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Respecting Patent Rights: Model Behavior for Patent Owners

Part I. Introduction

IPO members believe that a patent system that promotes innovation and permits innovators to reap the rewards of their efforts—including, where necessary, through enforcement and litigation—is a key enabler of technological advancement. To effectively promote this innovation, IPO believes that those who own or acquire intellectual property rights should respect the valid intellectual property rights of others and should ensure that their conduct with regard to the enforcement of intellectual property rights is grounded in transparency and fairness. To that end, this White Paper provides a response to so-called “troll behavior” with troll behavior being recharacterized herein as “patent enforcement misconduct.”¹

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The Paper attempts to address the behavior of patent owners who are “gaming the system” for their own financial benefit by taking advantage of uncertainty over the validity of certain patents and high litigation costs. Part II of this paper addresses how patent owner behavior should be viewed in the context of Patent Reform proposals that have been considered in the U.S. Congress. Part III proposes specific model behavior patent owners – whether an individual or a company -- might engage in when seeking to manage and enforce their patent portfolio to avoid allegations of enforcement misconduct within the patent community.

Part II. Enforcement Misconduct and Patent Reform

A. Patent Reform Should Start With Patent Quality

Addressing improvements to the quality of patents and the timeliness of their issuance, especially with respect to emerging new technologies, is critical. Poor patent quality creates business and legal uncertainty which leads to increased litigation and increased costs. Poor quality also impedes and distracts from further innovation and hinders the adoption of new technologies. Quality improvements to the patent system will require streamlining bureaucratic processes and ensuring more stable and predictable funding so that high-quality patents are granted in a timely fashion.

¹ IPO recognizes that patent reform legislation directed to both patent quality and enforcement is under consideration by the present Congress. Nothing in this paper is intended to suggest that the pending legislative reforms are either inappropriate or untimely. Indeed, IPO encourages Congress to continue aggressively pursuing meaningful patent reform with the objective of making legislation effective early in the 110th Congress.

Patent Reform proposals to improve patent quality should be targeted at four different parts of the patent system. First, reform at the U.S. Patent and Trademark Office (USPTO) can be accomplished by implementing procedures to ensure that high quality and timely examination and prosecution of patent applications is conducted. IPO believes that the USPTO should review the current system of examiner production goals in addition to considering other reforms proposed in its strategic plan.²

Second, as courts provide the ultimate measure of patent quality through their power to declare a patent invalid, court review of the judicial doctrines addressing the scope of patentable subject matter should be undertaken. The user community should actively participate through all available means to help educate courts in developing case law addressing patent validity and the consequences of enforcing invalid patents. In addition, ensuring that courts have the appropriate funding, staff and training resources to effectively manage patent litigation is critical.

Third, Congress should consider and enact meaningful reforms to improve patent quality and lessen legal uncertainty that might lead to abuse. IPO supports many of the current patent reform legislative proposals addressing both quality and litigation. Quality reforms³ seek to provide a check on the USPTO to ensure that issued patents have met statutory and legal requirements and will stand up in court. Litigation reforms⁴ seek to provide effective (defined as predictable, speedy and low-cost) resolution of patent disputes by the courts, which is necessary for patent owners to stop unauthorized or infringing behavior promptly and to put defendants in a better position to challenge weak or

Proposals to improve patent quality should target:

- (1) Reform at the USPTO**
- (2) Reform in the Courts**
- (3) Reform by Congress**
- (4) Patent Owner Behavior**

unsubstantiated allegations of infringement. In addition, IPO has also long supported providing adequate funding for the USPTO to enhance its operations and continues to urge Congress to make permanent its practice over the last three years of not diverting user fees to unrelated government programs.

Finally, and the subject of the present Paper, patent owners have a responsibility to refrain from patent enforcement misconduct. Engaging in activities such as appropriate due diligence, complying with policies of Standards Setting

Organizations to which the patent owner belongs and avoiding forum shopping can lessen the burden on an already overwhelmed patent system and perhaps reduce the amount of litigation that occurs in heavily patented areas of technology. Collectively, these four areas of reform can improve patent quality and the effectiveness of the patent system.

B. Limit a Patent Owner's Enforcement Options

Some patent owners may object to proposals in this paper on the grounds that adopting certain behavior limits their tactical litigation options. Some may claim that the proposed behavior unduly limits patent rights and could increase litigation costs. These concerns may be well-founded. Yet today, many are victimized by those who engage in abusive litigation tactics that may undermine a well-functioning patent system and negate the benefits the patents systems provides to effect early introduction and

² In August 2006, the USPTO released a five-year draft strategic plan seeking public comment on a variety of proposals. See: <http://www.uspto.gov/web/offices/com/strat2007/>. IPO submitted comments on Oct. 12, 2006 which are posted on the IPO website. See: www.ipo.org/positions

³ QUALITY reforms discussed in legislative proposals include, among others, establishing a Post-Grant Review Proceeding at the USPTO and increasing opportunities for the public to submit prior art before examination.

⁴ LITIGATION reforms discussed in legislative proposals include, among others, enhancing requirements for notice to determine willfulness and modifying the venue statute.

commercialization of developing technologies and disclosure of this technology to the public. Instead of labeling those who exhibit certain behavior as “patent trolls,” we are identifying specific abusive practices themselves. It does not matter whether the abuse is performed by a manufacturer or a non-manufacturer; it is specific conduct we seek to identify as abusive.

Part III. Specific Model Patent Owner Behavior Proposed

No single characteristic or behavior, in and of itself, causes patent enforcement misconduct. Rather, it is a combination of behavior and/or certain characteristics, sometimes observed cumulatively over time, which give rise to patent enforcement misconduct. This behavior is not per se illegal, but it does violate the spirit and intent of the patent contract and undermine the basic purposes of the patent system. In fact, some of the items represent behavior that may be completely legitimate and productive activities in the marketplace.

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The following proposes model practices patentees might adopt to avoid patent enforcement misconduct. These activities relate to assertion as well as to behavior in obtaining patents:

A. Pre-Assertion Conduct and Due Diligence

1. Avoid Systemic Attempts to Delay Patent Issuance. Keeping in mind the public notice function of a patent, the patent owner should avoid systematic and deliberate attempts to delay patent issuances. In addition, patent applicants should avoid the practice of expanding the scope of patent claims during an extended prosecution of a “family” of patent applications by tailoring claims to read on innovations first seen in the marketplace and introduced by others well after the original filing date when the original patent specification lacks sufficient supporting detail under Section 112 to support the subject matter later sought to be covered by the patent claims.
2. Comply with Policies of Standards Setting Organizations. Patent owners should be particularly diligent in their efforts to comply with the letter, spirit and intent of patent activity restrictions that standard-setting bodies place on their participants.
3. Conduct Due Diligence. Patent owners should conduct appropriate validity and infringement due diligence before attempting to enforce any patent(s). Patent owners have a duty to avoid reckless allegations of infringement based upon inadequate investigation and unreasonable reliance on the presumption of validity.

B. Negotiations—Initiation of Contact with Potential Licensee(s)

4. Offer Meaningful Communication and Detailed Written Notice. Patent owners should give detailed written notice of a claim of infringement to a potential infringer or prospective licensee. This notice should clearly identify the patent that is alleged to be infringed as well as the claims of that patent and the product, process, article of manufacture or use that constitutes the alleged infringing activity. If requested by the party who has been given notice, the patent owner should agree to offer a brief explanation of any disputed terms in

each claim alleged to be infringed. The patent owner should be prepared to provide claim charts when requested.⁵

5. Provide Opportunity for Response. Patent owners should provide the potential infringer/prospective licensee a reasonable opportunity to respond to the notice.
6. Refrain From *Ex Parte* Communications. After providing the initial notice described above, patent owners should direct subsequent enforcement communications to the individual(s) who has been identified as having responsibility for resolving the matter and should refrain in such cases from sending communications to senior management of the target.
7. Avoid Concealing the Real Party in Interest. Patent owners should maintain transparency with respect to their ownership interests in patents they attempt to enforce. Notice of infringement should provide the name of the real party in interest who is asserting the patent or upon whose behalf, in whole or in part, the patent is being asserted.
8. Refrain From Aggressive and Widespread Mailings. Patent owners should refrain from aggressive and widespread patent enforcement activity against numerous unrelated defendants, such as by employing mass mailings for asserting a patent, unless the patent owner has undertaken appropriate due diligence and can substantiate specific infringing activity on the part of each recipient of the notice. Enforcement activities generally should be directed against targets with a real commercial interest in the patented technology, rather than uninvestigated targets such as end-users or customers.

C. Negotiations—Specific Settlement Offers

9. Set License Payment Based on the Merits of the Patent and Provide Transparency in How Royalty is Calculated. A patent owner should ask for license payments that are reasonably related to the specific technology covered by valid patent claims rather than demanding payments based on anticipated litigation costs, expected difficulties in proving invalidity or non-infringement, or based on probabilities in an uncertain trial outcome. If a patent owner decides to offer a royalty bearing license to make, use, or sell under one or more patents, the patent owner should provide the other party a written license proposal including the manner of calculating the royalty under the patent. A patent owner should reasonably consider whether the patent is actually valid and infringed and offer licenses on the basis of fair value rather than on “nuisance value” unrelated to the merits of the invention, in an attempt to force early settlement.

This royalty offer should be in writing and should contain an explanation of how the royalty was calculated and the relationship of the patented invention to the commercial composition, formulation, article of manufacture, or method by which the claimed invention will be sold if the claimed invention claims a component of a device, composition or article of manufacture.

If the claimed invention is used in combination with one or more other patented or patentable inventions, the patent owner should explain the contribution of the claimed invention to the commercial product and the rationale for the license. A patent owner should be willing to accept an apportionment of royalties or damages when the patented invention is a minor

⁵ IPO has supported increasing the specificity of infringement notices and such language was included in legislation introduced during the 108th and 109th Congresses.

component of the product and should not threaten an injunction on the entire product in order to obtain undue leverage in negotiations.

However, nothing herein should compel a patent owner to offer or license any patent(s) at any price to another.

10. Provide Target Licensees Reasonable Time to Respond. A patent owner should provide prospective licensees a reasonable period of time to accept or reject a license proposal rather than confronting the target licensee with an offer of a progressive royalty rate based on required payment within an onerous short time period in order to apply pressure for an early settlement

D. Litigation Conduct

11. Avoid Using Litigation Counsel with a Substantial Equity Interest. Patent owners should avoid using litigation counsel who have a substantial equity interest in the stock or securities of the patent owner. Nothing herein is expected to preclude the use of “contingency fee” arrangements with lawyers or law firms, provided that such lawyers or firms perform independent, appropriate due diligence into the merits of the infringement claim.
12. Avoid Unnecessary Forum Shopping Based Solely on “Patent Friendly” Districts. A patent owner should select a District for suit that is convenient for witnesses, discovery and the efficient administration of justice, rather than seeking to gain leverage through selection of a district perceived to be plaintiff friendly or patent friendly even though inconvenient to the defendant(s). A patent owner should refrain from establishing a business in the selected District solely for venue purposes.

*If you have comments on topics discussed
in this paper, you may email the IPO Office at info@ipo.org*