman Dana Rohrabacher (R-CA) has introduced, the Inventor Protection Act which is similar to H.R. 6264 but is limited to inventor-owned patents (a problem in my view)

# So What's An Entrepreneur Or Investor To Do?

# How To Build Patent Value





# The 6 Main Reasons Why Most Patents Are Worthless

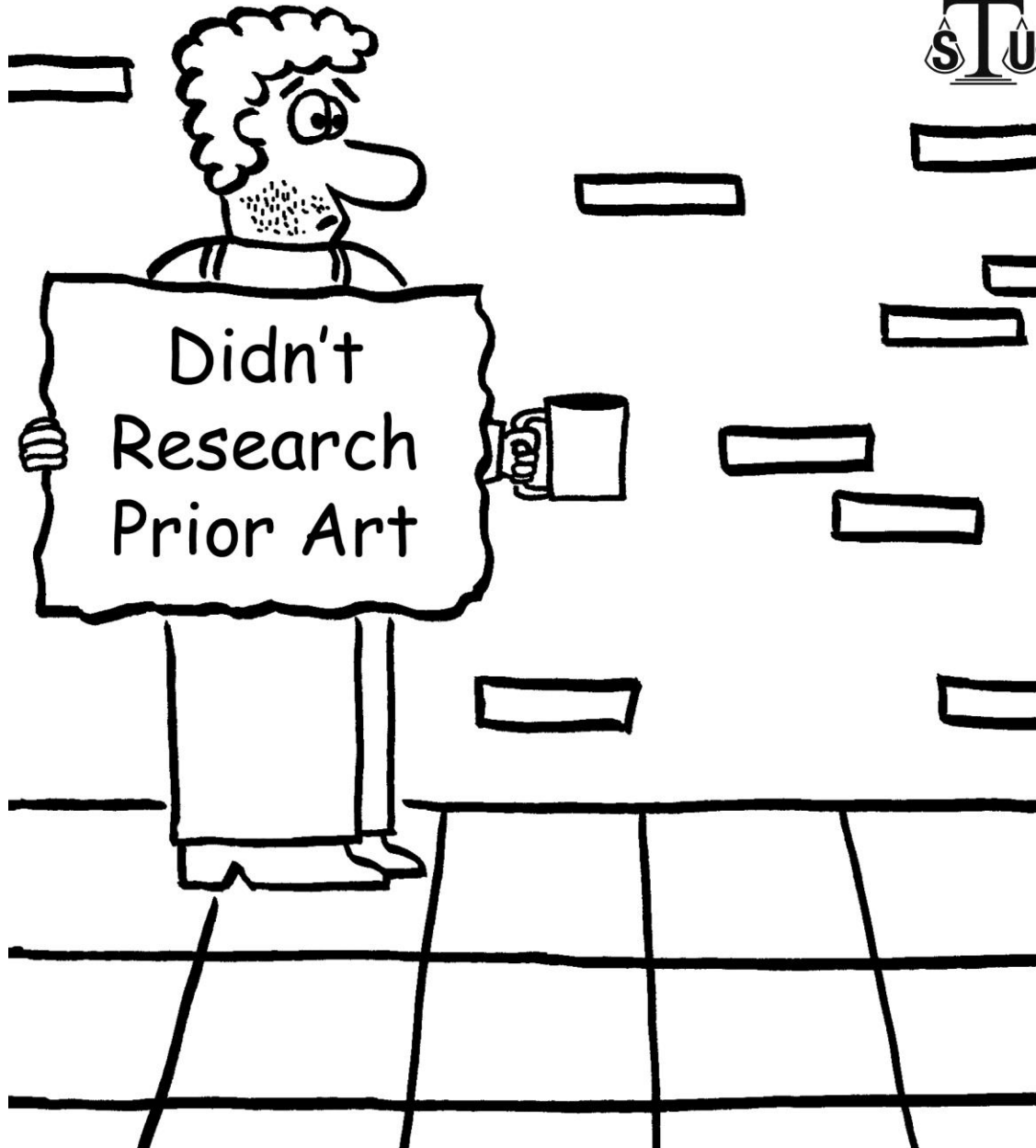
- 1) Market didn't go there
- 2) Claims badly drafted or not drafted with damages in mind
- 3) Leaving the prior art searching to the Patent Office
- 4) Failure to search the patent prior art
- 5) Failure to search the non-patent prior art
- 6) Not keeping the file open with a continuation application

# 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)**
- **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 claims”
    - A+B+C+D practice by one entity, E practiced by another
    - Usually solved by better claim drafting



# 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



# 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**  
US 2008/0307337 A1 Dec. 11, 2008

(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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(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.

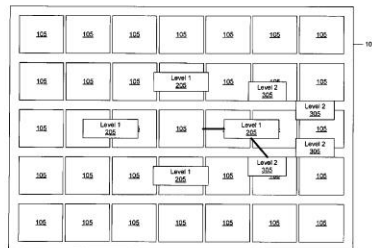
22 Claims, 4 Drawing Sheets

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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
  - (True that the 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, 300+ patent references and 100+ non-patent references are good numbers to aim for or exceed**

# 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](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>

# 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 (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 😊

# Consider Foreign Filings

- **The US patent system may not be fixed anytime soon**
- **Where possible, patent owners should strongly consider filing abroad**
  - Germany, China, the UK, are at the top of most people's list
  - China expensive because of translation costs
- **If resources are available, consider filing more broadly**
  - Countries in which competitors do business
  - Countries with the largest markets for your products / services

# Work With A Registered Patent Attorney



# 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 large 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”
- **Patent quality is key to patent value**

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

**xièxiè**

**Muchas gracias**

**Domo arigato**

**Dank u**

**Danke schoen**

**Thank you**



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