

**Conference Report:**  
**Software Patents and Their Challenges**  
*By: Laura Littman, Samantha Ford, and Neal Vickery*

**Panel 1: Software Patents and Their Effect on Innovation**

*Panel: Michael Kallus, Director, Client Development, RPX Corporation; Pat Kennedy, Founder and Chairman, Cellport Systems; Jason Mendelson, Managing Director, Foundry Group; Suzanne Michel, Senior Patent Counsel, Google Inc.; Pamela Samuelson, Richard M. Sherman Distinguished Professor of Law, Professor of School Information, University of California-Berkeley, Co-Director, Berkeley Center for Law & Technology. Moderator: Phil Weiser, Dean, University of Colorado Law School, Executive Director, Silicon Flatirons Center.*

In the first panel, distinguished panelists examined the effects of software patents on innovation and entrepreneurs.

*Defining software patents:* The panelists pointed out the difficulties of defining exactly what a software patent is. Patents could protect anything from pure code and algorithms to hardware and circuitry. This difficulty in defining a software patent has resulted in loose requirements for prospective patents and gives rise to a large amount of problematic litigation.

*Resource allocation and patents:* The panelists discussed the actual value of patents to entrepreneurs in the industry. A study conducted by Ms. Samuelson showed that, when seeking competitive advantage, entrepreneurs generally choose to invest in patents last. Smaller companies often have to make a choice between a patent and an engineer. Ms. Michel said that although her large company spends a huge amount of money on patents and patent-related litigation, the company is attempting to move away from this inefficient spending model.

*Offensive and defensive patents:* The panel elaborated on the offensive and defensive uses of patents for companies. Entrepreneurs may use patents offensively to protect the new inventions and ideas of their engineers, to clear away obstacles before expanding into a new area, or to monetize their patents to raise more capital. Entrepreneurs may also use patents defensively by collecting large patent portfolios to preempt non-practicing entities, or trolls, from suing for infringement. All panelists expressed intense dislike for trolls as a hindrance of innovation and explained that the defensive use of patents is a necessary evil in the software industry.

**Panel 2: Judicial and Administrative Proposals**

*Panel: David Jones, Assistant General Counsel for IP Policy Microsoft; Michelle K. Lee, Director Silicon Valley United States Patent and Trademark Office; Tim Loomis, Vice President, Chief Patent Counsel Qualcomm; Evan Rothstein, Partner Brownstein Hyatt Farber Schreck LLP. Moderator: Harry Surden, Associate Professor of Law, University of Colorado.*

The second panel of experts discussed the value of possible administrative solutions to the problems arising from software patents.

*Software Patents as Problem Patents:* The panelists addressed the problems with the law's separation of software patents for special treatment from other patents. They said that the focus should be on "problem patents" rather than on all software patents. New statutes that address the root of the problems of bad patents would be preferable to ones that reinforce the categorical separation of all software patents. Several panelists dismissed the idea that software patents are different from other patents. The panelists agreed that Congress must address the causes of bad patents rather than attempt to define rapidly changing software patents with ineffective statutes.

*Increasing fees:* The discussion shifted to the advantages and disadvantages of changing filing fees. The panel disagreed with the suggestion of increasing filing fees. Increased fees would not only reduce trivial patents but would also burden small businesses and entrepreneurs. Further, many filing fees have little effect on the quality of patents. The same difficulties occur when suggesting a "Gold Plated" prosecution path, where an inventor can pay higher examination fees for a more thorough examination of the patent. Mr. Rothstein explained that most of the litigation on a particular patent occurs at the end of the patent's life. Instead of taxing patent filers trying to create new patents, the panel suggested higher maintenance fees after filing to deter unnecessary litigation and gamesmanship. For example, one suggestion was to add one more maintenance fee at the end of the patent term, citing that 70% of all non-practicing entity (NPE) suits occur within the last 3 years of the patent's life.

*Functional claiming:* The panel readily agreed that functional claiming in software patents causes several problems. Patents that merely name the function may protect something that has not been invented. Non-practicing entities, or trolls, in costly litigation commonly use functional claiming. Further, it makes determination of infringement difficult and limits patents in their effectiveness as prior art, since it is difficult to determine the accomplishments of the stated function, with the exception of Open Source Software. Ms. Lee's office creates a dialog and gathers information about possible solutions to this problem, including roundtables and more intensive education for patent examiners. Requiring more specificity and having more capable examiners could prevent the creation of low-quality patents and unnecessary litigation, but it could also stifle innovation for small businesses and inventors.

*Judicial Proposals:* The panel was optimistic that judicial changes could positively affect current issues with patent litigation. Of the several suggestions, incentivizing ideal behavior was the most supported idea. Specifically, if courts possessed enough software knowledge to recognize patent trolling behavior, they could effectively discourage bad behavior and incentivize parties to file quality patents and understand the contents of their patent portfolios. Additionally, many districts are adopting useful rules to simplify the litigation; a leading example is the Northern District of California. Further, the panel agreed that shifting the damages holding to earlier in the suit can make settlement simple and remove the absurd damages claimed by NPEs. Finally, the panel discussed shifting the cost of discovery as another possible improvement, since NPEs discovery costs tend to be very low.

### **Panel 3 – Legislative and Self-Help Proposals**

*Panel:* Mark Chandler, Senior Vice President, General Counsel, and Secretary, Cisco; David Kappos, Partner, Cravath Swaine & Moore LLP; Randal S. Milch, Executive Vice

*President, Public Policy and General Counsel, Verizon Communications; Arti Rai, Professor of Law, Duke University. Moderator: Paul Ohm, Associate Professor of Law, University of Colorado.*

The final panel discussed the pros and cons of possible legislative proposals for the future of software patents and how the industry can partake in self-help.

*Special treatment of software patents:* The panel started by discussing whether software patents should be treated differently than other patents. The panel suggested that software patents are already treated differently, such as the requirement of a written description, and that different treatment leads to many of the problems seen today. Additionally, art units within the United States Patent and Trademark Office (USPTO) are treated differently based on different sensitivities within the art unit. Further issues arise when certain patents could be considered either hardware or software, and a company makes a business decision to treat them as software.

*Feasibility of legislative reform:* Patent reform is one of the few issues that is not polarized along partisan lines. Thus, there is some opportunity for compromise that does not exist for other problems faced by Congress. Further, the fact that NPEs are now putting together a lobby is strong evidence that change may be on the horizon.

*Congress's Role:* The panel more or less agreed that Congress should not be involved in extremely specific policy changes but instead should take a broad approach. Former USPTO director, Mr. Kappos, pushed the idea that Congress should direct the USPTO to perform additional research and provide data on the issues of NPEs and software patents.

*Progress:* The panel agreed that recent reforms are having a strong effect of software patents. The America Invents Act (AIA) changes such as post-grant review (PGR) are promising. Possible future changes to PGR could include not allowing NPEs to settle a PGR claim to save their patent after PGR has begun. It was cited that about two-thirds of PGRs filed are in the IT field. One major issue that remains is the astounding amount of “bad” software patents that have already been issued.

*Self-Help:* Self-help remains a real challenge. The goal of industry self-help groups should be to avoid selling patents to NPEs who are going to abuse them and to attempt to keep “arms out of the arms race.”