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IN-DEPTH PATENT MONETIZATION COVERAGE

U.S. Supreme Court is unlikely to find IPR process unconstitutional, patent market observers say

The U.S. Supreme Court is likely to uphold the constitutionality of the inter partes review (IPR) process in *Oil States v. Greene's Energy Group* despite what could be described as magical thinking by patent owners, patent market observers say.

The high court took up only one of three questions presented by *Oil States* in the petition for writ of certiorari, which was whether inter partes review – an adversarial process used by the U.S. Patent and Trademark Office (USPTO) to analyze the validity of existing patents – violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury.

The high court rejected two other questions: whether the amendment process implemented by the USPTO in inter partes review conflicts with high court's decision in *Cuozzo Speed Technologies LLC v. Lee*, and congressional direction; and whether the "broadest reasonable interpretation" of patent claims – upheld in *Cuozzo* for use in inter partes review – requires the application of traditional claim construction principles, including disclaimer by disparagement of prior art and reading claims in light of the patent's specification.

It would be "a very a big surprise for the high court to declare IPRs unconstitutional," said **Mark Lemley, the William H. Neukom professor, Stanford Law School**, director, Stanford Program in Law, Science, and Technology.

For the high court "to conclude that administrative agencies couldn't revoke the rights they granted would be a huge departure from administrative law. It wouldn't just impact patent law. The FCC wouldn't be able to revoke spectrum licenses, for instance. The PTO couldn't cancel trademarks when they became generic. I would be very surprised if the court held that. But then, I can't really understand why they took the case if they weren't at least thinking about doing so."

Lemley said another possible outcome that would point in the other direction is the high court could rule that there is no Seventh Amendment right to have a jury try patent validity.

"This case is definitely a big deal because of its potential consequences," said Greg Reilly, an assistant professor of law at **IIT Chicago Kent College of Law** in Chicago, in an email. "IPR has proven very popular and the case could eliminate it. However, I am skeptical that the court will actually find IPR unconstitutional, since such a holding would be inconsistent with existing Article III precedent, the court's actions in other cases arising from IPR, and the general pro-accused infringer tilt in the court's decisions over the past decade."

“Even if the court were to rule IPR unconstitutional, the impact on patent value is speculative. IPR certainly has been a popular and effective tool for invalidating patents. But many, if not most, of these patents were likely of marginal quality and susceptible to invalidation in district court litigation, making their value questionable. Patent value is a complex proposition that depends on a variety of factors, and it is not clear how significant an effect elimination of IPR would have.

For his part, Reilly added that the obvious change from the high court's prior opportunities to review the constitutional challenges to IPR is the addition of Justice Neil Gorsuch to the high court. “Cert requires four votes, and there is speculation that perhaps Justice Gorsuch provided the previously missing fourth vote, especially since he is known to be somewhat skeptical of administrative agencies.”

But Reilly said the alternative possibility is that the high court saw that this issue was going to keep arising -- Oil States was at least the fourth cert petition raising the unconstitutionality of IPR and there are other challenges underway at the Federal Circuit.

“Perhaps, without becoming more receptive to the arguments, the court decided that this was an important, recurring issue that needs to be definitively resolved to remove the cloud over IPR.”

Unified Patent Group, a San Francisco-based company that challenges the validity of patents owned by NPEs through the IPR process, said in a recent blog post, that IPRs and post-grant review help improve patent quality and provide an important check against the assertion of patents erroneously issued by the USPTO.

Unified said it was “encouraged that the Supreme Court granted certiorari to help clarify that the longstanding practice of post-grant review, such as ex parte reexaminations — themselves dating from 1981 —, is a valid exercise of administrative authority. Settling the issue should stem unnecessary appeals and certiorari petitions and settle once and for all the immense practical value of the USPTO’s procedures to America’s business community.”

Former Court of Appeals for the Federal Circuit Chief Judge Paul Michel said in an email that the high court probably “took the case because the challenges kept coming and would continue to [come] and because the post-issuance reviews are now so important in the enforcement litigation by patent owners, with 80% of inter partes reviews involving pending infringement suits in district court.”

Judge Michel said the high court has been very hard to predict in patent cases. “If I had to predict, I would say they are more likely to hold the AIA reviews constitutionally permissible.”

Judge Michel added that there is a growing consensus that the patent system needs to be revitalized, though he expects that to happen in the USPTO and Congress, especially on eligibility, rather than in the high court.

Judge Michel said the new USPTO director, whoever he or she is, will be the single most important leader in the patent world for the next several years.

“So the selection will set the direction of reviving patent strength, or not. The director can greatly rebalance the IPR process by regulation under existing legislated authority, if he or she cares to. I predict it will likely happen.

“If Congress fixes the eligibility mess created by the Mayo/Alice regime engineered by the Supreme Court and the USPTO fixes the IPRs, then patents will become more valuable, more easily licensed and traded, more readily enforced.”

Judge Michel asserted that because the American patent system has fallen in global stature “and eligibility and injunctions are more available in Europe and China than here, Congress will eventually have to intervene because research money and talent will increasingly migrate overseas.”

He said patent values would increase still further if the lower courts started granting injunctions in more cases, regardless of the business model of the owner. That is the third major deficiency in the present system.”

If the high court found the IPR process unconstitutional, it could re-open the floodgates to a lot of litigation by non-practicing entities and worse yet nuisance litigation by patent trolls.

Given the high court’s oft stated views in various opinions highlighting the cottage industry of patent trolls who wield patents as a weapon to force undue settlements from companies, that’s something the justices would seem loathe to do.

“The court has shown concern about the volume of patent litigation and the practices of patent assertion entities, and many of its decisions, including the recent TC Heartland case, have been detrimental to patent assertion entities,” said the IIT Kent School of Law’s Reilly.

“Reversal here would definitely go against that trend. However, it would not be the only such case. For example, the court’s Halo Electronics v. Pulse Electronics decision made it easier to allege and prove willful infringement, which is a tool patent assertion entities use to raise the stakes of litigation and encourage settlement.”

“There are lots of opinions flying around about this case,” said Mark Gober, a senior director at **Sherpa Technology Group** in the technology and IP advisory firm’s Silicon Valley office. “But they’re all speculative – no one knows what will happen.

“At the very least, the fact that the Supreme Court is looking at this case gives hope to patent holders – it leaves open the possibility that the pendulum could swing, rather substantially, overnight. Patent holders haven’t seen a possibility this big for a long time.”

For his part, Gober said defensive aggregators like RPX should be rooting for the Supreme Court to get rid of IPRs.

“If patents are harder to shoot down, then they’re more of a threat to large companies, meaning there’s more of an incentive for large companies to pay membership fees to a defensive aggregator. The net result would be increased liquidity for patent holders.”

Officials from San Francisco-based **RPX Corp. (RPXC)** declined to comment.

To be sure, the IPR process was created by Congress with the America Invents Act of 2011 to oversee challenges to patents that never should have been awarded to begin with and since then patent enforcement actions have fallen precipitously.

Many of the NPEs who once led the charge have seen their patents invalidated even as the cost of defending against those IPRs has emptied their coffers, forced them to raise money and dilute their shareholders, decimated their stock prices and forced consolidation.

Even the most cash rich NPEs such as **Acacia Research Corp. (ACTG)** and the former WiLAN, now renamed **Quarterhill Inc. (QRTH)**, have de-emphasized patent enforcement and started investing their capital in other businesses.

Newport Beach, California-based Acacia invested \$50 million in an artificial intelligence company called **Veritone Inc.**, which just went public in an initial public offering.

Similarly, Ottawa, Ontario-based WiLAN renamed itself Quarterhill and set off on a new strategy as a diversified holding company with a focus on the industrial Internet of Things (IoT). The company also acquired International Road Dynamics Inc. for \$47.4 million and VIZIYA Corp. for \$29.5 million.

Acacia and WiLAN are among companies that also have had some success in winning awards or settlements. Acacia won a \$21.5 million award last year against **Apple Inc.** and Quarterhill recently won settlements from **Amazon** and **Ericsson**.

Marathon Patent Group (MARA) has been struggling to win awards and licensing deals and also to get out from under \$15 million in debt owed to a unit of **Fortress Investment Group**.

“IPR is for the purpose of questioning whether property rights were in fact granted in an appropriate fashion by USPTO,” said **David Pratt**, a managing partner at **M-CAM International**, the Charlottesville, Virginia-based intellectual property investment advisory firm.

“Given the long-embedded flaws in the examination system, it is vital that IPR and other processes (PTAB) used to identify and invalidate bogus patents be employed more aggressively. Novel, non-obvious and useful patents can potentially have value. The rest do not.”

Pratt’s point is worth considering given the experience of NPEs such as **Finjan Holdings Inc. (FNJN)** whose patents have withstood a fusillade of IPR challenges, thereby strengthening its case in infringement actions.

Finjan, run by CEO Hartstein, has won substantial awards in patent enforcement actions against **Sophos Inc.** and **Blue Coat Systems**. Indeed, Finjan posted its first ever profit as a public company of \$350,000 in 2016 and then its first quarterly profit of \$15.9 million in the first quarter of 2017, thanks to licensing agreements with **Avast Software**, **Veracode** and the settlement with Sophos.

The company also is in the process of fighting to sustain a \$39.5 million infringement award won against Blue Coat. It also has filed a two other infringement actions against Blue Coat in the federal court in San Francisco and in Germany.

Officials from Acacia, Quarterhill, Finjan, Marathon declined to comment.

Matt Vella, the former CEO of Acacia, said in an email that he agrees that the high court is unlikely to find the IPR process unconstitutional.

The high court “will find that there is more of a public aspect to patent rights than there is to property rights in tangible assets, which is why, for example, rights in patents have always been more scrutinized under antitrust law than rights in real estate to take an example,” Vella said.

“Another way of looking at it, is that if the government has the right to deny an inventor a patent without an Article III court -- which clearly is the case — juries are not about to take over the role of patent examiners, then why doesn't it have the right to in effect, overrule its previous decision, as long as the process it uses is fair.”

The fairness of that process is still however in doubt and Vella and many others would prefer to see the high court take up the issue of a patentee's due process rights.

“I can see something being done, out of concern for a patentee's due process rights, with the broadest reasonable interpretation standard, especially because it is harder to modify claims during an IPR than it is during the prosecution of a patent application. But that is about as far as I would expect changes to go.”

Patel's departure from Technicolor seen as sign of chafing with CEO, may be harbinger of licensing business sale

Arvin Patel's decision to leave **Technicolor SA** after less than two years as chief intellectual property officer may be a sign of chafing with CEO **Frederic Rose**, and also may suggest that to get the most out of the licensing business Rose should consider selling it, a person familiar with the matter says.

Patel, who joined Paris-based Technicolor in September 2015, is joining **TiVo Corp.**, which is a reunion of sorts for him because he previously worked for Rovi Corp. from August 2011 to Aug 2015. Rovi acquired TiVo for \$1.1 billion in April 2016 and adopted the TiVo name because of its greater cache and its preeminence in the digital video recorder (DVR) market.

"My departure from Technicolor has nothing whatsoever to do with my relationship with Frederic Rose," Patel said in an email. "We have always had a positive working relationship. The only reason I'm leaving Technicolor is to pursue a great opportunity at TiVo."

Rose's management style has led to the early departure of other key licensing executives before, the person said.

Boris Teksler, who had been president of Technicolor's technology group, which included responsibility for intellectual property licensing, left after working for Rose for two years from June 2013 to June 2015 to be CEO of the former Unwired Planet Inc. He later sold the former **Unwired Planet's** patent portfolio to Les Ware's **PanOptis Patent Management** for \$40 million. Teksler, who now is CEO of **Conversant IP Management** declined to comment for this story.

Rose, who couldn't be reached for comment, has a reputation for being political and for turning on people who work for him, the person said.

Officials from Technicolor said **Deirdre Leane**, vice president of licensing, had been named to replace Patel. Asked to comment on Rose's relationship with Patel and his predecessor, they said Technicolor doesn't comment on market rumor and speculation.

The person said Patel was well liked and respected at Technicolor, where he recruited Leane from **IP Navigation Group** and **Kim Pugliese** from **Xerox Corp.**

Neither Leane nor Pugliese could be reached for comment.

"The big story here is that TiVo poached Arvin [Patel] to run their new IP growth initiative and that they are looking to take their IP licensing business to a new level," said **Ralph Eckardt**, a managing partner of **Sherpa Technology Group**.

Eckardt said TiVo ran a comprehensive search and considered many of the leading IP licensing people worldwide before recruiting Patel to return.

That's because Patel turned around Technicolor's technology licensing business and turned it into a bright spot despite the dramatic decline in revenue from the MPEG LA MP4 patent pool, which has expired, he said.

Technicolor appears to be reducing its investments in the licensing business as evidenced by its reduction in patents from 40,000 to 30,000 and cost cutting initiatives to resize its licensing business now that the MPEG LA revenue has gone away.

Technicolor's licensing revenue fell 42% to \$285 million euros in 2016, versus 490 million euros in 2015. The earlier year featured revenue from the MPEG LA division, which is no longer producing revenue. Excluding MPEG, Technicolor's licensing revenue rose 25% to 252 million euros from 202 million euros.

The company's adjusted earnings before income tax depreciation and amortization fell to 192 million euros from 396 million revenues, driven by the absence of revenue from MPEG LA. Excluding MPEG LA, adjusted EBITDA rose 47% to 159 million euros from 108 million euros.

Eckardt said Patel helped produce a record number of new deals and new deal revenue in 2016. He also led the exit from the HEVC Advance pool and closed the first major worldwide HEVC portfolio license with a leading device manufacturers.

In addition, Eckardt said Patel initiated significant patent litigation against **Samsung** partnering with top tier law firms **Bird & Bird** and **Irell & Manella**.

During a conference call on earnings in February, Rose praised "the fantastic performance of the licensing team in 2016 in terms of signing new deals and new contracts."

To be sure, Rose noted that the performance of the licensing team was not enough to make up for the loss of the MPEG LA business. He said however that the team's performance left him

with “confidence for the robustness of our portfolio and the strength and quality of our teams in order to be able to negotiate new deals.”

“We believe that our focus on specific licensing programs, our decision to focus on set-top boxes, on televisions, on HEVC, and on mobile is important because we are avoiding being dispersed across many segments.”

Meanwhile, Patel is scheduled to join TiVo in the third quarter.

He is replacing **Samir Armaly**, who is being moved to a newly created role reporting to CEO Tom Carson, where he will continue to be responsible for seeing the last remaining Tier 1 renewal through to completion.

In addition, Armaly also will continue to advise Patel, Carson and the board on relevant IP matters.

Reporting directly to Carson, Patel will be responsible for TiVo's patents and licensing business, including driving growth and integration of TiVo's intellectual property assets in strategic focus areas, such as over-the-top (OTT), mobile and global expansion.

Over a nearly 20 year career, Patel also has worked at IBM Corp. as global leader, intellectual property strategy from January 2005 to April 2011.

At TiVo, Patel will have responsibility for a licensing business that generated \$347 million in revenue in 2016. Moreover, licensing revenue represents a bigger percentage of revenue 53% at TiVo than it did at Technicolor at 6%.

Even so, TiVo has a much smaller patent portfolio than Technicolor, 6,000 patent assets versus 30,000.

TiVo's major licensees include major pay TV operator and video distribution companies such as **Altice (including Cablevision), AT&T, Canal+, Charter, Cox, DISH, Foxtel, Hulu, Netflix, Inc., Sky Italia, Sky plc, VUDU Inc.** and others.

The company also has license agreements with third party Interactive Program Guide (IPG) providers such as **ARRIS** and others.

Eckardt said that while Patel is moving from one leading licensing company to another, “the move is a step up from chief intellectual property officer at Technicolor to executive vice president and CIPO at TiVo.”

“Licensing is much more important to TiVo than it is to Technicolor (50% vs 6% of companywide revenue in 2016) and it's a reasonable assumption that TiVo's licensing business contributes well over half of the company's profits (assuming normal licensing margins) as compared to about 1/3rd of EBITDA from Technicolor's licensing business.”

As such, Patel is returning to work for a company and with a team at that he already knows and likes.

TiVo/Rovi “has demonstrated a desire to aggressively grow its licensing business through its \$1.1 billion acquisition of TiVo and deals like the one it did with Intellectual Ventures to grow its licensable asset base.”

Eckardt noted that TiVo’s press release about Patel’s hiring uses the word “growth” more than a half-dozen times. “Arvin is going there with a mandate to ‘take the licensing business to the next level.’ I would imagine that Arvin is excited about the opportunity to return to TiVo and looking forward to the opportunity to take their licensing business to the next level.”

Quarterhill’s WiLAN reaches licensing deals with Amazon and Ericsson ahead of trials

Quarterhill Inc. (QTRH), the diversified holding company and patent licensing company run by Executive Chairman Jim Skippen, said it reached licensing agreements with **Amazon** and **Ericsson** this week.

Ottawa, Ontario-based Quarterhill said on Tuesday June 13 its wholly-owned subsidiary Wi-LAN Inc. has entered into a patent license agreement with **Amazon.com Inc.** The company says the license resolves litigation pending in Germany. The consideration paid to WiLAN and all other terms of the license agreement are confidential.

The agreement was announced a day after WiLAN said it entered into a wireless patent license agreement with Ericsson.

The license agreement resolves the LTE wireless litigations pending between WiLAN and Ericsson in the Southern District of Florida and the Eastern District of Texas. The consideration and all other terms of the license agreement are confidential.

The company declined to comment on the terms of either licensing agreement.

The two settlements come a month after the former WiLAN reported lower than expected revenue in the first quarter of 2017 and a wider net loss.

Interim CEO **Shaun McEwan** said in a statement with the earnings on May 4 that “while the unpredictability of the timing of license signings led to softer results in Q1, the same unpredictability can lead to positive revenue surprises as well.”

Indeed, he previously noted that three of the previous six quarters have been stronger than analysts’ forecasts due to unexpected signings.

He has said Quarterhill continues to have a high volume of license activity going on with 60 partner portfolios and more than 60 ongoing litigations.

He has said the company “will continue to be patient in our negotiations and will only settle when we believe we are being offered fair value for our patents.”

Network-1 will repurchase an additional \$5M of stock under share repurchase program

Network-1 Technologies Inc. (NTIP), the patent licensing company run by CEO **Corey Horowitz**, said its board has extended and increased its previous share repurchase program to repurchase up to \$5 million of shares of its common stock over the next two years.

That would increase the total authorization since inception of the program to about \$17 million. The increase in the share repurchase program comes after New York-based Network-1 posted a record profit in 2016 of \$23.2 million, or 93 cents a share, driven by \$30.36 million in licensing settlements and a \$17.5 million professional liability claim payment. The company's revenue rose to \$65.09 million from \$16.6 million. During the year, the company reached a \$25 million settlement with **Apple Inc.**, a \$6 million settlement from **Dell Inc.**, a \$5 million settlement with **Polycom Inc.**, a \$4.2 million license to **Alcatel-Lucent**, and an undisclosed settlement with **Sony Corp.**

Most recently, the company's Mirror Worlds Technologies subsidiary filed a patent enforcement action against **Facebook** in U.S. District Court in the Southern District of New York. The action alleged Facebook infringes U.S. Patent Nos.: 6,006,227 and 7,865,538.

New York-based Network-1 said to date it has repurchased an aggregate of 7,104,711 shares of its common stock under the share repurchase program since inception of the program in August 2011 at an average price of \$1.72 per share or an aggregate cost of approximately \$12.2 million.

The company said the common stock may be repurchased from time to time in open market transactions or privately negotiated transactions in the company's discretion. The timing and amount of shares repurchased will be determined by the company's management based on its evaluation of market conditions and other factors. The company said it may increase, suspend or discontinue the program at any time.

"We are pleased to announce another increase to our share repurchase program to benefit shareholders at a time when we believe our stock is undervalued," Horowitz said in a statement. "This, our fifth increase of our share repurchase program, reflects our confidence in the long-term potential for Network-1 and our commitment to increasing shareholder value," he added.

Court upholds ex-USPTO deputy director Slifer's \$400K award against Cantor unit, declines to award him patents

A U.S. District Court judge rejected former U.S. Patent and Trademark Office Deputy Director **Russell Slifer's** motion to reclaim patents he sold to a unit of **Cantor Fitzgerald** in a dispute over CG Technology's failure to make about \$250,000 in payments.

Judge Andrew Carter Jr. said in a ruling June 13 however that he was upholding the jury verdict against CG Technology in the amount of \$400,000 which included \$250,000 for breach of contract. The jury also awarded an additional \$150,000 in damages for either breach of contract or breach of implied covenant of good faith and fair dealing.

The judge said he offered CG Technology the opportunity to amend the verdict sheet to clarify what the \$150,000 in damages was for and that CG Technology opposed such an amendment. "Under the invited error doctrine, the party that invited or provoked the district court to commit a particular error may not complain of the error after the fact."

The judge also granted Slifer's motion for pre-judgment interest of about \$135,000. In addition, Judge Carter also denied Slifer's motion for rescission of the agreement with CG Technology, which would have meant he received the damages awards and the patents back.

"Granting the plaintiffs specific performance would result in an improper double recovery," he said.

The ruling means that CG Technology retains the rights to the patents and continues to control enforcement actions it filed against several gaming companies in U.S. District Court in Las Vegas.

Slifer said the judge was wrong in his decision on rescission and that he's trying to decide whether to appeal. He said he's open to an amicable settlement with Cantor. Officials from Cantor couldn't be reached for comment.

Editor and Publisher Dan Lonkevich is available for public commentary and speaking engagements. Connect with him on LinkedIn.

Tips, suggestions and criticisms should be sent to Dan Lonkevich at dan@thepatentinvestor.com. Thank you.

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