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Developing a Patent Strategy

Leading Lawyers on Drafting Effective Patents, Seeking Global Protection, and Navigating the America Invents Act

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Navigating Today's Patent Landscape: Practical Considerations for Innovation, Enforcement, and Defense

Thomas R. Makin

Partner

Shearman & Sterling LLP

ASPATORE

Introduction

Recent statutory and precedential changes have weakened patent protection under US law. This chapter sets out our view of these changes, together with some statistical analysis of their effect on the patent landscape.

The positive takeaway from this news is that clients who are most often on the receiving end of patent suits can leverage these recent developments to their advantage. When sued, companies generally have the flexibility now to challenge the asserted patents' validity in special procedures at the US Patent & Trademark Office (USPTO), while the district court litigation is kept on hold.

Alternatively, should a client who is accused of infringing a software or business method patent want more immediate relief, it may be able to move to dismiss the litigation from the outset on grounds that the asserted claims are too abstract to constitute patentable subject matter. In either case, the client can delay or avoid discovery while negotiating to settle the matter—all with the threat of possible attorneys' fees in its back pocket.

The more interesting questions regarding the recent changes pertain to how attorneys can navigate these developments for their clients who want to enforce their portfolios and to keep competitors out of their important market spaces. There are several answers to these questions, which we discuss in this chapter, stretching chronologically from intake of invention disclosures through a patent infringement case.

Recent Developments Have Resulted in Uncertain Patent Rights

Three recent developments are currently impacting patent law, making it at least unsettled, if not startlingly anti-patent. Weakened patent protection would seem inconsistent with the continued importance of innovation to the American economy; therefore, these developments are likely temporary. This chapter details the recent developments and suggests patent prosecution, portfolio-building, and litigation strategies for innovators and patent aggregators to consider, as the patent-rights pendulum slowly swings back to their side.

Post-Grant Proceedings Create Uncertainty for Patents Generally

The first significant development creating an unsettled patent law landscape is the continued and increasing reliance by accused infringers on post-grant proceedings before the USPTO's Patent Trial & Appeal Board (PTAB), including *inter partes* review procedures (IPRs) and covered business method patent reviews (CBMs), as a default litigation defense strategy. Patent litigators (and their clients who were facing infringement suits) initially were skeptical of the effectiveness of IPRs and CBMs as litigation defense tools, in large part because of the *gestalt* feeling that previous USPTO post-grant proceedings had been ineffective—*ex parte* reexaminations produced too uncertain a result and allowed the patentee to negotiate outcomes in private interviews at the USPTO, while *inter partes* reexaminations simply took too long. However, that initial doubt quickly faded—in large part because the results of the initial group of proceedings were quite favorable to patent challengers.

Much of the early success of IPRs was due to their being filed primarily by the industrial and high-tech targets of non-practicing entities (NPEs) against patents of the low-hanging fruit variety. But while the rate of IPR success has dropped since that early euphoria, the success rate is still high.

In the first three years of their availability (through September 30, 2015), parties have filed for nearly 3,600 IPRs (including requests to join an existing IPR trial), in 65 percent of which the PTAB has decided whether to institute an IPR trial.[1] The PTAB has instituted an IPR in 72 percent of the requests it has decided.[2] Without including petitions where a party sought to join an already instituted IPR trial, the percentage drops slightly to approximately 70 percent.[3] Of the instituted IPRs that have been completed in the first three years, approximately 42 percent have been terminated during trial (due to settlement, dismissal, or a request for adverse judgment).[4] And of the remaining 58 percent, in which trials have been

[1] *See* USPTO Patent Trial and Appeal Board Statistics, at 4, 7 (Sept. 30, 2015), available at http://www.uspto.gov/sites/default/files/documents/2015-09-30%20PTAB.pdf (*NB*: That leaves approximately 35 percent of IPRs that either were terminated before an institution decision or have yet to be decided.)
[2] *Id.*
[3] *Id.*
[4] *Id.*

completed and the PTAB has issued a final written decision, 72 percent have resulted in the invalidation of all claims upon which the PTAB instituted IPR proceedings, 15 percent have resulted in the invalidation of only some instituted claims, and only 13 percent have resulted in confirmation of all of the instituted claims.[5]

An analysis of CBMs finds similar results, though on a smaller scale. During the first three years, parties filed approximately 375 petitions for CBMs, in approximately 75 percent of which the PTAB has issued decisions on whether to institute a trial.[6] Of these, the PTAB has instituted a CBM proceeding in approximately 73 percent, including joinder cases, or 72 percent without considering joinder cases.[7] Of trials that have been instituted, approximately 39 percent were terminated during trial.[8] Of the 61 percent that reached completion, the PTAB invalidated all instituted claims in approximately 82 percent, invalidated some—but not all—instituted claims in approximately 14 percent, and found no instituted claims unpatentable in a mere 4 percent.[9]

As the numbers illustrate, IPRs are far more common than CBMs, largely because of certain threshold CBM requirements not required for IPRs. IPRs may be filed by anyone, with a few limitations that can be fairly summarized as follows:

- The petitioner or its real-party-in-interest (RPI) cannot own the patent;
- The petitioner or its RPI cannot have previously filed a civil action challenging the validity of a claim of the patent (for example, a declaratory judgment action); and
- The petitioner or its RPI cannot have been served with a complaint alleging infringement of the patent more than one year prior to filing an IPR, with a limited exception for the joinder of another petition.

CBMs, in contrast, require that the petitioner or its RPI must have been sued or charged with patent infringement, and the patent claims must be

[5] *Id.*
[6] *Id.*
[7] *Id.*
[8] *Id.*
[9] *Id.*

related to "a financial product or service" and must not be directed to a "technological invention."

Many in-house counsel now view the filing of an IPR or CBM as the default first-strike maneuver in a patent litigation—particularly in an NPE litigation—as it generally results in a near-term stay of the litigation (before significant discovery), enables negotiation for a cheap settlement, and often results in the invalidity of important claims. The last is a particularly effective stick when the patentee has an ongoing patent license royalty stream that could be upset by an invalidity finding.

We have successfully implemented this strategy on behalf of clients on several occasions. For example, Toyota Motor Corp. filed twelve IPR petitions as part of a defense strategy against infringement allegations by plaintiff American Vehicular Sciences LLC (AVS) in the Eastern District of Texas covering twenty-four different patents.[10] While the cases were stayed, Toyota successfully petitioned the Federal Circuit for a writ of mandamus directing the Eastern District of Texas to transfer the cases to the Eastern District of Michigan.[11] AVS dismissed the remaining cases against Toyota before litigation in the Eastern District of Michigan resumed.[12]

Alice *Creates Unpredictability, Particularly for Software Patents*

The second development has been the aftermath of the Supreme Court's *Alice* decision in June 2014, which set forth a stringent two-part test for determining whether a patent claim is directed to patentable subject matter, or whether it is an impermissible attempt to stake broad, preemptive claim to an algorithm or an abstract concept.[13] The Supreme Court held that a court should first investigate whether the patent claim at issue is directed to an unpatentable concept, such as an abstract idea or algorithm; if so, the court should find the claim unpatentable unless it contains additional

[10] Case Nos. 6-12-cv-00404, 6-12-cv-00405, 6-12-cv-00406, 6-12-cv-00407, 6-12-cv-00408, 6-12-cv-00409, and 6-12-cv-00410.
[11] *In re Toyota Motor Corp.*, 747 F.3d 1338 (Fed. Cir. 2014).
[12] *See American Vehicular Sciences LLC v. Toyota Motor Corporation*, 2015 WL 10384290 (E.D. Mich. 2015).
[13] *Alice Corp. Pty. Ltd. v. CLS Bank Intern.*, 134 S. Ct. 2347, 189 L. Ed. 2d 296 (2014).

limitations such that it is directed to more than just the bare algorithm or abstract concept itself.[14]

While many practitioners argue about the clarity of the Supreme Court's guidance and about the type of technical limitations that can save an abstract claim from invalidity, there is no doubt that district courts have responded by greatly increasing the rate at which they grant motions to dismiss, motions for judgment on the pleadings, and motions for summary judgment alleging the unpatentability of the asserted claims under 35 United States Code, Section 101.[15] From the time *Alice* was decided through November 30, 2015, there have been more than 160 decisions in district courts on Section 101 motions filed by accused infringers, including motions to dismiss, motions for judgment on the pleadings, and motions for summary judgment of patent invalidity.[16] These motions have met with considerable success: more than 60 percent resulted in a full grant of patent invalidity under Section 101, and more than 70 percent resulted in at least a partial grant.[17]

The increased judicial acceptability of motions to dismiss and motions for judgment on the pleadings based on Section 101,[18] has an additional advantage: there is usually at least a partial stay of onerous discovery obligations while the court considers the merits of the patent challenge.

All of these post-*Alice* decisions have been especially comforting to in-house counsel for a defendant facing software patents, which face the brunt of most Section 101 attacks. She could now safely lower her expectations of the downside of litigation, and, of course, lower the expected cost of outside legal services to defend the litigation.

The narrative set out by both attorneys and judges in advocating for or deciding the unpatentability of software claims is both straightforward and damning. In a case we briefed, Judge MacMahon of the Southern District of New York found system and method claims for simplifying and reducing

[14] *Alice,* 134 S. Ct. at 2355-59.
[15] 35 U.S.C.A. § 101.
[16] Source: DocketNavigator.
[17] Source: DocketNavigator.
[18] 35 U.S.C.A. §101.

the cost of making long-distance and international calls to be patent-ineligible.[19] Judge MacMahon, in analyzing the two-step *Alice* framework, analogized the invention thusly:

> When I was a child I watched *Lassie* on television. Whenever June Lockhart, playing Ruth Martin, wanted to reach someone by telephone, she rang Jenny at Central and got herself connected to whomever she wished by saying, "Can you get the doctor?" or "I need to speak to Timmy's teacher, Miss Jones." Ruth didn't have to dial any numbers at all. Jenny, the intermediary, recognized Ruth as the caller from the line that rang at Central, and she knew which receptacle to plug Ruth's line into so that Ruth's call to Central would be forwarded to its intended recipient. Nothing different happens here, except that switching machinery and computers (none of which is claimed) recognize who the incoming caller is and to whom she wishes her call forwarded. As defendant points out, a room full of telephone operators with sheets of paper containing look-up tables could accomplish the same result …
>
> [U]nder the *Alice-Mayo* test, not every clever solution to a problem—not everything that leads someone to exclaim "Eureka!"—is eligible for patent protection … In short, patents are not available for all inspirations of genius, but only for processes, machines, manufactures and combinations of materials. The Stanacard method for placing overseas long distance calls is most certainly an improvement, but it is none of the above. Therefore, it is not patentable.[20]

Octane *and* Highmark *Create New Reasons for Avoiding Litigation*

The third significant development—the Supreme Court's twin rulings in 2014 in *Octane* and *Highmark*—made it easier for the winner of a patent

[19] *See Stanacard v. Rubard LLC*, 2015 WL 7351995 (S.D. N.Y. 2015).
[20] *Id.* at *7-8.

litigation to obtain attorneys' fees, thereby adding another reason for a patentee to avoid litigation or to expect less on average from monetizing its portfolio.[21] The Supreme Court ruled that a patent litigation victor could prove the case was "exceptional"—and therefore that it deserved attorneys' fees—merely by proving the case "stands out from others" by a preponderance of the evidence. The Supreme Court also granted great power to the district courts to make these decisions, as it further ruled that an appellate court may disturb a ruling regarding exceptionality subject only if there is "clear error."

The Need to Adapt: Innovation and Enforcement Strategies

Patent litigation and enforcement is much more difficult and risky than it was five or ten years ago, mainly because of the recent trends discussed in this chapter. In addition, damages law has evolved from what it was ten years ago in a way that has made it harder for patentees to win large awards. For example, the Federal Circuit is enforcing the "entire market value rule," which limits reasonable royalties to a percentage of the value of the smallest saleable component, absent evidence that the patented technology enables the accused infringer to sell the larger device or the product of which that component is a part.[22]

The Federal Circuit and other courts recently have also weighed in on damages for infringement of standard-essential patents (SEPs)— patents that must be infringed to practice an industry standard—and particularly those that the patent owner has pledged to license under "reasonable and nondiscriminatory" (RAND) terms. Courts have made it clear that damages must be tied to the value of the particular invention and cannot be based on the value to the accused infringer of practicing the standard as a whole.[23]

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[21] *Octane Fitness LLC v. ICON Health & Fitness Inc.*, 134 S. Ct. 1749, 188 L. Ed. 2d 816 (2014); *Highmark Inc. v. Allcare Health Management System Inc.*, 134 S. Ct. 1744, 188 L. Ed. 2d 829 (2014).

[22] *See, e.g., Virnetx Inc. v. Cisco Systems Inc.*, 767 F.3d 1308, 1326-27 (Fed. Cir. 2014); *Versata Software Inc. v. SAP America Inc.*, 717 F.3d 1255, 1268 (Fed. Cir. 2013), cert. denied, 134 S. Ct. 1013, 187 L. Ed. 2d 851 (2014).

[23] *See, e.g., Ericsson Inc. v. D-Link Systems Inc.*, 773 F.3d 1201, 1232-33 (Fed. Cir. 2014); *In re Innovatio IP Ventures LLC Patent Litigation*, 2013 WL 5593609 at *9-10 (N.D. Ill. 2013); *Microsoft Corp. v. Motorola Inc.*, 2013 WL 2111217 at *12-13 (W.D. Wash. 2013).

As a necessary consequence, companies looking to monetize their patent portfolios are finding the monetary rewards to be significantly reduced as compared to those from the last decade. For example, the median damages award has shrunk from $5.3 million during 2005–2009 to $2.9 million between 2010 and 2014, and the largest initial adjudicated damages award in 2014 ($467 million) was more than two-thirds lower than the largest award just five years prior ($1.673 billion in 2009).[24] Interestingly, and warning of the dangers of unintended consequences, the statistics show that the recent changes in patent law may have negatively affected companies that practice their portfolios more than they have negatively affected NPEs. The median damages award for practicing entities shrank from $5 million to $2 million, while the awards actually increased for NPEs, from $7.5 million to $8.9 million.[25]

Regardless of the recent headwinds, companies are still looking for ways to extract value from their innovations and patent portfolios. In fact, there may even be a corporate obligation to do so.[26] And in analyzing which inventions deserve significant resources to protect, how to achieve that protection, and how ultimately to use that protection, companies are seeking outside counsel's help.

How to Protect Innovation: Be Active from the Start

In consultation with their outside counsel, companies are placing an increased emphasis on choosing which inventions to patent, as well as which patents to spend extra resources maintaining. In this regard, we have helped clients create institutional protocols for developing and protecting

[24] *See* PricewaterhouseCoopers LLP, *2015 Patent Litigation Study*, at 5-6 (May 2015), available at http://www.pwc.com/us/en/forensic-services/publications/assets/2015-pwc-patent-litigation-study.pdf.

[25] *See* PricewaterhouseCoopers LLP, *2015 Patent Litigation Study*, at 4 (May 2015), available at http://www.pwc.com/us/en/forensic-services/publications/assets/2015-pwc-patent-litigation-study.pdf .

[26] *See E.I. du Pont de Nemours and Co. v. Medtronic Vascular Inc.*, 2013 WL 1792824 at *4 (Del. Super. Ct. 2013), *judgment aff'd,* 77 A.3d 271 (Del. 2013) (A corporation "has every right to vigorously defend its intellectual property, through litigation if necessary. There is nothing nefarious about a corporation generating profits through its legal department … It could in fact be argued that such activities are at least consistent with [if not affirmatively required as part of] managing a company in the appropriate exercise of fiduciary duties.").

their inventions. Among other things, these protocols enforce internal monitoring by patent specialists of a company's own research and development (R&D)/product development, as well as that of others in the marketplace, and encourage the development of a robust patent portfolio covering the various aspects of the company's business.

The legal developments discussed in this chapter have caused clients to place even more emphasis on early analyses of the value of potential inventions. For example, in the past, companies often filed patent applications on most new inventions and paid prosecution firms fixed amounts for their work on those applications, regardless of the competitive landscape, the potential scope of claims that may ultimately have been allowable, or the value of those inventions to their businesses. Now, however, it is more important than ever for a company to devote resources to only the best and most important inventions and to pursue the strongest possible patent claims, even if that means filing fewer total applications and spending more time and money on each.

If the early internal monitoring identifies software inventions that may be worthwhile to patent, clients must take steps to avoid the pitfalls of *Alice* and its progeny. The Supreme Court's guidance on patentable subject matter has filtered through to the examiners handling original prosecution.[27] Innovators and their counsel must carefully craft their patent claims to avoid seeming broadly to preempt use of an algorithm or abstract idea.

For example, one conservative approach is to attempt to draft at least some patent claims to satisfy the decades-old "machine or transformation" test.[28] While not strictly necessary for patent subject matter eligibility,[29] this technique provides one conservative approach to ensure that an issued patent will include claims that meet patent-eligible subject matter requirements. In this same vein, clients and their outside patent attorneys also should avoid characterizing inventions in broad strokes, particularly in describing the background and state of the art. And

[27] *See, e.g.*, Manual of Patent Examining Procedure (MPEP) § 2106; July 2015 Update on Subject Matter Eligibility, 80 Fed. Reg. 45429 (July 30, 2015); 2014 Interim Guidance on Subject Matter Eligibility, 79 Fed. Reg. 74618 (Dec. 16, 2014).
[28] *See, e.g., Gottschalk v. Benson*, 409 U.S. 63, 93 S. Ct. 253, 34 L. Ed. 2d 273 (1972); *Parker v. Flook*, 437 U.S. 584, 98 S. Ct. 2522, 57 L. Ed. 2d 451 (1978).
[29] *Bilski v. Kappos*, 561 U.S. 593, 130 S. Ct. 3218, 177 L. Ed. 2d 792 (2010).

they should further avoid describing computer and electronic components as "well-known" or "conventional." Rather, the patent and its claims should, by their own terms, demonstrate that the problem to be solved is one that arises from the software realm and/or for which solutions are necessarily rooted in software.[30]

We are also increasingly hearing from companies that they are pivoting to applying for design patents in addition to, or in lieu of, the more common utility model. This pivot is due in part to the increased difficulties patent owners are facing with Section 101[31] unpatentability under *Alice* and with invalidity before the PTAB. It is also due to consideration of the potential damages available through enforcement. In addition to the ability of a patentee to seek "reasonable royalties" under 35 United States Code, Section 284,[32] an infringer of a design patent is also "liable to the owner to the extent of his total profits, but not less than $250" under 35 United States Code, Section 289.[33] And, unlike with utility patents, there is currently no apportionment of profits—the patent owner is entitled to the total profit of the product bearing the patented design, even if the patented design covers only a portion of the product.[34] Thus, the damages award may end up being significantly higher than a corresponding lost profit (or reasonable royalty) analysis for a utility patent.

How to Enforce and Monetize Innovation: Have a Plan for Litigation and Licensing

[30] *See, e.g., DDR Holdings LLC v. Hotels.com LP*, 773 F.3d 1245, 1257 (Fed. Cir. 2014) ("the claimed solution is necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks"); *Finjan Inc. v. Blue Coat Systems Inc*., 2015 WL 7351450 at *9 (N.D. Cal. 2015) (claim-at-issue, which follows the Patent Office's 2014 Interim Guidance on Patent Subject Matter Eligibility, is … "rooted in computer technology as it covers the identification of suspicious code which do not have significance outside the realm of computer technology."); *Intellectual Ventures I LLC v. Symantec Corporation*, 100 F. Supp. 3d 371, 402-403 (D. Del. 2015) ("The concept of detecting a computer virus in installed data (and doing so in a telephone network) does not make sense outside of a computer context.").

[31] 35 U.S.C.A. §101.

[32] 35 U.S.C.A. §284.

[33] 35 U.S.C.A. §289.

[34] *See, e.g., Nordock Inc. v. Systems Inc.*, 803 F.3d 1344, 1355 (Fed. Cir. 2015); *Apple Inc. v. Samsung Electronics Co. Ltd.*, 786 F.3d 983, 1001-02 (Fed. Cir. 2015). However, the Supreme Court granted certiorari on March 21, 2016 in *Apple v. Samsung* to consider profit apportionment in design patent cases.

As part of the portfolio-building process, companies should bundle together both patents developed internally and patents obtained from outside, taking care to have patents in the United States and in other jurisdictions. In a licensing campaign or as part of a litigation plan, a broad-based, robust, international portfolio is more difficult to defend against. Intellectual Ventures, a well-known domestic patent aggregator (across a variety of technology fields) has recently filed suits in Germany against telecom companies.[35] And patent assertion entities, in general, are looking less frequently to purchase a single patent asset, instead seeking multiple assets that create international "patent thickets" that are used in "large-scale monetization programs."[36]

Then, in bringing an infringement suit (or in presenting claim charts in a licensing negotiation), clients must choose from their offensive arsenal wisely, picking patent claims covering multiple aspects of the accused products and steering away from broadly worded, functionally claimed software patents. Clients must be prepared from the outset for a barrage of IPRs or CBMs and must be prepared to win them. In fighting off these IPRs and CBMs, clients and their outside counsel should focus only on the winnable arguments. The best approach is to develop a single theme as to why the claimed invention is different from the cited prior art; "kitchen sink" approaches have rarely been successful. The best theme is one that concentrates on a weakness that the petitioner failed to sufficiently detail in its briefing or expert declaration. Petitioners typically do not get a second opportunity to add new facts or arguments after hearing the patent owner's rebuttal.

Clients and their outside counsel should also spend considerable time choosing the proper forums in which to bring their litigations. For example, it may be wise to bring infringement suits in jurisdictions that are faster than—or at least as quick as—the IPR/CBM process, which takes approximately eighteen months from filing to final decision. Such districts include the Eastern District of Virginia (with a median time to trial of 11.9

[35] Recent Intellectual Venture telecom targets in Germany include Vodafone, Deutsche Telekom, and Telefonica. *See* Intellectual Ventures Legal Updates, http://www.intellectualventures.com/news/legal-updates/ (last visited Dec. 14, 2015).

[36] *See, e.g.*, Tony Dutra, *Patent Asset Buyers See Goliath v. Goliath Fights Ahead*, BNA's Patent, Trademark & Copyright Journal, Daily Ed. (Nov. 18, 2015), http://www.bna.com/patent-asset-buyers-n57982063745/.

months for the twelve-month period ending March 31, 2014); the District of Hawaii (14.5 months); the Western District of Virginia (fifteen months); the Western District of Wisconsin (15.2 months); the Southern District of Florida (16.1 months); the Eastern District of Pennsylvania (16.7 months); and the Northern District of Ohio (16.9 months).[37] Alternatively, clients with a demonstrable domestic industry may seek an investigation before the International Trade Commission (ITC), which typically takes twelve to eighteen months from the filing of the complaint to the issuance of a final decision, and which has never granted a stay request for an IPR/CBM.[38]

Clients should also be prepared for litigation to be delayed by a motion for unpatentability under Section 101[39] and a stay pending the decision on patentability. Clients and their outside counsel can mitigate this effect by bringing their infringement suits in jurisdictions that tend to take up Section 101 motions directly before trial, after a more deliberative claim construction process. In one such jurisdiction, the Eastern District of Texas, fewer than 40 percent of the Section 101 motions (including motions to dismiss, motions for judgment on the pleadings, and motions for summary judgment of patent invalidity) filed by accused infringers have been fully or partially granted since *Alice* through November 2015.[40] This contrasts with the District of Delaware, which appears to lead the way at more than 90 percent.[41] Notably, several of the previously mentioned "rocket dockets" (for example, the Western District of Virginia, the Southern District of Florida, and the Eastern District of Pennsylvania) have not recently decided any patent-eligible subject matter motions, and their approach to such motions remains to be fleshed out.[42]

Outside counsel may also encourage clients to sue in multiple jurisdictions, both domestically and internationally, overwhelming defendants and building up victories, including injunctions in key ports of entry or in countries critical to product sales or to a supply chain. In international patent battles, Europe

[37] *See* US District Courts—Median Time Intervals From Filing to Disposition of Civil Cases Terminated, by District and Method of Disposition, During the 12-Month Period Ending March 31, 2014.
[38] *See, e.g., Certain Microelectromechanical Systems (MEMS Devices)*, Order No. 6: Denying Request for Stay (May 21, 2013).
[39] 35 U.S.C.A. §101.
[40] Source: DocketNavigator.
[41] Source: DocketNavigator.
[42] Source: DocketNavigator.

has been a traditional battleground, but recently, there has been a significant increase in litigations filed in China. China is both a source of customers and a critical location in companies' supply chains, but also China has been intentionally strengthening its patent system—in anticipation of its economic movement from manufacturer to innovator.

China's National Patent Development Strategy was formulated to "enhanc[e] China's capacity to create, utilize, protect and administer patent[s] and provid[e] vigorous support for accelerating transformation of economic development mode and promot[e] social and economic development."[43] Through this strategy, China has put patents—and its patent system—at the forefront, insisting that it is "fundamental … to encourage and protect innovation."[44] China's goal was to have 2 million annual patent filings by 2015, a goal it surpassed in 2014 with 2,361,000 patent applications.[45] The rapid rise in patent application filings also is being aided by an increase in domestic R&D spending from entities such as Huawei and ZTE, both of which invest heavily in R&D and own thousands of patents worldwide.[46]

China offers two avenues to pursue infringement claims: before a judicial court or before the State Intellectual Property Office (SIPO) and its local administrative offices. The Measures on Administrative Enforcement of Patents provides SIPO with powers to enforce patent rights.[47] SIPO can, among other things, determine infringement and issue an injunction, but, unlike courts, it cannot award compensatory damages. Still, SIPO has become an increasingly popular forum because of the availability of an injunction and the relative speed of the proceedings and because Chinese courts award relatively low damages amounts. Between 2013 and 2014, courts saw an increase of approximately 5 percent in patent cases (9,648 total filings in 2014); whereas, SIPO experienced an increase of more than

[43] *See* State Intellectual Property Office of the People's Republic of China, *National Patent Development Strategy (2011-2020)* (Nov. 11, 2010).
[44] *Id.*
[45] *See* State Intellectual Property Office of the People's Republic of China, *2014 Intellectual Property Rights in China*, at 5.
[46] *See* Jay Kesan, *Made in China: How Chinese Innovation is Changing the Patent Landscape*, Intellectual Property Scholars' Conf. (IPSC), at 5 (Aug. 7-8 2014).
[47] *See Measures on Administrative Enforcement of Patents* (as amended July 1, 2015).

51 percent (24,479 cases were handled by SIPO in 2014—more than triple that of the Chinese courts).[48]

Specific Guidance for Startup Companies, Especially Innovative Software Startups

Startup companies are in a unique position in today's patent landscape. They are usually nimble enough and have little enough running revenue at stake that they can mitigate the risk of losing a patent infringement suit to an existing player; therefore, they tend to be rather populist about patents and ignore them—both defensively and offensively—as an impediment to progress and a tax on the system.

But startups must take the patent system seriously. Not only may some other company's patents turn out to be blocking patents for a startup's lines of pursuit, but also, the startup will need patents itself to ward off established players in closely related fields. Because bigger, established players can in many cases simply copy a startup's products and leverage their own economies of scale, intellectual property (IP) rights are the most important (non-human-resource) assets a startup has.

This general admonition to startups and their outside counsel is even stronger for startups whose innovation is embodied in software. Copying software is easy, and it is becoming easier (and cheaper) every day. Like pharmaceutical innovators, all software developers have to protect themselves are their patent rights. And software startups may find themselves victims of the general perception that software patents often end up in the hands of NPE aggressors because they were developed by an individual, by a failed or failing company, or by an NPE's own internal think tank for the purpose of litigation. Because they may be tarred with the same negative brush as NPEs—i.e., that their inventions are too broad, too preemptive, and not worthy of significant damages—they face in full the negative aspects of the weakened patent system discussed above.

[48] *See* State Intellectual Property Office of the People's Republic of China, *2014 Intellectual Property Rights in China*, at 11, 15.

For all of these reasons, it is critical for startup companies to determine their best inventions and to invest the resources needed to construct powerful patents and to do so internationally. And it is critical for their outside counsel to appreciate and understand most startups' view of the patent system and their general desire to spend capital on inventing and not on lawyers.

The specific questions we ask a startup client when we first meet depend on the matter for which we have been engaged or are being considered for engagement. Our core questions, however, focus on understanding the company's business objectives.

For example, if the engagement is intended to address a litigation, is the goal to minimize costs and risks? Is it to make a public statement? Is it to clear the market from competitors or to extend a market? Are there geographic regions of particular interest or worry? If the matter is prosecution, again, we ask what the objectives are: What is the core business, and how does the company need to protect or grow it? Where is that business today, and where will it be tomorrow? Who else is innovating and patenting in this space? What is the business advantage over those other innovators?

Working effectively with startup clients in particular requires us to listen more than talk. We must understand the business the client is in and the problems and opportunities it faces—regardless of whether the client initially is aware of them or their importance. And when we talk, it is imperative to give actionable advice about the process of getting the client to its goals, focusing less on legal theory and general principles and more on concrete steps this particular client could take.

Conclusion

Innovators and their patent practitioners will evolve with the current law, as they have many times before. It is likely that the current patent downturn will be a blip on the radar. Patent owners will adapt—and are already adapting—to the changing patent landscape.

It also seems likely that the United States will not continue its anti-patent trend, while countries such as China strengthen their patent systems. As US industry develops new innovations that are at risk of foreign competition, the United States will likely shift back to stronger patent protection.

A decades-old example will remind us of this instinct. In promoting the virtues of the Omnibus Trade and Competitiveness Act of 1988[49]—which improved access to the ITC—Representative Kastenmeier expressed the following rationale for the legislation:

> For better or worse, we are more and more an information based economy. For those who make substantial investments in research, there should be a remedy. For those who make substantial investments in the creation of intellectual property and then license creations, there should be a remedy. Let me give one example, there's a start-up biotech firm in my state. Its product is its patents. It hasn't reached the stage of manufacture. It doesn't have the money. But it will reach that point, by licensing its patents to others. Should we deny that firm the right to exclude the work of pirates? Our legislation would say not.[50]

In this vein, then, we view the current anti-patent trend as a bubble event, blown up largely by the increased prominence in the media of "patent trolls." Clients and their outside counsel should, therefore, continue efficiently to devote resources first to protecting their innovations with patents and then to exploiting those patent rights.

Key Takeaways

- Clients on the receiving end of patent lawsuits should challenge the asserted patents' validity in an IPR or CBM while the district court litigation is kept on hold, or move to dismiss the litigation from the

[49] Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107.
[50] 132 Cong. R. H1782 (Apr. 10, 1986); *see also* Colleen Chien, *Patent Holdup, the ITC, and the Public Interest*, 98 CORNELL L. REV. 1 (2012) ("section 337 was created to keep foreign pirates out of American markets …").

outset on Section 101[51] grounds, again while delaying or limiting onerous discovery obligations.

- Outside counsel should encourage clients to continuously monitor their own R&D/product development, as well as that of others in the marketplace, and to work with counsel in identifying their most potentially valuable intellectual assets. Clients should continue to invest, internally and in the form of technology purchases, to develop robust international portfolios of utility and design patents, covering the various aspects of their current and foreseeable lines and locations of business.
- In drafting patents for software companies, counsel should carefully construct their patent claims to include more than just an algorithm, while the patent specification should avoid characterizing the invention too broadly. Both the claims and the specification should demonstrate that the problem to be solved is one that arises from the software realm and/or for which solutions are necessarily rooted in software.
- In fighting off IPRs and CBMs, outside counsel should resist the urge to apply "kitchen sink" approaches; rather, briefing and oral argument should focus on weak areas in the petitioners' briefing, or insufficient expert declarations that the petitioners cannot repair.
- Clients who are plaintiffs in litigation should consider reducing the early negative effects on litigation of IPRs, CBMs, and Section 101 motions by choosing fast district courts or, if they have demonstrable domestic industries, by seeking an investigation before the ITC.
- Clients and their outside counsel should not hesitate to bring suit in multiple jurisdictions, domestically and internationally, to overwhelm infringers and build up victories, including injunctions, in important locations, such as key markets, ports, and stops on international supply chains.

[51] 35 U.S.C.A. §101.

Thomas R. Makin is a partner in Shearman & Sterling LLP's Litigation Practice and is based in the New York office. He focuses his practice on patent litigation in federal court and before the International Trade Commission. He also participates in patent review proceedings before the US Patent and Trademark Office and counsels clients regarding both substantive patent law and patent valuation and licensing issues.

Mr. Makin represents plaintiffs and defendants across a wide range of technological fields: vehicular safety and propulsion systems, light-emitting diodes (LEDs), smartphone applications, rechargeable batteries, imaging systems, medical devices, and semiconductor fabrication and circuitry. In doing so, he has been recognized for excellence in practice by a number of legal publications, including the 2015 editions of THE LEGAL 500 and IAM PATENT 1000: The World's Leading Patent Practitioners.

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Patrick R. Colsher is an associate in Shearman & Sterling LLP's Litigation Practice. He concentrates on patent litigation and counseling, with an emphasis on the electrical, mechanical, and computer science arts. He has litigated numerous cases in federal courts and Section 337 investigations before the International Trade Commission for both accused infringers and patent owners, ranging from startups to the Fortune 100. He also frequently counsels clients in connection with post-grant proceedings before the US Patent & Trademark Office. His experience spans a number of technologies, including computer security and networking, streaming media, semiconductors, geolocation, automotive, image compression, and e-commerce.

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