

WHAT PATENT OWNERS AND PRODUCT SELLERS NEED TO KNOW ABOUT AMAZON'S UTILITY PATENT NEUTRAL EVALUATION PROCEDURE

In 1995, Amazon was solely a book-selling website that operated out of Jeff Bezos' garage. Despite its humble beginnings, Bezos always had a big vision for Amazon. He wanted it to be the "everything store." Today, the trillion-dollar market cap behemoth inches closer to realizing that vision every day.

Amazon's dominance, resulting in the "Amazonification" of major segments of our economy, is part of a larger story of a dramatic shift in consumer behavior from traditional retail to online shopping. In February 2019, the U.S. Department of Commerce announced that the total market share of online U.S. retail sales was higher than (offline) general merchandise sales, including department stores, warehouse clubs and super-centers, for the first time in history. Greater convenience, more selection, faster delivery, and lower prices all have contributed to increased sales online.

Amazon, which dominates online sales in the U.S., sold \$141.25 billion worth of physical and digital products across its platform in 2019, up 14.8% from \$122.99 billion in 2018. The number of third-party sellers on Amazon also continues to grow, and Amazon generated \$53.76 billion in commissions from third-party marketplace sales in 2019, up 25.8% from \$42.75 billion the previous year.

Needless to say, there continues to be a boom in online selling, and Amazon is where most of the action is. And while brands are benefiting from selling on Amazon, there are corresponding risks. In particular, infringement of intellectual property rights, stemming from sales of counterfeit, pirated, or otherwise IP-infringing goods, occurs frequently on Amazon's third-party marketplace, as it does across the internet.

Trademark and copyright holders who believe their rights were infringed and the sellers of the accused goods, have had vehicles to resolve any disputes about any alleged trademark or copyright infringement on Amazon's website. For example, Amazon's Brand Registry allows eligible trademark owners to take preventative measures to avoid brand erosion and control rogue sellers aiming to tarnish or trade off its brand. Moreover, a trademark or copyright holder who asserts an infringement can submit a complaint which is promptly reviewed by Amazon and actions are taken if infringement is evident.

However, given the more detailed analysis involved in a claim of patent infringement, no such vehicles have existed for patent holders and sellers accused of infringement to resolve their dispute. If a patent infringement claim was made, the product in question would be removed from Amazon's site pending resolution of the claim, and Amazon required the affected seller to reach out directly to the patent owner to seek a resolution. Provided no resolution could be reached, the affected seller would be left with the expensive and time-consuming option of initiating litigation to seek a declaration that the product did not infringe the patent, often prompting counterclaims from the patent owner. Most small businesses lack the means to pursue such litigation, and, thus, would not challenge takedown notices for allegedly-infringing products for fear of losing their selling privileges on Amazon—often their best, and perhaps only, sales channel.

AMAZON'S SOLUTION TO PATENT INFRINGEMENT ON ITS PLATFORM

To help combat this problem, Amazon has recently instituted a program called the Utility Patent Neutral Evaluation Procedure ("Neutral Patent Evaluation") meant to protect patent owners against infringement while also providing safeguards to sellers accused (sometimes wrongfully) of infringement.

The Neutral Patent Evaluation system is meant to level the playing field and streamline dispute resolution for patent infringement claims. According to Amazon, the purpose of the new program is to "efficiently resolve claims that third-party product listings infringe utility patents [through a] simple, low-cost procedure called Neutral Patent Evaluation." It's being called the "District of Amazon Federal Court"—a faster and less expensive venue that's a viable alternative to federal court for members of the Amazon ecosystem.

A SUMMARY OF HOW THE NEUTRAL PATENT EVALUATION SYSTEM WORKS

Who can utilize Neutral Patent Evaluation? The program is available to those who hold a valid utility patent.

How does the process start? A patent owner must submit a written request to Amazon by completing the Amazon Utility Patent Neutral Evaluation Agreement. Among other things, the patent owner must provide via the agreement: (i) the patent owner's name and address, (ii) the names of any corporate parents, subsidiaries, or other related entities, (iii) the U.S. utility patent number for patent at issue, and (iv) the Amazon Standard Identification Number (ASIN) of the Accused Product(s).

What must an accused seller do in response? If an accused seller fails to respond within three weeks, then the patent owner "wins" the proceeding—the allegedly-infringing listing is removed as a result. In order to timely respond to and refute an accusation of infringement, an accused seller must complete and submit the Amazon Utility Patent Neutral Evaluation Agreement.

What happens next? Once a patent owner and accused seller (or sellers) submit their paperwork, Amazon will select a qualified patent attorney to serve as the neutral evaluator for the process. Each party must pay \$4,000, to be held in escrow by the evaluator, pending the outcome of the proceeding. If the accused seller does not pay the fee, then the product listing(s) at issue will be removed.

What is the schedule? After both parties pay the fees, the evaluator then establishes a 2-3 month schedule for the process, in which strict deadlines are set. Requests to modify the schedule are not permitted, and failure to meet a deadline can result in forfeiture of the case and the party's \$4,000 deposit.

What does the evaluator consider? The evaluator only considers written arguments from the parties. In most cases, the patent owner will be given 21 days to present initial arguments, the accused seller will have 14 days to respond, and the patent owner an additional 7 days for an optional reply. Written submissions have page limitations—20 double-spaced pages for patent owner's submission and 15 for the accused seller's response. The parties may submit photographs, charts, and other exhibits that are capable of being submitted electronically. Physical exhibits are not allowed; nor is discovery or depositions. The evaluator makes a decision within 14 days after the reply.

Are there limitations to what the parties may argue? The patent owner is limited to arguing a single claim. The patent owner's objective is to convince the evaluator that the product at issue likely infringes upon the asserted patent. While a patent attorney is not required to proceed with Neutral Patent Evaluation, a patent owner would benefit from counsel that is capable of making well-reasoned and technically sound arguments on its behalf regarding infringement. An accused seller, too, should consider engaging patent counsel to help defend against a claim in light of the risks involved—namely, \$4,000 and the delisting of the product(s). Certain defenses that an accused seller might raise in a court proceeding are unavailable in Neutral Patent Evaluation. The only defenses that an accused seller can assert are: (i) non-infringement, (ii) that a prior court ruling has found the patent invalid, or (iii) that the products at issue were on sale more than one year before the effective date of the patent. Moreover, if arguing that the patented product has been on sale for more than a year before the effective filing date, the evidence presented must be independently verifiable (i.e., affidavits and declarations are not allowed). Given these limitations on defenses, and coupled with the quick resolution process, (even weak) utility patents are quite valuable to the Amazon e-commerce market.

What are the consequences? After considering the arguments and evidence, the evaluator will issue his or her ruling. The evaluator will find that either:

- The product likely infringes the asserted patent; or
- The asserted patent likely does not cover the product, or is likely invalid.

The prevailing party is refunded its \$4,000 fee. The evaluator retains a maximum of \$4,000 as compensation. Any excess amount paid by sellers may be awarded to an Amazon Smile charity of the patent owner's choosing if the patent owner prevails. Amazon will generally remove a listing within ten (10) business days after a decision is handed down against a seller. Amazon may restore a listing if a subsequent judgment or order from a litigation or arbitration proceeding is submitted.

NEUTRAL PATENT EVALUATION—A PROCESS THAT IS ALMOST CERTAIN TO GROW IN POPULARITY

Given the time, expense, and uncertainty associated with prosecuting and defending against patent infringement claims in the federal court system, and in light of the rapid shift from traditional retail to Amazon's online marketplace, more and more patent owners and sellers will be participating in the Neutral Patent Evaluation system in years to come.

If you are a patent owner or a seller on Amazon and are interested in learning about how Brooks Kushman can assist you with Amazon's Utility Patent Neutral Evaluation Procedure, please contact Dustin Zak or Tom Cunningham.



Tom Cunningham - Shareholder | Patent, Trademark, Copyright, & Trade Secret Litigation

Tom Cunningham's practice involves all aspects of intellectual property protection and enforcement - including issues relating to both technology matters and/or consumer brands. Tom has litigated cases on behalf of both plaintiffs and defendants in federal courts all over the country -- cases concerning utility patents, design patents, trade secrets, trademarks and false advertising. Tom has also defended clients accused of violating the Digital Millennium Copyright Act. In addition to his litigation practice, Tom advises clients on the management and licensing of their intellectual property portfolios.



Dustin Zak - Associate | Patent Prosecution

Dustin Zak is a registered patent attorney and focuses his practice on the preparation and prosecution of domestic patent applications in the chemical and materials arts. As a summer associate at Brooks Kushman, he participated in litigation matters, prepared responses to office actions, prepared appeal briefs for the PTAB, and conducted legal research for both prosecution and litigation matters. Prior to joining Brooks Kushman, Zak spent 5 years gaining technical experience as a Research and Development Chemist at an automotive OEM supplier and in the automotive after-market refinish industry where he formulated, developed, and launched various products globally. Zak holds a Juris Doctor from Wayne State University, where he graduated *cum laude*, and a Bachelor of Science in Polymers and Coatings Technology from Eastern Michigan University, where he also graduated *cum laude*.

