

Friday, July 24, 2009

Companies share patent pools to head off costly IP litigation

Silicon Valley / San Jose Business Journal - by [William-Arthur Haynes](#)

Private holding companies are emerging on the patent landscape with the objective to stem the tide of arduous and costly litigation.

Their aim is to buy up patents and create member pools where companies get rights to the patents so they don't get sued by outsiders.

The idea was created by "patent trolls," companies that buy patents, then sue other businesses with similar items for patent infringement.

Fed up with the problem, Hewlett-Packard Co. along with Cisco Systems Inc., Google Inc., Verizon Communications Inc. and about a half-dozen other public companies banded together in June 2008 to form Allied Security Trust.

A buy-in of about \$250,000 gets members rights to Allied Trust's exclusive portfolio of patents. Meanwhile, a \$5 million investment placed in escrow is used to finance the purchase of additional patent portfolios.

"Companies are buying insurance, in effect," said Michael Pierantozzi, vice president of corporate development at San Mateo patent broker IPotential Inc. "They're trying to avoid those legal costs."

Members of these groups may share nonexclusive rights to certain patents with competitors, but they prefer that to risking claims of patent infringement, which are an increasing concern for businesses. The cost of winning a patent case in fees alone can be as high as \$15 million, attorneys said. For the losing party — add monetary damages.

Companies such as RPX Corp., Open Invention Network and Allied Security Trust are creating clubs of investors who subscribe to a portfolio of amassed patents and gain licenses to incorporate them into their own technologies.



Vicki Thompson
"Companies are buying insurance, in effect," said Michael Pierantozzi of IPotential Inc., a patent broker based in San Mateo.

These members, who include some of Silicon Valley's iconic technology giants, all go to great financial lengths to assert infringement of their technology as well as defend against claims against them.

Spurred by 'trolls'

A business practice that contributed to this trend is known as the patent troll. Most of these companies do no research and development or manufacturing of their own. Rather, they hold patents and look for companies that manufacture and sell similar items, then sue them, claiming patent infringement.

They are also called "non-practicing entities."

Yar Chaikovsky, a Palo Alto patent litigation partner at Sonnenschein Nath & Rosenthal LLP, said the proliferation of these companies trolling for big profits represents a decade-long paradigm shift.

"Litigators like myself haven't been able to come up with a solution satisfactory to technology companies from a business perspective," Chaikovsky said. "We're here getting paid to defend these lawsuits as they get sued 10, 20, 30 times a year — depending on the company. Those companies are sitting there saying, 'There's got to be a better way.'"

Big names sign on

RPX, based in San Francisco and backed by Kleiner Perkins Caufield & Byers and Charles River Ventures, announced July 16 that HP and Nokia Corp. have subscribed to its "defensive patent aggregation service" after Sony Corp. signed up in June.

"As the world's largest technology company, HP has great interest in minimizing the risks and costs associated with patent litigation," said company spokeswoman Gina Giamanco. "Joining a patent aggregation service like RPX is one way we can reduce this risk in a cost-efficient manner."

Since launching in November, RPX has attracted 14 technology firms, including Cisco, IBM Corp. and TiVo Inc. The company said it's on pace to purchase \$100 million-worth of patent rights in its first year.

"There is a pretty robust market of patents trading every year," said RPX CEO John Amster. "Monitoring the patent market and understanding what a non-practicing entity can pick up and assert against you — that's not trivial. You can leverage a lot off what we're doing."

RPX's scaled subscription rates are based on the size and operating profits of the company. Startups would pay no less than \$35,000 annually, while the rate for the largest companies is capped at \$4.9 million.

Seems like good business sense in any economy, but in a recession, when all costs are under scrutiny and exorbitant legal expenditures can be avoided, it's an especially attractive offering.

Defensive strategy

Amster contends the rise in patent litigation is based on the growing amount of money invested in opportunistic entities. The best way to avoid being accused of patent infringement is to buy up the patents before they can be used against you, he said.

IPotential's Pierantozzi said there's a marked increase in the number of so-called "defensive patent aggregators" looking to take good IP off the open market.

And Michael Molano, a Menlo Park IP litigator at Sheppard Mullin Richter & Hampton LLP, said there is indeed value and good public policy to removing patents from the market.

But he questioned the sustainability of the business model.

"They're defensive ... not offensive," Molano said. "What am I buying? You really need the threat of infringement to get people to pay."

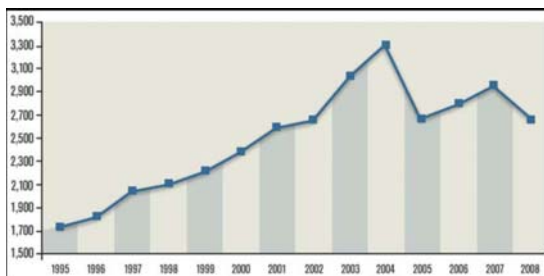
Randy Komisar, a partner at RPX financier Kleiner Perkins, acknowledged the validity of the question and said it was asked when RPX was being vetted for financial backing.

Komisar said only by being a member of such a consortium can a company be protected from potential lawsuits claiming infringement.

"The big patent players see this as a very inexpensive way to protect themselves," Komisar said.

Patent cases filed 1995-2008

Although the number of U.S. patent infringement cases has spiked and fallen in recent years, it's up significantly overall from the mid-1990s.



*William-Arthur Haynes can be reached at 408.299.1829 or
whaynes@bizjournals.com.*

All contents of this site © American City Business Journals Inc. All rights reserved.