Hacking the Patent System

A Guide to Alternative Patent Licensing for Innovators

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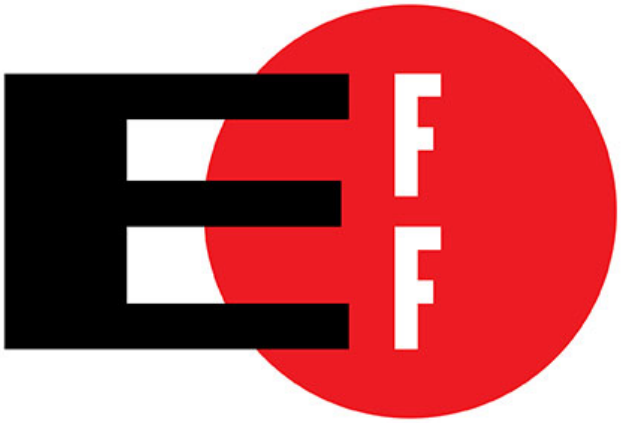

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Introduction to Alternative Patent Licensing

The patent system is intended to incentivize innovation, but the current system often does the opposite. The traditional model of patent licensing—whereby a company pays a patent owner to license an invention that the company legitimately uses—has been hijacked by non-practicing entities ("patent trolls") and other aggressive patent holders who assert overbroad patents that never should have been granted in the first place. Within this broken patent regime, companies are increasingly hacking the system—that is, finding alternatives to the traditional patent licensing model in order to both promote open innovation and protect the companies themselves. These patent system hacks can be organized into two broad categories: (1) defensive patent aggregators, which pool member companies' resources to defensively purchase patents for the group and to fight patent trolls, and (2) patent pledges, whereby companies opt to openly and defensively license their patents to others. This paper provides a guide to these alternative patent licensing options for small companies and startups that care about protecting themselves and not making a broken patent system any worse.

The Patent System Is Broken

The core purpose of the patent system is to incentivize innovation. Patents give inventors monopolies over their inventions for a period of time in order to allow inventors to recoup the costs of R&D and to generate profits that reward inventors' efforts—thereby encouraging future investments. In exchange, patentees dedicate their inventions to the public domain once their patents expire.

Yet, in many high-technology industries today, the patent system is a scourge on innovation. Patent trolls buy overbroad patents, often from bankrupt companies, for the sole purpose of extorting licensing revenues from companies that are actually innovating and creating new products. Overworked patent examiners increasingly grant overbroad, obvious, and non-novel patents—particularly on software. Some companies aggressively assert their patent portfolios to keep legitimate competitors out of the market entirely. Small companies are particularly vulnerable, since the cost of fighting a lawsuit (even a flagrantly frivolous one) could easily put a startup out of business. Faced with the constant threat of crippling litigation, small companies often perceive their best—or only—option to be laying low and hoping to stay off patent holders' radar.

Innovators Are Hacking the System to Use Patents for Good

Fed up with the patent mess left by Congress and the courts, companies are collaborating to formulate private solutions. These patent licensing alternatives broadly fit into two categories: defensive patent aggregators and patent pledges.

Defensive patent aggregators use membership fees to purchase patents and give perpetual licenses to members so that future owners of the patents (should the organization subsequently sell the patents) cannot sue members for infringement. Defensive patent aggregators are different from trolls because they buy patents solely for defensive purposes and promise never to assert

the patents they own. These defensive patent aggregators include Allied Security Trust, which uses a bidding system to distribute the cost of purchasing each patent among the members who are most interested in each patent; RPX, which buys patents and patent rights on behalf of all of its members; and Unified Patents, which focuses its patent purchases on specific technology areas.

Patent pledges are public commitments that companies make to license their patents in a manner that supports open innovation. By committing to the Defensive Patent License, for example, companies opt into a network in which each company has promised not to sue any other company in the network for patent infringement, except defensively. The Open Invention Network owns hundreds of patents that it licenses for free to any company that promises never to assert its own patents against Linux technology. Companies can also make pledges unilaterally. For example, in its Innovator's Patent Agreement, Twitter makes a commitment to its employee inventors that it will not make offensive use of any patent without the inventor's permission. Finally, through Google's License on Transfer Agreement, participants agree to license their patents to all other participating companies, but each license only becomes effective if the patent is transferred to a third party.

Each option described in this paper has tradeoffs both for individual companies and innovation as a whole. Patent pledges, for example, make a powerful public statement about a company's values, and can attract talent and publicity. On the other hand, pledging to openly license a patent might lower the patent's market value and, consequently, the company's value for potential buyers and investors. Defensive patent aggregators require annual membership fees that may be prohibitively expensive for some companies, but the licenses and patent intelligence services that come with membership may be well worth the cost for others. This paper explores these options and analyzes some of the drawbacks and benefits of each for small companies and startups, with the understanding that every company must consider its own unique situation in deciding whether to participate in any (or all) of these alternatives to traditional patent licensing.

Opting Out of the Patent System May Not Solve the Problem

Many of the patent licensing alternatives described in this paper—particularly patent pledges—assume that participants have obtained patents of their own. However, many innovators who have understandably lost faith in the patent system have opted out by declining to seek patents on their own inventions.

There are many reasons that companies may opt out of the patent system. Obtaining a single patent can cost $20,000 in legal fees, if not more, and the process can take years. Some conscientious employees may be reticent to patent their inventions and assign them to the company out of fear that the patents will later be abused. Once a patent is obtained, asserting it offensively may reflect poorly on the company, alienating current and potential employees as well as the public. If the company were to fail, the patents would likely be sold, and might ultimately fall into the hands of a troll.

However, for companies that are concerned with both self-preservation and furthering innovation, there may be some inherent benefits of obtaining patents in the first place:

- First, patents can be used defensively in infringement lawsuits brought by competitors. Defendants in patent infringement lawsuits can countersue the plaintiff for infringing one of the defendant's own patents. This, of course, assumes that the plaintiff has products of its own that could infringe, which is not the case with trolls or other non-practicing entities like universities—but it makes patents valuable for defending against litigious competitors as well as deterring lawsuits from competitors in the first place.

- Second, patenting an invention clarifies the prior art and can help prevent future patents on overbroad or obvious technologies. All patented inventions must be novel and non-obvious. When determining whether to grant a patent, patent examiners in the U.S. Patent and Trademark Office look for "prior art" that evidences that the technology had been invented before or is obvious in light of previous inventions. Patent examiners have limited time to conduct their research, however, and often miss important prior inventions. One of the most important sources for identifying prior art is other patents. Patenting an invention thus helps clarify who invented what, and can help to prevent bad, obvious, or overbroad patents from being granted in the future.

- Third, patenting an invention may help prevent others from claiming it as their own. Keeping an invention a secret rather than patenting it runs the risk that another company could independently invent and try to patent the same thing. (Patent law includes a prior use defense, but only if the original inventor was using the invention more than one year before the subsequent inventor filed its patent, and even then there are limitations to how the original inventor can use the technology.) Original inventors can also simply publicly disclose the invention without filing a patent application, which may serve as prior art to prevent others from patenting the disclosed invention.

For companies that choose to obtain patents rather than opting out of the patent system entirely, the alternative patent licensing options described in this paper provide opportunities both to engage with the patent system and to use patents for good.

Defensive Patent Aggregators

Defensive patent aggregators use the pooled resources of member companies to purchase patents that may otherwise have been purchased by trolls or aggressive companies and asserted against members. After purchasing each patent, aggregators grant perpetual licenses to their members, so that even if the patent later falls into a troll's hands, the patent can never be asserted against those members. Aggregators typically charge an annual membership fee that is calculated based on each company's size. Many aggregators also offer patent intelligence and other services to members.

Unified Patents

What It Is

Unified Patents is a subscription-based patent risk management organization. Unified groups companies of all sizes into "Micro-Pools" or "Zones" that protect a specific technology area, and works to defend each Zone's protected technology from patent trolls.

Unified was founded in 2012 by former Intuit Head of IP Litigation Kevin Jakel, with founding members including Google and NetApp. Its first two Zones focused on protecting cloud storage and mobile payment technologies.

How It Works

For an annual subscription fee, companies can join a Zone that focuses on protecting a particular technology area from patent trolls. Subscription fees vary based on the company's size, but start-ups can join for free as of the time of writing. The cost of joining for non-start-ups has not been made public.

Unified uses each Zone's subscription fees to monitor troll activity, investigate prior art, challenge troll-owned patents in the U.S. Patent and Trademark Office through ex-parte reexamination and *inter partes* review, and purchase patents before trolls can (but never to purchase patents *from* trolls). When Unified purchases a patent, all Zone members receive an immediate, perpetual license to that patent.

Unified's model relies on the participation of start-ups, understanding that small companies are often the first to receive troll demand letters and the most vulnerable targets. By encouraging start-ups to participate with low-cost (or free) membership, Unified gains valuable insight into troll demand letter campaigns as soon as they begin. Furthermore, when start-ups participate in Unified Patent, they are (theoretically) less vulnerable to troll demands, limiting the number of easy troll targets.

Pros

- Unified encourages start-ups and small companies to participate by taking into account company size in calculating membership fees, and (as of the time of writing) offering membership to start-ups for free. However, information about the cost of membership for non-start-ups is not currently publicly available.

- By partnering small companies with some of the world's largest tech companies in each zone, startups can benefit from larger companies' purchasing power, while larger companies benefit from early insight into troll activities.

- Unified focuses its efforts on narrow technology areas, unlike defensive patent aggregators that broadly acquire any high-risk patents. This is ideal for start-ups and

small companies that operate in a specific technology space, as their membership fees and resources are used to protect only what they care about.

- Unified makes all decisions regarding whether and when to challenge a patent in *inter partes* review. While this means that members do not have say in these decisions, it should allow members to benefit from *inter partes* review of dubious patents without becoming the "real parties-in-interest" in the review. A "real party-in-interest" in an *inter partes* review of a patent cannot later defend a patent infringement lawsuit using any argument that could have been (but wasn't) raised during the *inter partes* review.

- Unified refuses to buy patents from trolls, so members can be comforted that their membership fees will never even indirectly support troll activities.

- Members do not give up any of their own patent rights, nor are they required to license their own patents to other Zone members.

Cons

- The narrow, technology-specific Zone approach means that not all companies will fit within one of Unified's Zones of protected technology.

- Unified refuses to buy patents from trolls, so members won't benefit from dangerous patents being taken directly out of trolls' hands.

- Compared to RPX, Unified currently has fewer patent assets and less patent-purchasing activity.

Allied Security Trust (AST)

What It Is

Allied Security Trust (AST) acquires patents on behalf of its member companies based on a bidding system that distributes the cost of each patent among only those companies that are interested in purchasing it.

Principle members include Google, IBM, Intel, Oracle, Philips, and Sony.

How It Works

Companies pay an annual fee for AST membership. Though the amount of the fee is not publicly available, it appears that the cost is around $200,000 per year and is not adjusted based on company size. Members can then participate in a bidding process through which AST makes patent-purchasing decisions.

When making purchasing decisions, AST investigates each patent, then sends out an analysis of the patent to members that might be interested in the patented technology. After reviewing the patent analysis, an AST member may decide to bid on the patent through AST. Without divulging identifying information, AST communicates common interest to other members and figures out how the cost of the patent can be spread out between interested members. A typical AST purchase involves three or four member companies splitting the cost of the patent. Members thus share the cost of acquiring useful patents while controlling the amount they bid and maintaining anonymity under most circumstances.

Once a patent or portfolio is acquired, the AST members that funded the purchase receive a perpetual, irrevocable, non-exclusive license that continues even if the companies leave AST. A member company that did not participate in the initial acquisition may obtain a subsequent license through a Subsequent License Option (SLO). The licensing fee for an SLO is always equal to the highest price paid by one of the initial funders. The proceeds from the SLO are then given to the original bidders, spread out proportionally based on the amount each bidder originally contributed. New members are allowed to take an SLO to any portfolio currently owned by AST.

AST engages in a "catch, license, and release" model for patents rather than aggregating patents. AST purchases a patent, licenses it to members, and then sells the patent (with the licenses still remaining in effect under all future owners), and splits the proceeds among the members that funded the acquisition.

Pros

- AST avoids the "one size fits all" aggregation model by allowing members to bid only on the patents they want rather than paying for licenses in technology areas irrelevant to their businesses.

- If a member leaves AST, the patents they have licensed go with them, which gives companies flexibility to leave.

- AST purchasing decisions move quickly, and the "delivery date" of a patent is within a few days of an accepted offer, which can be an advantage for fast-paced companies.

- Members include some of the world's largest tech companies, which means smaller companies can benefit from their purchasing power.

- In addition to getting a license to the patent, early bidders get money back when other member companies later license the patent, and when AST ultimately sells the patent.

- Members do not give up any of the rights to their own, non-AST patent portfolios, nor are they required to license their own inventions to other members.

Cons

- For privacy-sensitive companies, AST conducts most of its transactions completely anonymously. However, when AST sells patents on the open market, the name of the patent's licensees can be disclosed to potential buyers against the member's will (by a majority vote of other members).

- In order to speed up the "delivery date" of patent purchases to a few days after an accepted offer and to lower the transactions costs, AST seeks little in the way of warranties and representations when making patent purchasing decisions.

- AST buys and sells patents on the open market, which means that AST may be feeding patent trolls by buying patents from them, and that the patents AST owns may later fall into the hands of trolls. AST members have perpetual licenses to these patents and cannot be attacked with these patents, but members with strong anti-troll convictions may take exception to the idea of indirectly doing business with trolls.

- While the amount of the annual membership fee is not publicly available, it appears that the fee is not adjusted based on the size of the member company.

RPX

What It Is

RPX is a membership-based patent risk management service that acquires patent rights to license to members for defensive purposes, provides patent intelligence, and offers insurance policies to cover the legal and settlement costs of being sued for patent infringement.

RPX was founded in 2008 by John Amster and Geoffrey Barker, both former vice presidents of controversial patent assertion entity Intellectual Ventures. As of January 2014, 168 companies are members, including Google, Microsoft, Oracle, and Intel.

How It Works

Companies join RPX for an annual membership fee calculated based on the company's size. As of 2014, annual fees range from $85,000 to around $7 million. Each member receives a license to all patent rights that RPX owns. These licenses last for as long as the company remains a member of RPX, with licenses becoming perpetual after a certain number of years of membership. Members also gain access to the RPX client portal—an online resource with detailed profiles of NPEs, overviews of the litigation history and chain of title of individual patents, and other market intelligence. Members do not give up any of their own patent rights, nor are they required to license their own patents to other members.

To date, RPX has spent $750 million on acquiring patents and patent rights for its members. RPX purchases rights to high-value or high-risk patents on the open market—sometimes only

buying licenses for its members, and sometimes acquiring the entire patent, which preempts trolls from buying the patent. RPX also buys patent rights out of active litigation in which its members are defendants, claiming to have intervened to secure dismissals for clients more than 430 times.

RPX recently launched a litigation insurance offering for smaller companies that covers the legal and settlement costs of patent lawsuits. The policy is priced based on forward-looking risk for the company as determined by actuarial models—typically between $150,000 and $250,000 per policyholder. The policy includes a base level of RPX's core subscription service. As of January 2014, there are 25 policyholders.

Pros

- RPX takes into account company size when calculating annual membership fees. The amount of the membership fee is locked in at the time of sign-up, so joining early is advantageous for small, growing companies.
- RPX not only purchases patents preemptively, but also intervenes in active litigation in which clients are defendants.
- RPX's size gives it massive purchasing power to buy patents and license them to members. RPX claims to represent 10% of transaction activity on the open market.
- RPX's new litigation insurance offering is designed with small companies in mind and comes with the benefits of general RPX membership.
- Members do not give up any of their own patent rights, nor are they required to license their own patents to other members.

Cons

- While RPX's membership prices reflect company size, the $85,000 minimum annual membership cost may still prove prohibitive for start-ups.
- RPX appears to buy patents and patent rights from trolls, which members might find objectionable.
- RPX sometimes sells patents (after licensing them to its members) and is willing to sell to trolls. While its members should be safe from these patents, all other companies—large and small—could be attacked by trolls armed with patents sold by RPX.
- Licenses only last for as long as a company remains a member of RPX—though licenses become perpetual after a certain number of years of membership. Companies that choose not to renew membership before their licenses become perpetual may suffer some diminution of rights.

- RPX's business model is being challenged in court. A patent troll called Cascades Computer Innovation has sued RPX and some of its members alleging a conspiracy to "monopsonize" the market (that is, drive down the prices) for certain patents. These claims recently survived a motion to dismiss. However, the court later stayed the case for 120 days, noting that the outcome of the underlying patent litigation (that is, the possible invalidity of the patent) "has the potential to narrow substantially, or moot entirely, the antitrust issues."

- It is troubling for one entity to own so many patents. While RPX has promised never to assert or litigate the patents in its portfolio, its business model could change, and it might assert its patents through shell companies in a manner similar to Intellectual Ventures.

Patent Pledges

Patent pledges are commitments that companies make to license their own patents in a particular way. Most of the pledges described in this paper are multilateral pledges through which companies opt into networks with other companies that have made the same pledge (for example, by promising not to offensively assert patents against any other member of the network that has made the same commitment). Pledges can also be made unilaterally, and any company can create its own pledge to license its own patents in a way that benefits open innovation—for example, by promising that the company will never assert its employees' patents offensively without each inventor's permission. Pledges offer a way for companies to continue to patent their inventions while assuring the public—and potential employees—that their patents will only be used for good.

The Defensive Patent License (DPL)

What It Is

The Defensive Patent License (DPL) is like a non-aggression pact for patents: companies commit to never asserting any of their patents offensively against any other company that has also committed to the DPL.

Berkeley Law Professor Jennifer Urban and New York University Law Professor Jason Schultz have been developing the DPL since 2010. The DPL will be officially launched at a conference at Berkeley on November 7, 2014.

In the interest of full disclosure, representatives from Engine Advocacy, the Electronic Frontier Foundation, and the Open Invention Network who participated in preparing this paper also serve on the DPL Advisory Board.

How It Works

Any company can opt into the DPL network by pledging never to assert any of its patents against any other company in the DPL network, except defensively. By joining the DPL network, a

company commits to offering any other DPL user a royalty-free license to any of its patents. Companies must dedicate all of their patents to the DPL in order to avoid the problem of members only contributing low-value patents. In return for this commitment, every DPL user is eligible to receive a royalty-free license to any patent in any other DPL user's portfolio.

These commitments only apply to other DPL users. Companies that have opted into the DPL may still offensively sue (or seek paid licenses from) anyone outside of the DPL network.

DPL commitments travel with the patent, so any future owners of a patent licensed under the DPL must continue to honor the DPL's terms for that patent.

Companies may choose to leave the DPL at any time. However, previous licensees still retain their royalty-free licenses to the patents of the former DPL member. Any royalty-free licenses that the departing company received under the DPL may be converted to paid licenses at fair, reasonable, and non-discriminatory terms at the discretion of the remaining licensors.

Committing to the DPL requires two steps: first, e-mailing defensivepatent@gmail.com with a message declaring intent to license the company's entire patent portfolio under the DPL, and second, posting the commitment on a publicly accessible, indexed website controlled by the company.

Pros

- The DPL's requirement that licensees commit their entire patent portfolio makes it a serious, company-wide commitment to defensive patenting (unlike some patent pledges that have been limited to only a small subset of a company's patents). Joining the DPL sends a clear message to the public that the company is committed to defensive patenting and open innovation and does not wish to abuse the current patent system. Such a statement can attract both talent and positive publicity.

- Companies that join the DPL do not lose the ability to assert their patent portfolios against, or collect licensing fees from, non-DPL members.

- The DPL's structure is especially beneficial for members with small patent portfolios. However, large companies do still have an incentive to join the DPL network in order to avoid litigation from DPL members.

- Once a DPL license is attached to a patent, trolls will never be able to assert that patent against DPL members who have a license to the patent.

- There is no membership fee to join the DPL. To join, members simply need to pledge their own patent portfolio. (Of course, this is a different type of cost.)

Cons

- The DPL's requirement that licensees commit their entire patent portfolio means that larger companies with big portfolios may be reluctant to join. Some companies, particularly large corporations, may not be in a position to dedicate their entire patent portfolios to the DPL. Members are not allowed to "pick and choose" which patents become part of the DPL network.

- Patents bound by the DPL may be seen by investors or potential buyers as worth less than other patents since they cannot be wielded against any DPL member.

- Although trolls cannot assert DPL-licensed patents against DPL members, the DPL does not prevent trolls from asserting DPL-licensed patents against non-DPL members, nor does it provide protection from trolls armed with non-DPL patents.

- It is unclear whether courts will uphold the provision of the DPL that precludes future owners of the patent from asserting the patent against DPL members. It is possible that bankruptcy courts may be able to void DPL provisions on a patent that needs to be liquidated in order to satisfy creditors of the previous licensor, though DPL creators Urban and Schultz think this is unlikely.

Open Invention Network (OIN)

What It Is

The Open Invention Network (OIN) is a company that acquires patents and patent applications and makes them available royalty-free to any entity that agrees not to assert its patents against the Linux system, effectively creating a "patent no-fly zone" around essential Linux technologies.

OIN was launched in 2005, and its members include Google, IBM, Philips, Sony, NEC, SUSE, and Red Hat.

In the interest of full disclosure, OIN participated in preparing this paper along with the Electronic Frontier Foundation and Engine Advocacy.

How It Works

OIN acquires patents and patent applications in a multitude of technology areas and grants royalty-free, worldwide, nonexclusive, non-transferable licenses to any company that promises not to assert its own patents against the Linux system.

OIN undertakes diverse activities to reduce patent risk for its more than 750 licensees. In addition to receiving licenses to OIN's independent defensive patent portfolio, OIN licensees offer free patent licenses to one another on patents that relate to the Linux system. OIN adopted

this model in order to protect the Linux platform, thereby enabling companies to feel secure making significant investments in Linux technologies.

Pros

- Joining the network is free.
- Joining OIN provides companies with licenses to all patents owned by other OIN licensees that relate to the Linux system.
- Joining OIN provides companies with a license to OIN-owned patents and applications that relate to non-Linux system areas such as software, wireless, networking, biometrics, security, and other technologies.
- Joining OIN makes a public statement that the company supports Linux and open innovation. This can attract potential employees as well as positive publicity from the open source community.

Cons

- OIN licensees are required to license their patents that relate to the Linux system to each other as part of a broad-based cross-license and a commitment to patent non-aggression within the defined scope of Linux.
- OIN's focus is on providing a safe, open environment for the Linux system. Thus, it does not extend into other technology areas.

Twitter's Innovator's Patent Agreement (IPA)

What It Is

The Innovator's Patent Agreement (IPA) is a patent assignment method developed by Twitter to guarantee its employees that if they assign an invention to Twitter, the patent will not be used to sue anyone offensively without the inventor's permission.

Twitter implemented the IPA in early 2013, applying it to all patents issued to its engineers in the past and present. Following Twitter's lead, companies like Jelly, Lift, Stack Exchange, and TellApart are also using the IPA.

How It Works

The IPA is different from other pledges in that it is actually a standard employee agreement that covers inventions assigned by employees to the company. To adopt the IPA, companies need only put a provision in invention assignment contracts stating that the company and employee

agree that any invention assigned by the employee to the company will fall under the IPA, and file a copy of the IPA with any patent applications.

Under the IPA, companies may only use a patent for defensive purposes unless the company has the inventor's explicit consent to sue offensively. However, companies reserve the right to assert patents defensively if sued, as well as to pursue offensive litigation with the inventor's consent. Furthermore, the IPA broadly defines "defensive" uses of the patent to include offensively suing any entity that has asserted its own patents offensively in the past 10 years.

The IPA also precludes companies from selling patents to a third party that would then seek patent licensing fees without the inventor's consent. The IPA "travels with the patent," so even if a company were to sell the patent, the IPA's requirements would remain intact, and the new patent owner would have to seek permission from the inventor before asserting the patent.

As added protection for inventors, the IPA allows inventors to license their invention to anyone who has been sued in violation of the IPA. Thus, even if a subsequent patent owner were to defy its promise and sue offensively, the inventor would have the ability to end the lawsuit by granting a royalty-free license to any defendants.

Pros

- Companies retain the ability to use patents defensively, or offensively with the inventor's permission.

- When companies go bankrupt or sell their patent portfolios, their patents often fall into the hands of patent trolls. The IPA allows the inventor to continue to control how the patent is used so that patent trolls cannot use the invention to threaten the next generation of startups without the inventor's permission.

- Allowing employees to exercise some control over their inventions even after assigning the patents to the company is a perk that can both boost employee morale and attract engineers to the company.

Cons

- Patents bound by the IPA may be seen by investors or potential buyers as worth less than other patents because the ability to monetize the patent is subject to the consent of the inventor.

- The IPA could lead to internal conflict if a company wanted to pursue litigation but an inventor refused to consent.

- Inventors could still exercise control over patents assigned to the company even if they were to leave the company and go to a competitor.

- The IPA's definition of allowable "defensive" uses includes offensively suing any entity that has offensively asserted patents in the past 10 years, which greatly increases the number of companies that a holder of an IPA-licensed patent (including a troll) could target without the inventor's consent.

- As with the DPL, the IPA helps prevent certain patents from being asserted by trolls, but does not otherwise provide protection from trolls armed with non-IPA patents.

- In the event that Twitter were to sell a patent covered by the IPA, it is unclear whether courts would uphold the IPA provision that precludes future owners of the patent from asserting it without the inventor's permission. For example, it might be possible for a bankruptcy court to void IPA provisions on a patent that needed to be liquidated in order to satisfy creditors of the previous owner.

Google's License on Transfer (LOT) Agreement

What It Is

Google is planning to launch the License on Transfer (LOT) Agreement. Under the LOT, companies will license their patents to other LOT members, but the license to each patent will only become effective upon the patent's transfer to a third party.

What It Is

LOT participants will license their patents to all other members of the LOT network, but each license will only become effective if the patent owner transfers the patent to a third party. There will be two exceptions: when a transfer is made to another LOT user, or when a transfer is part of a legitimate spinout or change of control to a non-troll. Under these circumstances, the licenses will not become effective.

The LOT Agreement will be administered by an independent entity. There might be an annual fee to participate in LOT in order to cover the administrative costs of running the LOT program. The amount of the annual fee is not clear, but will not exceed $20,000.

LOT users will be required to give six months' notice to withdraw from LOT. To address the free rider problem, the withdrawing member would keep the LOT licenses it acquired during its membership period only if it had licensed a patent under LOT that had become effective during its participation.

According to Google, a set of well-known companies has already pledged to join LOT. To express interest in joining, e-mail LOT@google.com.

In addition to the LOT, Google has proposed several types of multi-party, self-help patent licensing approaches that it hopes will reduce patent litigation and increase freedom to operate. Google's other proposals include a "Non-Sticky Defensive Patent License," which would operate

in a manner similar to the DPL discussed above except that members would be able to withdraw from the pact at any time, at which point other members' licenses would expire.

Pros

- LOT companies will retain all patent rights and will be able to assert patents offensively against any company until the patents are transferred.

- Companies that make a certain number of contributions can leave the LOT and retain their royalty-free licenses, which addresses the free rider problem while allowing for flexibility to withdraw from the agreement.

Cons

- Companies would lose their LOT licenses if they decided to withdraw and had not transferred any patents that had been contributed to the LOT pool.

- There would be an annual administrative fee, though the amount of the fee is not yet clear. Depending on the fee and the number of patents licensed under LOT, joining may not be financially worthwhile for some companies.

- Patents bound by LOT could be seen by investors or potential buyers as worth less than other patents since they cannot be wielded against LOT members after transfer.

- A company that decides to withdraw may lose its licenses to LOT patents if the company has not contributed a patent license under LOT that has become effective.

- LOT is primarily designed to protect participants from privateering—a practice where an operating company sells patents to a troll hoping the troll will then attack its competitors. It does not protect from suits actually brought by other LOT participants. Because each license only becomes effective upon sale of the patent, LOT participants can sue each other directly for patent infringement.

Disclaimer

This guide is for informational purposes only and does not constitute legal advice. The purpose of the guide is to provide a general description of the alternative patent licensing options available, but each factual situation is unique and requires individual consideration. Therefore, please do not act on this legal information alone; if you have any specific legal problems, issues, or questions, seek a complete review of your situation with a lawyer licensed to practice in your jurisdiction.

Comparison Tables

Defensive Patent Aggregators

	AST	RPX	Unified
Minimum annual fee for startups	$200,000	$85,000	Free
Fee adjusted based on company size		✓	✓
Focuses on specific technology zones			✓
Members receive licenses to entire portfolio		✓	✓
Licenses purchased through bidding	✓		
Members give up their own patent rights			
Challenges patents in *inter partes* review	✓	✓	✓
Intervenes in active litigation		✓	
Offers patent intelligence services	✓	✓	✓
Offers patent insurance policy		✓	
Does not do business with trolls			✓

Patent Pledges

	DPL	OIN	IPA	LOT
No annual fee	✓	✓	✓	
Users pick which patents to dedicate		n/a	✓	
Users opt into a cross-licensing network	✓	✓		✓
License provisions travel with the patent	✓	✓	✓	n/a
Specific to a particular technology area		✓		
Withdrawing users may retain licenses	✓	n/a	n/a	✓
May assert dedicated patents against nonusers	✓		n/a	✓