The New U.S. Patent Law and Other Recent Developments in Patents and Investor Perspective in Global IP Management

FOLEY
FOLEY & LARDNER LLP

HEISSE KURSAWE EVERSHEDS

Global IP Management Hot-Topic Round-Up

FOLEY
FOLEY & LARDNER LLP

HEISSE KURSAWE EVERSHEDS

Panelist

Dr. Rouget F. (Ric) Henschel, Partner, Chemical, Biotechnology & Pharmaceutical Practice, and Co-Chair, Life Sciences Industry Team, Foley & Lardner

Sven Riethmueller, Partner, Private Equity & Venture Capital Practice, Foley & Lardner

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Recent Patent Portfolio Acquisitions

December 2010: Novell sold **882** patents for **$450 million** to a joint venture of Apple, Microsoft, Oracle, and EMC.

July 2011: Consortium of companies, including includes Apple, EMC, Ericsson, Microsoft, Research in Motion and Sony, purchased approximately **6,000** patent and patent applications held by Nortel Telecommunications for **$4.5 billion**.

August 2011: Google announced that it is purchasing Motorola Mobility, Inc. for **$12.5 billion**. Motorola Mobility holds 24,500 patents and patent applications worldwide

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Emergence and Growth of NPEs in US Patent Market

- NPEs do not create or sell products or services; they exist to monetize patents through licensing and litigation
- Annual costs incurred by operating companies to defend and resolve US patent infringement cases by NPEs are in the billions
- According to RPX' analysis there were over **600** patent infringement cases filed by NPEs in 2010 against more than **4,000** defendants, which comprised over **2,000** unique companies
  - some were sued more than once
- For cases that reached summary judgment or trial, a study of over 1,500 final decisions found that damages awarded to NPEs had a median value of **$12.9 million** during 2002-2009
- RPX estimates that the capital raised by NPEs is in the billions; PatentFreedom has identified over 380 distinct NPEs as of 1/1/11

FOLEY
FOLEY & LARDNER LLP

HEISSE KURSAWE EVERSHEDS

Patent Monetization

May 4, 2011: Successful IPO of defensive patent aggregator **RPX Corp**

- RPX was less than 3 years old at time of IPO
- Defensive patent aggregation: RPX acquires patents or licenses to patents that are being or may be asserted against its current and prospective customers (subscribers). RPX then licenses these patents/licenses to its subscribers to protect them from potential patent infringement assertions.
- As of IPO RPX had spent $300 million on patents/licenses
- Raised approximately $160 million in IPO
- Shares started trading at $19 per share

Sept 15, 2011: Follow-on share offering: RPX sells 1.4 million shares at $20.49 per share

Sept 28, 2011: Opening share price: $22.18 per share, market capitalization: **$1.06 billion**

FOLEY
FOLEY & LARDNER LLP

HEISSE KURSAWE EVERSHEDS

Emergence of Alternative Fee Arrangements in US Patent Litigation

- Alternative Fee Arrangements
  - Predictable Costs
  - Alignment of Interests
  - Flexible provisions
- Clients want:
  - Predictable costs
  - Costs aligned with value to client
  - High quality legal services
- Law firms want:
  - Larger work volume
  - Fees aligned with resources expended

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Alternative Fee Options in US Patent Litigation

- Contingent Fee
  - holdback or success fee
- Partial contingent fee
- Flat annual or monthly fee
- Total expense guarantee
- Shared risk
- Volume discounts

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Inequitable Conduct

- USPTO rules impose a "duty of disclosure"; applicants have duty to prosecute patents with candor
- Proof of inequitable conduct as to any patent claim renders all patent claims unenforceable
- If inequitable conduct found, attorney fees may be awarded to accused infringer
- Defense has been pled in nearly every case
- Patent owners must commit significant resources during litigation to respond to inequitable conduct allegations
- Creates substantial burden (cost) during prosecution

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Inequitable Conduct Pre-*Therasense*

A. Misrepresentation of material fact

- Failure to disclose material information
- Submission of false/misleading material information
- Misrepresentation need not relate directly to patentability of claim

B. Intent to deceive the Patent Office

- Typically inferred from circumstantial evidence
  - Mere intent to withhold is not sufficient
  - Intent requirement cannot be satisfied by "gross negligence"

Threshold level of each element must be established by clear and convincing evidence

Materiality and intent are weighed to assess whether applicant's conduct is so culpable that patent should be held unenforceable

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Materiality Pre-*Therasense*

USPTO Rule 56:

Information is material when it is not cumulative to information already before Patent Office **and**

establishes, by itself or in combination with other information, *prima facie* unpatentability of claim, **or**

refutes or is inconsistent with position applicant is taking

Other materiality standards

"But For" standards (objective/subjective)

"Reasonable Examiner" standard

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Therasense case

Therasense, Inc. v. Becton, Dickinson & Co.

- Claimed invention involved technology for measuring glucose levels in blood
- U.S. District court held that patentee committed inequitable conduct
  - Representations made to European Patent Office that were (according to District Court) directly contradictory to those made to USPTO
  - These contradictory representations were not disclosed to USPTO
- Initially, 3 judge Federal Circuit panel upheld district court decision
- Federal Circuit then vacated the panel decision and agreed to hear the case *en banc*

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

En Banc *Therasense* Decision

- En banc decision
- Unanimous decision to strengthen intent requirement and to eliminate "sliding scale"
- Majority decision to strengthen materiality standard
- Court must “redirect a doctrine that has been overused to the detriment of the public.”
  - "plagued not only the courts but also the entire patent system"

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

En Banc *Therasense* Decision

Majority on inequitable conduct litigation:

- “atomic bomb”
- “overplayed”
- “cluttering up the patent system”
- “overused to the detriment of the public”
- “metastasized”

Low standards for intent and materiality have led to unintended consequences:

- increased adjudication cost and complexity
- reduced likelihood of settlement
- burdened courts
- strained PTO resources
- increased PTO backlog
- impaired patent quality

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Materiality under *Therasense* Majority

- Rejected PTO Rule 56 standard
- Adopted "but-for" standard
  - Exception for "affirmative egregious misconduct"
- "But-for" Standard
  - Establish by clear and convincing evidence that "but-for" the omission a reasonable examiner would not have allowed the claims when applying:
    - A preponderance of the evidence standard
    - The broadest reasonable construction of the claims
- Affirmative Egregious Misconduct
  - Example: false declaration under oath

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Proposed USPTO Rule Changes post-*Therasense*

- USPTO proposes rule revision:
  - "Information is material ... if material under ... *Therasense*"
  - "...material...[u]nder *Therasense* if ...Office would not allow a claim if it were aware of the information, applying the preponderance of the evidence standard and giving the claim its broadest reasonable construction ... or... the applicant engages in egregious misconduct before the Office..."

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Intent Requirement under *Therasense* Majority

Need specific intent to deceive USPTO

- Requires clear and convincing evidence that applicant "made the conscious decision not to disclose them in order to deceive the PTO."
- Negligence not enough
- Not enough that applicant knew of the reference or should have known of its materiality and decided not to disclose

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Intent Requirement under *Therasense* Majority

- "On remand, the district court should determine whether there is clear and convincing evidence demonstrating that
  - [Applicant] knew of the [prior art references],
  - knew of their materiality, and
  - made the conscious decision not to disclose them in order to deceive the PTO." (whether applicant "made a deliberate decision to withhold the reference")
- Deceptive intent must be the "single most reasonable inference" of circumstantial evidence
- "when there are multiple reasonable inferences that may be drawn, intent to deceive cannot be found"

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Inequitable Conduct and America Invents Act

Supplemental Examination for Patentee

- Effective 1 year after enactment of AIA
- Patentee may request supplemental examination to consider, reconsider or correct information relevant to patent
- Information not limited to prior art patents and publications (e.g., can include on-sale bar issues)
- USPTO will order supplemental exam if 1 or more items of information raise a SNQ of patentability
- Immunizes against holding of inequitable conduct based on same information (unless prior allegation in civil suit)

After Therasense and Supplemental Examination -- is inequitable conduct defense dead?

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Interim Options for Patent Challenges

- Preissue Options for challenging third party patent applications currently pending before USPTO
- 35 U.S.C. 122(c) will apply until new preissue submission option will become effective 1 year from enactment:
  - No protests or other third party oppositions authorized during application process before USPTO
- New preissue submission option will apply retroactively but can only be made before any claim is rejected under Section 132
- Option to (indirectly) influence application process:
  - Poor Man's Opposition
    - Need to be tailored to *Therasense*
  - Alternatives
    - Wait until preissue submission option becomes available
    - Try direct third party submission to USPTO
    - Wait until inter partes review becomes available

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Poor Man's Opposition (PMO)

- Leverages patent applicant's duty of candor
- Poor-Man's Opposition Procedure:

1. Create written package of prior art and report explaining why pending claims are unpatentable
2. Forward package to patent counsel representing patentee with reminder of the duty of candor
3. Applicant should submit entire package to PTO

– Monitor PAIR (USPTO database) to ensure that examiner receives and uses package

– If necessary provide follow-up evidence and reports

FOLEY
FOLEY & LARDNER LLP

HEISSE KURSAWE EVERSHEDS

PMOs in *Therasense* World

- If the patent applicant fails to submit either the prior art or the associated reasoning, any issued patent may well be found unenforceable due to inequitable conduct during prosecution
- Critical to tailor package to *Therasense* and PTO rules

Dear Mr. [redacted]

I write on behalf of [redacted] GmbH. We understand that you are prosecuting U.S. Patent Application Ser. No. [redacted] (henceforth, the "Application") naming Dr. [redacted] and Dr. [redacted] as inventors. We further understand that you represent the assignee of the Application, [redacted]

We have reviewed the file history for the Application, and believe that you and Drs. [redacted] must disclose fully the following points in order to comply with your duty of candor under 37 C.F.R. 1.56 and to avoid inequitable conduct under the standard articulated in *Therasense, Inc. v. Becton, Dickinson & Co.*, _ F.3d _, 2011 W.L. 2028255 (Fed. Cir. 2011) (*en banc*).

FOLEY & LARDNER LLP

Interim Options Re: Interference

- Interference proceedings will be eliminated from US patent law. Any patent application with an effective filing date on or after March 16, 2013 will not be able to initiate an interference
- Interference proceedings are still available for patent applications/patents filed before 18 months of AIA enactment
- **But:** future of interference proceedings unclear even for existing patents and patent applications (and pending interferences)
- Derivation proceedings become effective 18 months after AIA enactment
- Derivations proceedings to determine whether inventor named in earlier filed application derived claimed subject matter from inventor of later-filed application
- Tight deadline: Must file petition within 1 year of first publication of relevant claim (i.e., same of substantially same claim in earlier application)

FOLEY
FOLEY & LARDNER LLP
HEISSE KURSAWE EVERSHEDS

Interim Options re Interferences

- What is an interference?
  - A contest at the USPTO (Board of Patent Appeals and Interferences) to determine who invented "it" first
- Scope:
  - Between a patent and an allowed application which claims the same or substantially the same subject matter (also rarely between two applications)
  - Filing dates must be within 1 year of each other
  - Comparison of records to establish who invented first
- Result:
  - Winner takes all

FOLEY
FOLEY & LARDNER LLP
HEISSE KURSAWE EVERSHEDS

Interferences

- Interference proceedings are handled by the Administrative Patent Judges (APJs) in the Trial Section of the Board
  - Judges in the Trial Section are particularly experienced APJs
- Highly complex proceeding with its own procedural rules
- Relatively fast process (2 years), tight deadlines
- Strong motion and briefing practice, Need for expert witnesses
- Once declared, interference cannot be terminated unilaterally by a party (unless it "concedes" the other party invented first)
- Used to decide priority of invention under 35 USC 102 § (g) - first to invent
- But: Can be used to decide other issues, such as patentability
- No damages are involved in interference proceedings
- No jury is involved in interference proceedings

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

Derivations vs. Interference

- **Derivation potentially more difficult to prove:**
  - In interference, first inventor needs to prove earlier invention date, not "derivation" of invention
  - Derivations already an option under interferences
  - But: historically no more than 10% of interference cases have been derivations, no more than half have been successful (Foley estimates)
  - Board historically reluctant to allow broad discovery which may be needed to prove derivation
- **Practical consequences:**
  - Difficult and costly to prove a derivation
  - Need to file patent application early
  - Need to file provisionals before confidential disclosures of key inventions/technologies to others (e.g. business partners)
  - NDAs may not be sufficient to protect disclosures of invention

FOLEY FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

New Post-Grant Review

- Effective 16-Sep-2012
- Permits all invalidity arguments
- Available up to 9 months after grant
- Estoppel applies
- Board decides (not examiner)
- USPTO must complete review in 1 year (?)

FOLEY
FOLEY & LARDNER LLP

HEISSE KURSAWE EVERSHEDS

Inter Partes Review

- Effective 16-Sep-2012
- Replaces *inter partes* reexamination
- Limited to invalidity over prior art
- Available after 9 months of patent issuance or after first Post-Grant Review
- Must file within 1 year of being sued
- Estoppel applies

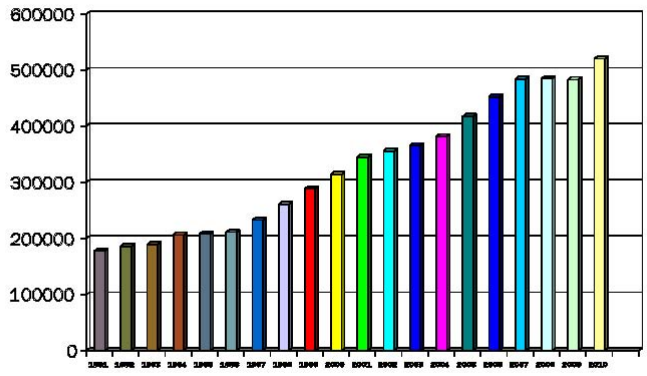
FOLEY
FOLEY & LARDNER LLP

HEISSE KURSAWE EVERSHEDS

US Patent Trends

U.S. Applications Filed

30



http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm

 11.7774

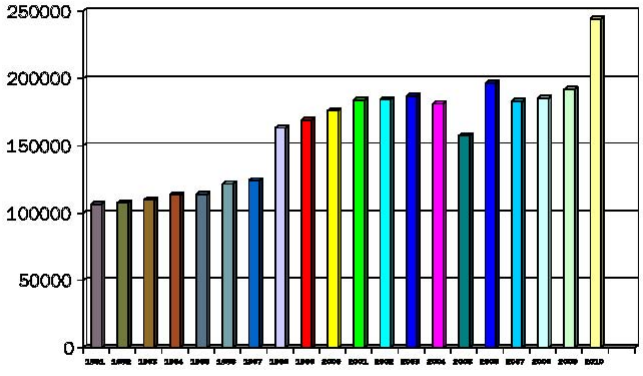
FOLEY
FOLEY & LARDNER LLP

HEISSE KURSAWE EVERSHEDS

US Patent Trends

U.S. Patents Issued

31



http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm

 11.7774

FOLEY
FOLEY & LARDNER LLP

HEISSE KURSAWE EVERSHEDS

US Patent Trends

Pendency Statistics

UPR Pendency Statistics by Technology Center (in months)	Average First Action Pendency	Total Average Pendency
Total UPR Pendency	**27.8**	**33.5**
Tech Center 1600 - Biotechnology & Organic Chemistry	23.6	33.8
Tech Center 1700 - Chemical and Materials Engineering	25.7	35.3
Tech Center 2100 - Computer Architecture, Software & Information Security	30.1	39.2
Tech Center 2400 - Network, Multiplexing, Cable & Security	34.0	39.8
Tech Center 2600 - Communications	31.7	40.6
Tech Center 2800 - Semiconductor, Electrical, Optical Systems & Components	25.3	29.1
Tech Center 3600 - Transportation, Construction, Agriculture & Electronic Commerce	26.3	33.7
Tech Center 3700 - Mechanical Engineering, Manufacturing & Products	29.2	37.3

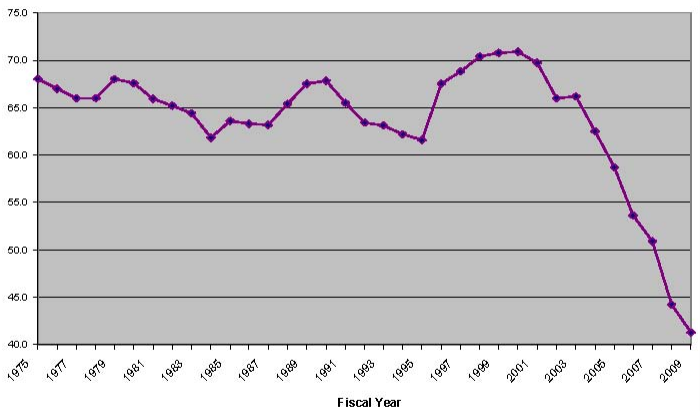
http://www.uspto.gov/dashboards/patents/kpis/kpiTCFirstActionPendency.kpixml (July 2011)

 11.7774

FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

US Patent Trends

Allowance Rates

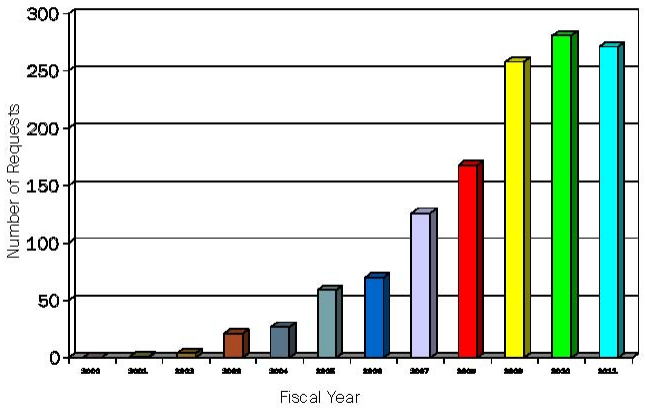


 11.7774

FOLEY & LARDNER LLP HEISSE KURSAWE EVERSHEDS

US Patent Trends

Inter Parties Reexamination



http://www.uspto.gov/patents/IP_quarterly_report_June_2011.pdf (June 2011)

11.7774

FOLEY
FOLEY & LARDNER LLP

HEISSE KURSAWE EVERSHEDS