Do We See The Emergence Of "Patent Left"?

By Guillaume Ménage and Yann Dietrich

I. Introduction

Mark Chandler,[1] General Counsel of Cisco, indicated in his recent testimony to the United States Congress that *"a recent survey of leading technology companies shows that since 2004, licensing requests have increased approximately 650 percent."* He added further that *"prior to 1990 there had only been one patent damages award in history larger than $100 million: in the past seven years, there have been at least fifteen judgments and settlements in that category, and at least five that topped $500 million."*

Furthermore, with respect specifically to the ICT industry and the emergence of Non-Practicing Entities (NPEs), David Simon, Chief Patent Counsel of Intel stated in his testimony that, in his view, *"Patent law today provides an economic disincentive to innovation in the technology industries, precisely the opposite of what it is supposed to do."*[2]

Indeed, there is growing tension today between companies seeking to monetize their patents and others more concerned about their freedom to innovate, with both concerns possibly existing within companies with business groups having divergent interests.

Freedom to innovate has become increasingly important for most companies in the ICT industry, and IP lawyers have invented new ways to ensure it. In ways similar to what we have seen with software and copyright, we today see the emergence of what we will refer to in this article as "patent left" techniques.

The concept of "Copyleft," in contrast to copyright, originated with the Free and Open Source community which favors the open accessibility of all software source code using copyright laws in certain licenses to prevent any licensee from "closing" the source code. In these copyleft licenses, it is generally required of any licensee that modifies the code to offer access to the source code as modified when the code is distributed to a third party, and to grant the third party an unrestricted right to redistribute it. It is supposed to create a peaceful ecosystem with more software code created and released for the benefit of all, or at least those who are ready to abide by the Free and Open Source rules.

How does this concept relate to patents? With those companies concerned with protecting their freedom to operate/innovate, we have noticed in the last few years the emergence of techniques and strategies to protect themselves by reducing patent threats to their business using existing techniques leveraging the patent system for defensive purposes. It should be made very clear that these companies are all patent holders and believe generally in the patent system, but prefer a more balanced way that they believe can be achieved through these techniques.

In the sections that follow, we analyze several of these techniques, and the ways in which they are used today by companies to ensure their freedom to innovate.

II. Strategic Standardization

Intellectual property rights (IPR) and standardization are inevitably complementary since technologies that are subject of standardization are typically protected by intellectual property, but they are in tension at the same time. Standardization is the process of developing and agreeing upon technical standards (e.g., 802.11 implemented by IEEE and more commonly called "Wi-Fi"). Standards are usually described as offering significant benefits, such as enhancing the interoperability of products compliant with the standard (imagine our frustration if light bulbs did not fit into lamps!) or increasing the chances of market acceptance (quality, safety, consistency across international borders).

Most standardization organization bodies permit their standards to contain IPR (essential patents) whose implementation requires payment of licensing fees, on FRAND terms and conditions (Fair, Reasonable And Non-Discriminatory), with the objective to ensure access to a license to essential IPR for all implementers and a balance between the interest of patent holders and of the implementers. Thus, while patents are, at a basic level, about monopoly, namely the right to exclude others from practicing an invention, standardization through IPR policies seeks to create an IPR environment in which the standardized technologies are accessible to all on certain conditions by making certain that a license to the technologies will be available.

1. *http://www.patentfairness.org/pdf/Chandler%20Testimony%20Cisco%20043009.pdf.*

2. *http://www.patentfairness.org/pdf/Simon%20Testimony.pdf.*

However, there is often tension between IPR and standardization because one IPR policy does not fit all standards, particularly in the context of very complex and multi-patented technologies in the ICT sector,[3] and when there are many essential patent holders, complicated licensing schemes with unpredictable total costs, and non-practicing entities trying to exploit the confusion.

Strategic standardization techniques are about using standardization and its IPR policies to secure certain technical landscapes from any patent threat, with the goal of helping to create territories where patents rights are accessible through licensing arrangements or commitment to license.

It is also worth noting that companies can drive standardization in a way to secure their own business interests, to clear the IPR landscape of certain technologies the companies need to develop. Take, for example, the case where one company realizes that it has very weak position about some key technologies for its business and especially with other companies having substantial IPR. A strategy may consist of developing a standard organization to drive some work around this technology with an IPR policy designed to address your problem. Obviously, to achieve the company's goals in terms of securing IPR, it will need to ensure that its proposition is sufficiently attractive to attract companies. We have seen in recent years more and more royalty-free standards promoted by very large companies with the objective of addressing certain weaknesses using generally their eco-system of suppliers to create a critical mass of companies for such efforts.

Obviously, this will be in reality a more complex scenario; a company will generally set up a collaboration with a group of others companies to drive some standardization work, a closer group generally allowing to adopt a more sophisticated IPR policy than the traditional FRAND IPR policy. For example, Nokia pushed the creation of MIPI (the Mobile Industry Processor Interface), an industry alliance designed to create open standards for mobile device interfaces, to develop some specifications in a royalty-free environment. Another example is LiMo Foundation where a group of companies decided to adopt a strong patent non-assertion mechanism related to a software platform (at least for the part of the platform below the commodity line).

Such a technique is naturally limited by the fact that only the IPR of the members will be subject to the IPR policy of the organization no matter how liberal the organization's IPR policy may be, and generally it will be difficult to attract strong patent holders to such an organization unless it creates strong alternative business drivers for those patent holders to join.

During the last few years, we have seen also organizations emerge with the clear objective of addressing royalty stacking for certain technologies. NGMN[4] was created by network operators and implemented a mechanism under which every member must declare its expected royalty rates for various technologies in competition for the next generation of wireless technologies, with the objective of trying to limit the unpredictability of IPR costs.

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III. Defensive Patent Aggregation

Every day suits are being filed worldwide against companies with successful products alleging that those companies are infringing patents. Most of those litigations are part of what can be considered "ordinary course of business" (a patent owner protecting its innovation efforts, a competitor fighting against another one etc.), however other litigations are initiated by Intellectual Property market actors who are merely misusing the system by using the leverage of patent infringement litigation to extract licensing revenues.

Indeed, Intellectual Property professionals have seen the emergence over at least the last 5 years of a new challenge which they have to integrate as part of their daily practice and reality, i.e., patent troll activity which, in a few words, is the use of patents in a way that hinders the stated goal of the patent system, i.e., protecting inventions,[5] encouraging innovations and the advancement and deployment of technologies.

We are not aware of anyone who keeps track of

3. For example, read the interesting article from Ruddy Bekkers about the strategic patenting in the context of the UMTS: *http://home.tm.tue.nl/rbekkers/Bekkers%20West%20(2009)%20Telecommunications%20Policy%20(b).pdf.*

4. Next Generation Mobile Networks-*http://www.ngmn.org/.*

5. European Patent Convention (EPC 1973)-Preamble.

the number of articles, studies and publications relating to patent trolls and their impact on business and IP activity. We all know… that we don't actually know… how to give a single and comprehensive definition of what a patent troll is (non-practicing entities -NPE-, or companies "I don't like," or companies using weaknesses of the patent system and the power of the court system/damages, etc.); anyway, the collective feeling in the IP world is that *"They are out there somewhere"*.[6]

One fundamental thing is to understand how patent trolls/NPE work and more precisely what their sources of supply are. Our understanding is that they, as patent aggregators, purchase patents from:

- Bankrupt firms,
- Inventors themselves,
- Universities, and
- Corporate companies cleaning their portfolio.

In addition, these patent aggregators offer an alternative way for venture capitalists to value the assets of companies not successful.

Recently, a number of major companies in the Telecommunications and technology area have pooled their resources to form collective defensive initiatives in an attempt to curb costly patent lawsuits, by intervening at the source and collectively purchasing patents that may otherwise be used against them in patent infringement lawsuits if acquired by companies like NPE.

Each of these defensive patent aggregation initiatives exhibits certain unique characteristics:

RPX (Rational Patent) Corporation[7] (2008): this company, with Cisco as one of its initial members, is a pure defensive patent aggregator, buying patents to keep them away from NPEs that might use them for lawsuits or as a pressure tool in licensing discussions. RPX members still must pay something for being safe (an annual fee to be granted licenses to the patents purchased by RPX, "between $35,000 and $4.9 million"[8]), but still less than the cost of a patent litigation. In return, RPX Corporation pledges never to assert the patents purchased.

AST (Allied Security Trust)[9] (2008): Verizon Communications Inc., Google Inc., Cisco Systems Inc., Telefon AB L.M. Ericsson and Hewlett-Packard Co.[10] are among the companies that have joined this Delaware statutory trust. How does this initiative work? It is based on a strategy called "catch and release": members, in addition to the payment of their membership fee, put funds in an interest-bearing escrow account. Those funds are used for the purchase of relevant patents and members are then licensed to the patents. After a certain period of time, the patents can be sold or donated.

OIN (Open Invention Network) (2005): the goal of this organization, set up with funds from companies like IBM, Novell, Philips and Sony, is to protect Linux by granting a royalty-free license under their patents to their licensees, in exchange for the licensees' promise not to assert any of their patents against Linux.[11] This initiative is actually very innovative in the sense that a community of companies united around specific technologies is organizing its own protection mechanism. Recently, Tom Tom was sued by Microsoft for its alleged patent infringement of certain patents related to Linux, immediately, OIN stepped in to assist and help this company. This organization is also working preventively within its community to improve its protection by defining a confidential shadow roadmap with the objective to drive its acquisition of patents, so they can protect future evolution of their technologies.

On this basis, one question about which we are curious is what would have happened if a defensive patent pool/initiative had purchased the Robert Bosch GmbH[12] patents in place of IPcom (a German company which generates revenue by licensing and litigating patents and holds hundreds of patents related to mobile telecommunications) in 2006-2007? For sure it would have prevented IPcom from filing in Germany seeking an injunction against HTC for supposedly infringing patents relating to UMTS, i.e., 3G technology (and similar claims against Nokia with multiple "sister litigations" all around Europe: Italy, UK… etc.) and a Mannheim court from ruling in favour of IPcom (decision subject to an appeal made by HTC while the present article was written). In

6. Managing Intellectual Property–June 2006.

7. *http://rpxcorp.com/company.html*.

8. Larry Dignan-RPX: Can it defend against patent trolls?-*http://blogs.zdnet.com/BTL/?p=10993.*

9. AST Web site-*http://www.alliedsecuritytrust.com/.*

10. The Wall Street Journal–"Tech Giants Join Together To Head Off Patent Suits"–June 30, 2008.

11. *Managing Intellectual Property*–WEEKLY NEWS-APRIL 06, 2009-TomTom backs down from Microsoft litigation.

12. Robert Bosch GmbH had invested in the late 80s and early 90s in the development of the mobile telephone standard, but they withdrew from the telecommunications market after a few years and sold their related patents in the 2000s.

addition, it would have prevented Nokia from filing a competition-law complaint against Bosch and IPcom with the European Commission seeking a declaration that owners of essential patents shouldn't be able to escape FRAND commitments (fair, reasonable and non-discriminatory) by transferring their patents to non-members of standardization bodies. Indeed, *"Nokia believes that IPcom remains bound by Bosch's commitment to grant licenses on FRAND terms."*[13]

IV. Defensive "Patenting"

Defensive Publication

This is about a very old technique that we believe was used for the first time by IBM with their technical bulletin. By publishing an invention, you create prior art which will destroy the novelty of any patent filed (or invented, depending on the circumstances and law of a particular jurisdiction) after such publication so long as such publication happens in a form which satisfies the legal requirements for prior art under the respective legislation of the particular jurisdiction where it is relied on.

To this very basic technique, you can add more sophistication and drive and facilitate such publication in a way to protect your product/service/ecosystem. This is what is done today by Linux Defenders by facilitating such disclosure around technologies they would like to protect, e.g., engineers willing to draft such a disclosure will benefit from lawyers' assistance to draft it in an optimal way. Where it gets even more sophisticated is when you are working with futurologists and technologists to anticipate the direction of your technologies and you build a shadow roadmap of your products/services/ecosystem, especially difficult in the open source world working naturally without such tool. The Open Source world is normally working without such roadmap software being developed on a contribution-based model where the evolution of the software will depend on contributions received. Accordingly, it was important to re-create such a roadmap to anticipate future needs in terms of protection. Using such a roadmap, you will drive disclosure around these technologies and prevent patent filing from other companies. This strategy is not by itself sufficient but again, we are considering here a global strategy that will typically include a variety of different tools.

Peer To Patent Project[14]

Several large corporations such as GE, CA, HP, IBM and Intel decided to create a system to improve the examination of patents by submitting their own applications to a peer public review. The objectives of the system are to assist patent offices in their effort to identify any relevant prior art and then to improve the patent quality. Raising the bar may definitively reduce risks and exposure for all companies while still offering innovators legitimate protection.

V. U.S. Patent Re-examination

This is an administrative route for challenging the validity of a patent in the U.S. Re-examination (Re-exam) is a proceeding first created in the beginning of the 80s whereby any person (including the patent owner himself who can be the Re-exam requester in order for instance to clear original patent claims over newly discovered prior art) can file a written request asking the U.S. Patent and Trademark Office (USPTO) to reexamine any claim of any issued U.S. patent on the basis of prior art documents that the person believes raises a question of patentability of the issued patent. Depending on the documents submitted, the USPTO decides whether or not to proceed with reexamination and review in more detail the validity of the patent.

It is not our goal to provide in this article all the details of Re-exam proceedings, there are people more expert than we are on this matter and we invite you to contact them if necessary, but just in a few words it should be noted that there exist today two types of reexamination, *ex parte* Re-exam and *inter partes* Re-exam:

- an *ex parte* Re-exam is between a patent owner and the U.S. patent examiner (i.e., a third party bringing the request can initiate but not participate beyond its initial request),
- while an *inter partes* Re-exam[15] allows the third party requester to take part and rebut the patent holder's arguments.

Although the result of a U.S. Re-exam can sometimes be the same as an EPO Opposition (i.e., invalidity decision or modification of the scope of the claims), the U.S. Re-exam procedure and the Opposition procedure before the European Patent Office (EPO) are different in many ways and in particular when talking about the deadline for filing them:

- a request for a U.S. Re-exam can be filed by

13. *http://www.totaltele.com/printablearticle.aspx?ID=445825*.

14. *http://dotank.nyls.edu/communitypatent/*.

15. The inter partes Re-exam was introduced by the American Inventors Protection Act of 1999 in response to criticism about the ex parte Re-exam procedure (i.e., third party involvement in the ex parte Re-exam is minimal).

anyone at anytime during the period of enforceability of a patent;

• the notice of opposition must be filed in writing at the EPO within nine (9) months from the publication of the mention of the grant of the European patent.

The lack of time constraint in the U.S. proceeding creates a very interesting point when your need to challenge the validity of a patent, as a defensive strategy, comes many years after the patent issuance date, and this is often the case when you are accused of patent infringement in Court or in licensing discussions. Indeed Re-exam is a tool as an alternative or in concert with litigations (in 2009,[16] 66 percent of *inter partes* Re-exams and 31 percent of *ex parte* Re-exams involved patents-at-issue in a litigation):

• to seek cancellation or amendment of original patent claims to improve its non-infringement position;

• to delay litigation (e.g., to buy time until patent expires, design around the patent claims or for search for additional art,… etc).

Litigation of IP cases in the United States is conducted in either District Court or U.S. International Trade Commission litigation where the question of whether to grant a stay is likely to come up. If a stay is granted by the Court or by the ITC to await the result of the Re-exam, of course it can affect the outcome of the patent infringement case, since "by taking appeals into consideration, *ex parte* proceedings can take 4 to 6 years, and *inter partes* proceedings can take 5 to 10 years."[17]

Finally, Re-exam[18] can be a very effective and strategic tool[19] in a patent troll/NPE litigation context. Re-exam costs money: nobody wants expenses, particularly patent trolls/NPEs. A good sign according to USPTO statistics is that Re-exam requests are increasing every year, i.e.:

• 511 *ex parte* Re-exam filings in 2006, 643 in 2007, 680 in 2008, and so far 480 in 2009 (June),

• 70 *inter Parte* Re-exam filings in 2006, 126 in 2007, 168 in 2008, and so far 195 in 2009 (June).

VI. Conclusion

The essence of "Copyleft" in the Open Source context is to create an ecosystem that promotes development and sharing of IPR, where each party uses the leverage that it has from its own IP rights to extract certain rights and privileges from others that will benefit everyone who participates in the ecosystem. Some of the techniques mentioned in this article directly work in that way (e.g., OIN) while others use different strategies (such as buying up patents, publishing prior art or extensively filing patent Re-exam) to prevent third parties from obtaining IPR that can be used against an industry. However, they are all examples of a global and defensive phenomenon that the authors of this article call "Patent Left."

Patent attorneys and lawyers have been known generally to be more creative in extending patent protection and value of IPR and are often criticized for this. But the initiatives discussed above demonstrate that some of this creativity is increasingly used today to protect companies' ability to operate in more complex market and technologies landscape by developing defensive/"Patent Left" techniques. These initiatives definitively rely on the patent system but with this defensive objective in mind. Whether or not patent reform is adopted in the U.S., this definitively contributes to better balance in the patent system, and therefore promotes and helps preserve that system. ■

16. USPTO statistics-*http://uspto.gov/web/patents/cru.html.*

17. IP Law360-Portfolio Media. Inc. "Re-Exam Delays Cause Trouble For Patent Owners"–24 March 2009.

18. Some proposals have been made to the U.S. Congress regarding Re-exam, as a result the patent reform if approved in the U.S. will certainly include changes to the existing re-examination rules and potentially affect in part the explanations provided in this article.

19. According to USPTO statistics-*http://uspto.gov/web/patents/cru.html:*

- for *ex parte* Re-exam (1981–June 2009), 11% of requests result in all claims being canceled, and 64% of the time certificates issue with at least some claims being changed;

- for *inter partes* Re-exam (1999–June 2009), 60% of requests result in all claims being canceled and 35% of the time certificates issue with at least some claims being changed (5% with all claims confirmed).

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