IP Leaders Forum, Taipei -
Best Practices in Building a Defensive Patent Strategy

Jason Resnick – July 2012
Fact:

Patent litigation is now a highly successful and reproducible business model,

starting to be taught in business schools
Patent 'Troll' Tactics Spread

BY ASHBY JONES

Technology companies used to condemn what critics call "patent trolls," ventures that profit from innovations they themselves often had no hand in creating. Now, some of those companies are taking pages from the trolls' playbooks.

To bring in extra cash, some big names in the tech industry are spinning off their patents into separate entities, with the aim of pressuring other companies to license the technology and suing when they can't reach deals. Others are selling their patents to so-called nonpracticing entities, a less derisive term for trolls. Broadly speaking, NPEs buy up troves of patents not to develop products ...
Patent litigation used to be a form of legal redress. Today it is a business model.
The Rise of the NPE / Patent Aggregator

**ACACIA RESEARCH GROUP LLC**

Market cap of $90 Million in 2008 to almost $2B today

**INTELLECTUAL VENTURES®**

Generated $2B + in licensing revenue since inception

**RPX RATIONAL PATENT®**

Has signed 100 + customers to it’s licensing programs, significant revenue growth year on year

**GLOBAL IP LAW GROUP**

Close to $5B in successful IP transactions in 5 years

**CPA Global Hi-Tech IP Thought Leadership Survey 2012**

48% of corporate respondents list threat of Non-Practicing Entity (NPE) litigation as a key concern and is a #1 priority for more respondents than traditional competitors
Who is Suing Whom in the Patent Courts?
Who is acquiring patents from whom?

- DARWIRE
- HTC
- ADI
- Skype
- Microsoft
- EMC
- SONY
- NORTEL
- Ericsson
- HP
- Worklight
- Facebook
- IBM
- ZETTA
- Motorola Mobility
- Google
- Verizon

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Who is acquiring patents from whom?

- NVIDIA
- ICERA
- SISVEL
- NOKIA
- MOS AID
- Freescale
- Intrinsity
- Apple
- Anobit
- CVON Innovations
- Samsung
- Seagate
- Ericsson
- RIM
- Mitsubishi Electric
2011 – A Bull Market in Tech Patents

**Patent Sales**

Motorola Mobility patent – one of 17,000 patents & patent applications sold to Google for **$12.5 billion**

Nortel Patent – one of 6000 patents & patent applications sold to Rockstar Bidco. (Apple, Microsoft, Ericsson, Sony, RIM, EMC) for **$4.5 billion**

**Patent Licensing**

According to the World Intellectual Property Report 2011- The Changing Face of Innovation royalty and licensing fee revenue rose from $2.8 billion in 1970 to $27 billion in 1990 and hit the **$180 billion mark recently**
What can you do about it?

- Patent Filing
- Product clearance / freedom-to-operate reviews
- Landscaping & Competitive Intelligence
- Portfolio management
- Current Awareness
- Licensing, assertions, Litigation
Tools / Methodologies

Filing
- What to File
- How to File
- Where to file
- Strategic use of defensive disclosures
- Who should be involved in the filing decisions

Clearance and FTO Searching
- Know what FTO you have
- Preempt in or cross licensing
- Buy vs Build?
- The myth of the full comprehensive search

Landscaping & CI
- Learn where threats may arise in the future
- Advanced analytics and scoring
- Database needs good global coverage

Portfolio management
- Categorization, scoring
- Gap analysis and filling including RPD
- Open Innovation, third party affiliations – RPX “insurance”
- Agree quality metrics that are important to the business
- Essential to consider external patents

Current Awareness
- Don’t just search and forget
- Today’s results are not tomorrows developments
- Use alerts, they’re free, the work is done
- Identify threats in a timing manner
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• Seek external help if required
Patent Filing

- Build a strong patent portfolio for:
  - Deterrence
    - Pick fence your own technology and design around yourself
  - Cross-licenses
    - When assertion threatens you, have a counter attack
      - Consider when pruning portfolio for cost savings!
  - Prior art impact: prevent issuance of patents to others
    - Oppose, request re-examine, etc.
  - Fighting back in litigation

CPA Global Hi-Tech IP Thought Leadership Survey 2012

44% of corporate respondents identified “selecting the right inventions to prosecute” as one of their top 3 IP challenges for 2012
• When not filing, either due to costs or questionable commercialization capability:
  • Defensive Disclosures
    • Put into the public domain to threaten others’ validity if encroachment occurs on technology you developed, but chose not to patent.
  • Choosing not to file an application does not mean the idea was worthless.
A Significant Investment in Time & Money – The Innovation Funnel

500 M$ of R&D

1000

Invention Disclosures

40%

40%

Which inventions look most promising /interesting?

400

Patents that the company wants (and can afford) to file

196

49%

Is the idea novel and patentable?

196

49%

Patents that the PTO allows

96

49%

Is the patent commercially useful / aligned with business strategy?

96

49%

Patents that the company wants to maintain past 10 years

4-5

5%

Is there any external interest?

5%?

Highly valuable patents (1% of US patents ever litigated)
Visualising a portfolio

Holes in geographic or technology coverage can leave you exposed

Source: IBM – Portfolio building for licensing 2012
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The return on proactive research

Novelty searches
Pre-filing search cost likely to be < 5% of total filing cost, selecting the best inventions to file can greatly increase allowance rates and hence filing efficiencies (CPA study showed an increase of 20-25%)

FTO studies
Average cost of US patent infringement case = $5M
An FTO study is likely to be < 0.1% of this cost
Proactive, early FTO studies have the potential to save $M’s in improving R&D efficiency and reducing exposure to late stage royalty payments

Validity studies
Normally commissioned in response to external threat of litigation or request for $M’s in royalties, search costs likely to be < 0.1% of exposure

Landscaping
Difficult to quantify but will be a small upfront investment if it generates actionable intelligence (potentially huge savings in R&D efficiency)
High return on investment

- Protect Innovation
- Control Costs
- Patentability Searches

Costs:
- $32M
- $3.8M
- Savings: $3.3M

1600 cases
192 Rejections = Cost Saved

Investment in patentability searching team:
$520K
Product clearance / freedom-to-operate reviews

- Ensure your products do not infringe:
  - Avoid litigation
  - Early awareness can save wasted R&D spend
  - Minimise or prevent royalty payments
- Make use of:
  - Freedom-to-operate searches
  - Patent technology/competitor alerts to keep you updated
  - Legal status alerts for monitoring applications
- Lower barriers to proactive search - It’s OK to look
- Seagate – (Federal Circuit decision) Aug 2007
  - Duty of due care abolished
  - No affirmative duty to obtain advice of counsel
  - Implemented recklessness standard
  - Much less risk of exposure to 3x damages
- Opens door for proactive research

CPA Global Hi-Tech IP Thought Leadership Survey 2012

68% of corporate respondents identified “Freedom to operate” as causing a strategic challenge

48% of those said it as their most important strategic challenge
Get to know ahead of time!

RT Watch would have spotted this!

- **2000’s**
  - Google starts applying for patents

- **2003-4**
  - First patent applications started to appear

- **2007**
  - Rumors of Google entering mobile market

- **2008**
  - Launch of Android platform - Big blow for Microsoft!

- **2011**
  - Microsoft’s share has declined to 3%, Android’s increased to 53%
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Patent Landscape Analysis

Provides answers to key questions:

Competitive Intelligence
• Who are your competitors and what technologies are they developing?
• What are the emerging technologies?
• Who are the new entrants to the market?
• Where are the key markets for your technology?

Due Diligence
• What is your patent portfolio's competitive position within the market?
• What are the major threats to your IP position?
• Have you performed IP audits of M&A target companies?
• Do you know legal status, performed in-force checks, ownership, lien/maintenance fee checks?

R&D Strategy
• How does your R&D pipeline compete in the marketplace?
• What are the whitespace opportunities to invest in?
• Are you investing your R&D budget in lucrative technology areas?
Patent landscapes for directing innovation

500-50,000 patents

Value: brainstorming, engagement, project planning

Understanding external patent landscape helps you to file higher quality (more insightful) internal patents → better protection & higher R.O.I on R&D
Tools / Methodologies

To help you answer 3 key questions:

- **What have you really got?**
  - Portfolio Review
  - Portfolio Audit
  - Competitive Benchmarking
  - Annual Portfolio Review

- **Where is the value?**
  - Portfolio Analysis
  - Patent Scoring
  - Portfolio Segmentation
  - Patent Intelligence & Analytics

- **How do you realise value?**
  - Portfolio Management
  - Reduce Cost of Ownership
  - Enhanced Portfolio Quality/Value
  - Patent Monetisation Licensing

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**Categorise, score and segment your portfolio**

- A range of statistical and expert assessment tools are available to assist in patent value decision making

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**Citation/Age Matrix**
- Quick filter of portfolio based on age-adjusted citation analysis
- Contains directional data for the client and its competitors

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**Statistical Patent Assessment***
- Based on 20 to 60 statistical patent assessment parameters depending on requirements
- Each with industry or technology sector specific coefficients
- Segmentation for ‘in-depth’ analysis

*Patent Pending

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- Detailed reading of claims by subject matter experts
- Expert comments on a patent’s technical/legal/commercial strength
- Validate categorization of patent as core/non-core.
- Validate sell, hold, abandon, protect, enhance decision making

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*Combine patent assessment output with existing strategic/business ranking to create a two-dimensional segmented portfolio to assist in decision making*
Defining Strong / Quality IP

Define what Strong / Quality IP looks like for your business

Quality = combined legal + commercial strength

Legal Strength

Strong claims
  • Supported
  • Different claim types
  • Broad & narrow claims
  • Difficult to design around
  • Covers a technology not just a product feature

Clean file history
  • Differentiation from prior art
  • No harmful statements

Full disclosure
  • Sufficient
  • Enabled

Commercial Strength

Likely to be infringed
Relevant (who cares?)
Filed early
Business aligned
Easy to detect infringement

Can be a difficult balance between legal & commercial strength

Patentability ≠ Quality
Categorisation & Portfolio Mining

Categorisation is an essential first step in portfolio management.

Know what you have.

1. Can segment in hierarchical fashion, using business, sub-business, technology & sub-technology (remembering this changes frequently)
2. In addition need to use meta data tagging to relate cross-business/cross-technology IP.
3. Full-Text search also desirable
4. Need to know if there are any restrictions on patent use / licensing
5. Ensures you understand how patent assets are business aligned and what is core / non-core technology
6. Update annually
7. Determine appropriate access rights
Filling the Gaps in Your Portfolio

- View third party patents as a help rather than a hindrance – they should not be ignored!
- Proactively scout for useful third party IP
  - Set up automated alerts
  - Actively involve R&D
- Third party patents can be used to fill gaps in your portfolio
  - Use your patents as leverage for in-licensing negotiations
- Can be used to provide critical mass to a particular internal technology portfolio for out-licensing
- Relevant patents may not be from traditional competitors
- Need to be mapped to provide understanding

- In-license, purchase or file new patent assets to address any holes or weaknesses in your portfolio
Your Portfolio

A dynamic collection of assets:

- Internally Filed
- Acquired
- Expired
- Discarded

- In-licensed
- X-licensed
- Out-licensed

Other People’s Patents
Create a detailed business focussed taxonomy and classify 3rd party patents into it. Ideally it will map very closely to your internal portfolio categorization.

Inspection of the ‘other’ category can help you locate topics you were not aware of. This may include disruptive technologies.

Holes in patent coverage can leave you exposed in growth markets.
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Early IP awareness saves money

Need to know we have a clear path for project development, last minute surprises could be costly!
Licensing & Assertion

- The best defense is a good offense
  - Be prepared to counter assert- assert patents when assertions made against you
  - Be prepared to deter blatant copying of your tech.
  - License as part of X-licences or for standards
  - Gather evidence to reduce your exposure

- Make use of:
  - Invalidity searches
  - Litigation watches
  - Portfolio mining for counter assertion
  - Evidence of use analyses

State of the IP industry Survey 2011 – CPA Global & IPReview

- 66% of corporate respondents highlighted enforcement as a priority in 2011
- However, largely due to budget and resource pressures, 39% said they would pursue only high-priority infringements
Solid defensive strategy can lead to value extraction

Value extraction

IP for competitive edge

Full lifecycle portfolio management

Organisation & alignment of portfolio

Basic reactive patenting

IP that others want / need

IP that leads/shapes markets

Strategic IP protection

Stronger protection

Weak protection