SAN FRANCISCO
Daily Journal
www.dailyjournal.com
WEDNESDAY, MARCH 20, 2013
PERSPECTIVE

More operating companies asserting patents

By Keith Slenkovich

Long gone are the days when the patent assertion world could be neatly divided between *competitor v. competitor* cases on the one hand, and *non-practicing entity* cases on the other. In years past, most operating technology companies treated their patent portfolios as purely defensive arsenals to be deployed only when competitors encroached on their product markets through technology imitation and/or to deter competitor suits with the threat of counter-assertion. Today, many operating technology companies see an additional role for their patent portfolios — securing revenues from those that practice their patents.

Thus, the pursuit of "patent monetization" strategies, i.e., strategies to generate revenue through licensing and/or litigation campaigns, is no longer reserved exclusively for non-practicing entities. This evolution has brought about new opportunities and challenges for technology companies that are building, maintaining and deploying their patent portfolios.

Traditional uses of corporate patent portfolios

Historically, technology companies viewed development of patent portfolios mainly to be a means of protecting their key product innovations. If a competitor began to use the patent owner's technology to compete in the marketplace, the patent owner could assert its relevant patents in litigation to recoup damages from lost sales and to halt further market encroachments by obtaining an injunction against the infringing competitor's products.

Over the last several decades, the role of patent portfolios in technology companies has become more complex. During the 1970s and 1980s, a handful of technology companies with significant patent portfolios saw that they could substantially supplement their sales revenues through patent assertions against competitors. This strategy was often effective, largely because the competitors they targeted did not have defensive portfolios sufficient to deter such assertions or to file counter-assertions in order to force the negotiation of cross-licenses.

In response to this phenomenon, technology companies that viewed themselves as potential targets began to dedicate significant resources to amassing their own "defensive" patent portfolios, hoping to buy themselves the "freedom to operate" in their markets. With these enhanced portfolios, they could better "defend" against patent assertions from a competitor, if necessary by retaliating with patent-based countersuits, often leading to cross-license settlements.

"Patent monetization" becomes a primary objective

In the 1980s and 1990s, technology companies began to experience a new trend in patent litigation: the assertion of patents by non-practicing inventors and patent holding companies that were seeking to "monetize" their inventions. One leader of this trend was inventor Jerome Lemelson, who is reported to have earned billions of dollars by asserting his patents against operating companies that were forced to either license his patents, or risk large damage awards and/or injunctions against their products. Others were quick to enter this potentially lucrative business, many of them purchasing patents from third parties and then mounting their own patent licensing campaigns.

> Patent monetization programs can now be found as explicit components of many operating technology companies' official business plans.

These individuals and companies do not use the patented technology in their own products (hence the name "*non-practicing entities*"). And since non-practicing entities have no products that would be exposed to countersuit, the patent portfolios that large technology companies have amassed are not effective deterrents to such non-practicing entity claims.

In recent years, a number of operating technology companies have — like non-practicing entities — begun asserting patents that they do not practice in their own products against entities that are not their competitors. By pursuing this strategy, such operating companies have hoped to minimize the risk of countersuits for patent infringement on the assumption that target companies that do not compete in the marketplace generally do not have relevant patents with which to retaliate.

Accordingly, "patent monetization," i.e., the generation of revenue through the licensing and/or litigation of patents, is no longer the exclusive province of non-practicing entities. Patent monetization programs can now be found as explicit components of many operating technology companies' official business plans. Common scenarios where the activities of operating technology companies may resemble the "non-practicing" strategies of non-pr include:

(1) a company that previously developed patents covering product areas in which it no longer operates now seeks to assert these otherwise "nonperforming" assets to recoup the cost of the discontinued R&D effort;

(2) a company that previously took ownership through corporate acquisition of patents unrelated to its core product base now seeks to assert these patents to help justify the cost of the corporate acquisition; and/or

(3) a company that implements patent monetization strategies as a financing vehicle to fund operations while it transitions into its next product cycle.

Opportunities and challenges for operating companies

The largest risk for operating companies, when considering assertion campaigns as a means to profit from their patent portfolios, is the risk of retaliation. For this reason, many companies seeking to turn their patent portfolios into profit centers have instituted strategies designed to insulate them from the risk of retaliation from their patent monetization/litigation targets.

One popular approach has been the formation of special patent enforcement entities to assert the patents being considered for monetization. A separate venture is generally formed by either (a) a single operating company that spins off its patent licensing and strategic enforcement objectives to a separate company with no products that would be subject to a patent counter-suit, or (b) two or more operating companies in the same industry — sometimes in collaboration with an existing non-practicing entity — that create a special non-practicing entity to strategically enforce patents contributed by the collection of companies. By pursuing such strategies, operating companies have hoped to minimize the risk of countersuits for patent infringement, as well as to insulate their core patents (which they do not contribute) from invalidity challenges.

But this strategy is far from foolproof. Several developments have made it less likely that a company can "mask" its indirect participation in the assertion campaign by ceding its patents to special purpose enforcement entities. The courts have generally allowed discovery into the ownership chain of patents asserted in litigation. The Federal Rules of Civil Procedure, as well as the local rules of many district courts, now require disclosure of the shareholders of the parties, including shareholders of patent assertion entities. And recent district court decisions have allowed broad discovery into the ultimate funding sources for litigation.

In an era that has featured the widespread stockpiling of patent portfolios by technology companies, there is therefore always some risk that the target company will retaliate with a patent suit against a company that contributed patents to the special purpose enforcement entity. Even if the target company does not have indigenous patents (patents developed by its own R&D staff) in appropriate product areas with which to retaliate, it may be able to acquire such patents in the patent resale marketplace.

Furthermore, judicial developments may pose further obstacles to companies that seek to monetize their portfolios by asserting their noncore patents. In *eBay v. MercExchange*, 547 U.S. 388, 396 (2006), the Supreme Court made it more difficult for most non-practicing entities to secure product injunctions. With the threat of injunction greatly diminished, the leverage non-practicing entities have been able to exert over their intended targets has likewise diminished. Whether operating companies cede their noncore patent assets to special purpose entities or assert these patents in their own names, such operating companies are unlikely to be able to seriously threaten injunctive relief when they are not practicing the patents they are asserting.

Finally, legislative efforts to address the proliferation of non-practicing entity lawsuits may impact the desirability of asserting non-practiced patents. President Barack Obama has recently commented on his belief that further patent reform is needed to address the non-practicing entity phenomenon. And several members of Congress have likewise proposed legislation seeking to address non-practicing entity litigation. For instance, legislation was introduced this February, House Resolution 845 (the Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013, or Shield Act), which proposes to make plaintiffs that buy patents that they later assert in litigation responsible for the other side's legal fees if they lose the case. Given the high cost of patent litigation, this legislation could significantly increase the financial risk for those entities to which such legislation would apply.

For many operating companies, strategies to monetize their patent portfolios make perfect sense. Before launching into such programs, though, companies should fully assess how recent and potential future developments may impact the likelihood that these strategies will succeed.

Keith Slenkovich *is a partner in WilmerHale's Palo Alto office whose practice focuses on intellectual property litigation. He has served as lead trial counsel for more than 20 cases to verdict in courtrooms across the United States. He also regularly tries patent cases before the International Trade Commission. Mr. Slenkovich may be reached at (650) 858-6110 or Keith.Slenkovich@WilmerHale.com. Claire Superfine in WilmerHale's Boston office and Christine Capuyan in WilmerHale's Palo Alto Office assisted with this article.*


KEITH SLENKOVICH
WilmerHale