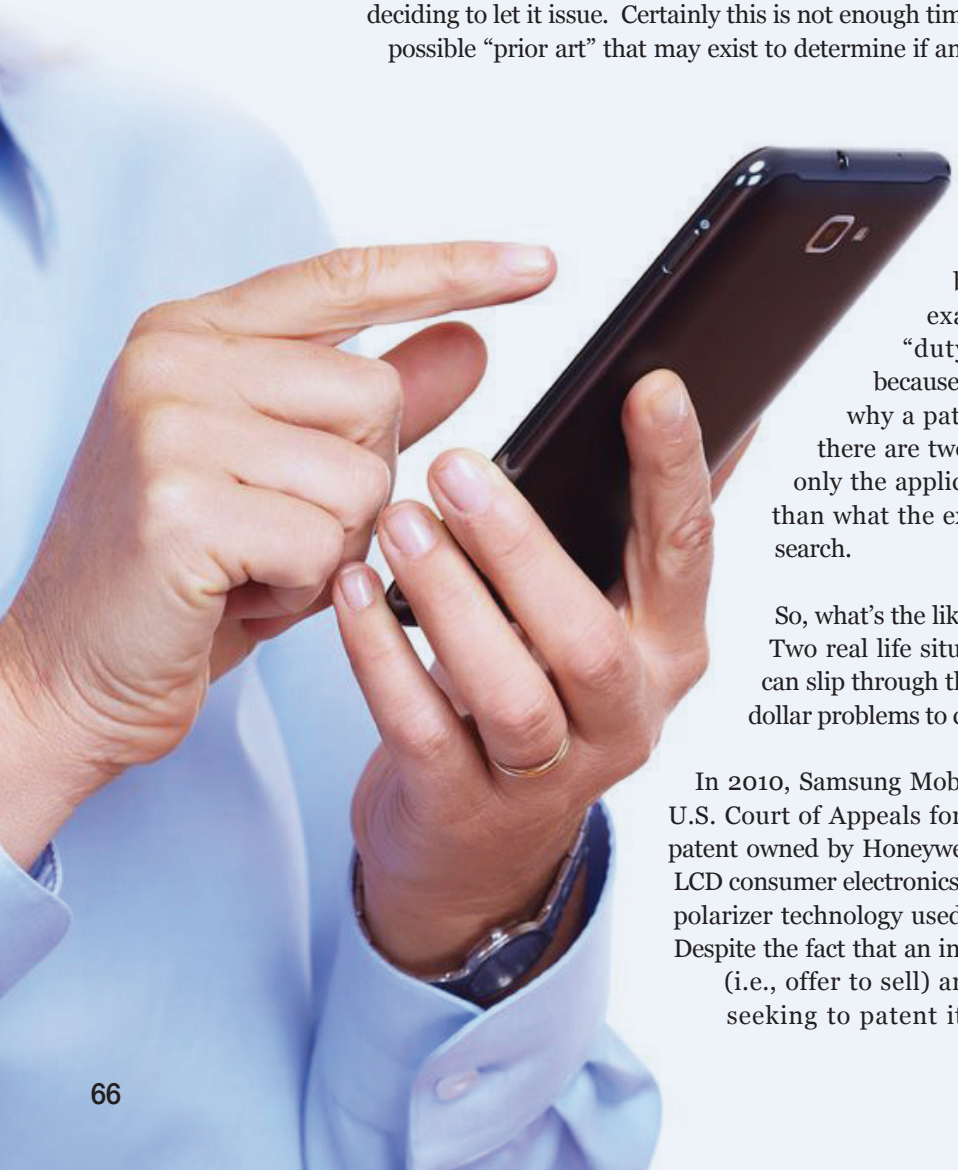
"Knock" On Patents Before Licensing Them – You May Be Surprised At What You Learn

By Stephen S. Korniczky, Nam Kim, and Matthew M. Mueller

No one will dispute that patent litigation in the United States is a serious matter. Companies regularly license patents to gain entry into lucrative markets or assert them to keep competitors out. "Patent trolls" or, to be more polite, NPEs (Non-Practicing Entities - companies that provide no products or services but acquire and assert patents) extort millions of dollars every year by waging licensing and litigation campaigns against entire industries. But, not all patents are worthy of the value often placed on them by those being threatened.

Often, the seal of the U.S. Patent and Trademark Office ("Patent Office") is enough to convince companies to license a patent for fear of being dragged into litigation, subjected to damages, or precluded from selling its product. But, what many don't realize is that a patent examiner is allotted only a few hours to review each application and may spend less than 25 hours before deciding to let it issue. Certainly this is not enough time for an examiner to locate and review all possible "prior art" that may exist to determine if an invention is new and/or patentable over earlier developments. So, it should come as no surprise that many patents are improperly allowed every year.



Patent applicants are also required to be completely honest and forthright with examiners. Examiners must rely on the "duty of candor" owed by every applicant because there is no adversary presenting the case why a patent should not issue. So, even though there are two sides to every story, the examiner has only the applicant to rely upon for information, other than what the examiner might find on his own limited search.

So, what's the likelihood that the patent system is abused? Two real life situations illustrate how easily applications can slip through the patent system to become multi-million dollar problems to companies.

In 2010, Samsung Mobile Display received a decision from the U.S. Court of Appeals for the Federal Circuit, confirming that a patent owned by Honeywell International and asserted against the LCD consumer electronics industry was invalid. The patent involves polarizer technology used in LCDs to enable a more vivid image. Despite the fact that an inventor is not permitted to commercialize (i.e., offer to sell) an invention more than one year before seeking to patent it, the patent examiner had no way to

independently determine that Honeywell had offered to sell the patented invention to Boeing long before the critical date and allowed the patent. Honeywell sued numerous companies in the LCD consumer electronics industry, collecting over $150 million in settlements. In one lawsuit, 23 out of 25 LCD manufacturers paid to license the technology before Samsung and one other defendant were able to uncover this information and invalidate the patent.

Only this summer, a judge in Illinois determined that two patents asserted by the purported inventor of the first wireless picture phone were unenforceable because the inventor had lied to the Patent Office to obtain the patents. Intellect Wireless – an NPE– sued numerous wireless phone manufacturers and service providers for infringing two patents for a phone that received pictures. Several notable companies including Apple, Research In Motion ("RIM"), Motorola, and Sprint all licensed the patents. One smartphone manufacturer, HTC, refused to settle, investigated the details underlying the inventor's purported developments and uncovered a host of false statements made to the examiner.

In various declarations, the Intellect Wireless inventor told the examiner that he had built and demonstrated a working prototype of his picture phone, and that his prototypes were on display at the Smithsonian Museum in Washington, DC. HTC proved the prototypes could not send or receive pictures, and that two of the "prototypes" were mock-ups consisting of nothing more than hollow wooden and plastic shells with a picture pasted on the front. After trial, the district court judge held the patents were unenforceable because the inventor had intentionally provided false information to deceive the

examiner. As a result, HTC avoided a long trial and avoided paying millions to license two worthless patents.

Unfortunately, inventors and patent owners are not always completely honest when obtaining patents. Defenses such as inequitable conduct and the on-sale bar are often ripe areas for further investigation because the underlying facts that support these defenses are not accessible to a patent examiner. If they exist, the necessary information is in the possession of the inventor or patent owner, and companies will have to aggressively pursue this information.

Companies accused of infringing a patent usually search prior art patent documents and other publications that pre-date the asserted patent to try to prove that an invention is not original, or that it was obvious when the patent was filed. But businesses accused of infringement should go beyond a conventional "prior art" invalidity search, and investigate how, when and why a "patented" invention was developed before agreeing to license it. Taking a close look might just reveal the patent should never have issued and save you from paying millions of dollars for a license to an invalid or unenforceable patent.

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