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Time For Patent Licensors To Take The Lead In Reform

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Law360, New York (March 21, 2014, 11:56 AM ET) -- Four months ago, amidst growing calls from some in business and Congress to rein in patent trolls, Conversant Intellectual Property Management Inc. issued a set of guidelines for responsible patent-licensing practices.[1]

Among the 10 guidelines we offered were four that specifically addressed the hot-button issues of transparency, fairness, patent quality and litigation abuse. On these issues, we pledged — and encouraged others in the industry — to do the following:

- Disclose a patent's true ownership.
- Seek licenses only from appropriate companies, instead of going after, for example, a startup company, a local retailer, or a small end-user customer.
- License quality patents that diligent investigation indicates are valid, enforceable and being used or likely to be used by the potential licensee.
- Try first to negotiate a license, but if litigation becomes necessary, then initiate it only for the purpose of obtaining appropriate fair compensation for the use of patented technology — not to extort a nuisance or litigation cost-based settlement.

We issued these patent-licensing principles to publicly affirm what we believe is the obligation of patent licensors — no matter what type of business they have — to act responsibly. For patent-licensing companies in particular, our nearly two decades of licensing experience has taught us that in addition to a licensing company's track record of success, a key criterion used by product companies in selecting a patent-licensing partner is its trustworthy reputation. Acting responsibly simply is good business.

But we did not issue our patent-licensing principles only for business reasons. In today's politically charged environment, responsible licensing companies need to distinguish themselves from the "patent

troll" stigma. We have publicly acknowledged that patent troll behavior is a real problem, with countless small businesses being hit with unfair and baseless demands for settlements to avoid the threat of lawsuits and many other businesses being sued for the purpose of extracting a nuisance or litigation cost-based settlement. And as patent-licensing professionals who are concerned about the integrity of the patent system, we decided to not just publicly take a stand against negative behavior, but to offer positive guidelines for patent-licensing practices.

As Conversant board member Jon Dudas, the former U.S. undersecretary of Commerce and director of the U.S. Patent and Trademark Office from 2004 until 2009, wrote in a recent blog post, the patent-licensing business is hardly the first industry confronted with the need to distinguish the good guys from the bad guys and try to ensure standards of behavior.

"The electronics industry has a code of conduct for worker safety and environmental protection," he observed. "The insurance industry has a code of conduct to prevent fraud and consumer abuse. Even the marketing industry has a Statement of Ethics that seeks to prevent misrepresentation and unfair or deceptive practices. Where abuses exist, it's up to responsible industry leaders to condemn such behaviors and help to end them."

And yet the truth is that many companies in our business have so far remained largely silent about these problems, even while the federal government and many states move vigorously to try to rein in patent trolls.

At the federal level, most of us in the patent business are familiar with the Innovation Act passed by the House of Representatives last December and the Patent Transparency and Improvement Act introduced last fall and now pending in the Senate. These bills both attempt to address many of the same issues, which also are issues addressed in our patent-licensing principles: transparency of ownership, due diligence before assertion, licensing the appropriate party instead of picking on the small end-user, and consequences for bad behavior in licensing and litigation.

We do not necessarily agree with some of the approaches taken in these bills (and we've written to Chairman Bob Goodlatte, R-Va., with our concerns), but the goals themselves are ones that the patent-licensing community should actively support.

Congress is not the only actor on the federal stage. At a public roundtable event on Feb. 20, 2014, the White House announced three new executive actions to be implemented by the USPTO.

First, the administration asked the USPTO to undertake a new initiative to help companies and interested citizens find relevant prior art — that is, technical information showing whether an invention is truly novel or not — and make it available to patent office examiners. Many experts, including the U.S. General Accountability Office, believe this will help reduce the number of overbroad or invalid patents used by patent trolls to threaten unsuspecting small businesses, and improve the quality of issued patents overall. Again, this is another facet of the due diligence principle.

Second, the White House ordered the USPTO to expand its program to provide better technical training to patent examiners by enabling volunteer engineers and technologists from industry and academia to provide their expertise to examiners. As retired chief judge of the U.S. Court of Appeals for the Federal Circuit Paul Michel told Federal Lawyer magazine in October 2013, improved training could have a significant effect in reducing the number of vague and low-quality patents issued. Again, we see the principle of asserting only quality patents.

And third, the White House asked the USPTO to help make the patent system more accessible to independent inventors and small businesses. The patent office will now provide educational and practical resources to inventors who lack legal representation and appoint a full-time pro bono coordinator to oversee the program. The USPTO will also provide an online toolkit to help consumers and small businesses respond to patent troll demand letters. Again, this embodies the principles of licensing the appropriate company after due diligence and for the value of the asserted patent.

Time will tell how these initiatives will be implemented, but one potential benefit of these USPTO programs is that they address the abusive behavior of patent trolls (and weaknesses in patent quality) without risking the harm to the innovation system that could arise from overly aggressive changes to patent law itself. The patent-licensing business should look to examples such as these to promote responsible licensing behavior without inviting overbroad legislation.

At the state level, the attorneys general and state legislatures in close to a dozen states, have filed suits and drafted laws to curb patent troll activities based on demand letters. The first to use his state's consumer protection law to combat the abusive practices of patent was Vermont Attorney General Bill Sorrell. His May 2013 lawsuit against MPHJ Technology Investments LLC — and the Vermont Legislature's later passage of the "Bad Faith Assertions of Patent Infringement Act" — quickly became a model for action in Nebraska, Massachusetts, Minnesota, South Carolina, Missouri, Oregon and Kentucky.

The biggest development so far may have come two months ago when New York Attorney General Eric Schneiderman signed a consent decree with MPHJ requiring it to repay all the money it extracted from businesses in the state.
According to the state AGs, in its demand letters to small businesses, MPHJ had falsely claimed that it had analyzed each target company's scan-to-email system and determined it to be in violation of its patents. In fact, MPHJ had merely sent form letters to hundreds of firms of a certain size and industry classification, and never uncovered any evidence of infringement by targeted companies at all.

In contrast, responsible licensing companies seek to license only quality patents for which they can provide documented evidence of use, including claim charts, to the potential licensee for its review. These are patent-licensing principle Nos. 2 and 3 that we urge patent industry leaders to get behind.

So why does the patent industry lag behind governments in trying to stop patent troll abuses? No doubt this is partly due to the reluctance of many businesses to insert themselves into policy debates, especially controversial ones. But a larger reason for the reluctance of patent industry leaders to speak out may be a concern about giving ammunition to those who equate all nonpracticing entities with the patent trolls who corrupt the innovation-promoting benefits of the patent system. This reluctance is understandable.

Many in media and government circles simply don't realize that even though startup companies, university researchers and patent-licensing firms do not manufacture products, we produce enormous economic value. Technology licensors like Dolby Laboratories Inc. in sound systems, Qualcomm Inc. in semiconductors, and our own research and development program in semiconductor flash memory, for example, help maintain leadership in critical technology sectors by facilitating the transfer of new inventions to firms better equipped to develop these into new products and services for society.

Nor do many in media and government realize that nonpracticing patent owners and patent licensors

are as American as apple pie, having been explicitly authorized by the founding fathers as a way to kick-start the development of the new (and at that time, still feeble) American economy. According to historians Naomi Lamoreaux at Yale and the late Kenneth Sokoloff of UCLA, the founders "quite self-consciously" designed the U.S. patent system to do what no other had ever done before — namely, stimulate the inventive genius and entrepreneurial energy of the common man.

They did this by allowing even those without the wealth to commercialize their own inventions to become patentees, thereby expanding the number of inventors in our new nation far beyond those in Great Britain and other Old World nations. And they drafted the nation's first patent law specifically to enable the licensing and sale of patent rights, thereby creating the world's first patent-licensing industry and market for new technology.

While the reluctance of some in our industry to get involved in the patent troll debate is understandable, the time to take a stand is now. It is simply bad strategy for industry leaders to remain silent about the patent troll issue for fear that some will try to tar responsible licensors with the same brush.

Because if there is one thing of which we can be sure, it is that if the patent industry does not act to promote responsible licensing behavior, then government will.

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[1] Conversant Intellectual Property Management believes the following 10 principles are the basis of ethical and beneficial patent licensing:

Ownership Obligations

1) A patent's true, direct ownership should always be disclosed and never hidden behind shell or sham companies.
Licensor Obligations

2) A licensor should only seek to license or enforce a quality patent for which it has invested material resources to conduct due diligence regarding its technical merits, claim definiteness, and scope and relevance of the prior art, if any.

3) A licensor should enter into negotiations with a potential licensee only when it has such a quality patent and diligent investigation indicates it is (a) valid, (b) enforceable, and (c) being used, or likely to be used, by the potential licensee. The licensor should be willing to provide documented evidence of use, including claim charts, to the licensee for its review. And if a licensor learns during discussions with the licensee that the patent is not likely to be valid, or enforceable, or used by the licensee, then the licensor should withdraw that patent.

4) Although a licensor is by law free to license anywhere in a chain of distribution, a responsible licensor should not seek licenses from or threaten litigation against a business such as a start-up company, a local retailer, or a small end-user customer unless it competes against the licensor.

Licensee Obligations

5) A licensee's responsibility is to investigate the licensor's claims fairly and honestly, and if it determines that the licensor is likely to have valid and enforceable claims, conduct good faith discussions with a willingness to take a license on fair and reasonable terms.

6) A licensee should engage in good faith discussions with the licensor and make reasonable, good-faith efforts to timely meet with and respond to the licensor. Individuals acting on behalf of the licensee must have the authority to negotiate with, and if appropriate, reach an agreement with the licensor.

7) A licensee should be willing to take a fair and reasonable license where appropriate. This means that the licensee must fairly acknowledge that if its activities use, or are likely to use, the invention claimed in a licensor's patent, then the licensee owes the licensor reasonable compensation for the use of that patented technology. A licensee should not take a free ride off another's patented innovation.

Due Diligence Obligations

8) Due diligence by both parties includes a reasonable effort to review and fairly assess the technical merits of the licensor's patent as it relates to the licensee's products and processes, the legal issues related to claim construction and other patent matters, the businesses of both the licensor and the licensee, and the market related to their patents, products, and processes.

Litigation Obligations

9) Litigation should only be resorted to by a licensor when good-faith license negotiations prove unsuccessful or a potential licensee demonstrates an unwillingness to negotiate in good faith for a license. A licensor should initiate litigation only for the purpose of obtaining appropriate compensation for the use of its patented technology, or that of a related portfolio of patents, and never for the purpose of achieving a nuisance or litigation-cost-based settlement.

10) Both parties to litigation should act ethically and responsibly during all proceedings, and always be willing to discuss a reasonable settlement. Obstructionist, irresponsible, or unreasonable behavior by either party, both prior to and during litigation, should have consequences for the party engaging in that behavior.
