# US Patent Reform: the AIA and Unintended Consequences

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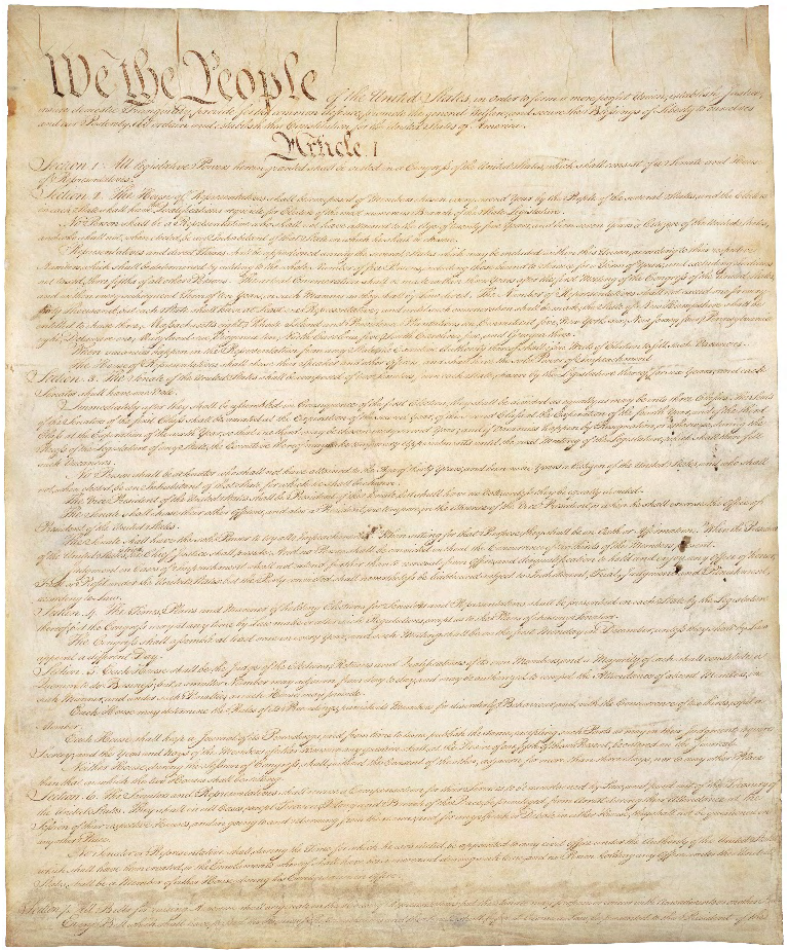
# Outline

- US Patent System
  - USPTO
  - Patent litigation and NPEs
  - Implementation of the AIA
- Unintended consequences of the AIA
  - IPR opportunists
  - System-wide losses in value, licensing and R&D
- Problems and solutions
- Relevance to UPC?

# US Patent System: Founded 1788




US CONST. art. I, § 8, cl. 8 (June 21,1788)

The ***Congress shall have power***

…

•To ***promote the Progress*** of Science and ***useful Arts***, ***by securing for limited Times to*** Authors and ***Inventors the exclusive Right to their respective*** Writings and ***Discoveries***

# US Patent System: Promoting Innovation

# US Patent System: Legal Framework

***Legislative*** (Art. I)

***Executive*** (Art. II)

***Judicial*** (Art. III)

# USPTO*

~ $ 3,000,000,000 annual budget **from *user fees***

~ 4,000 patent examiners

~ 600,000 patent applications filed per year

~ 2 years from filing to grant or final rejection

~ 300,000 patents issued per year

~ 600,000 application backlog

* 2015 figures

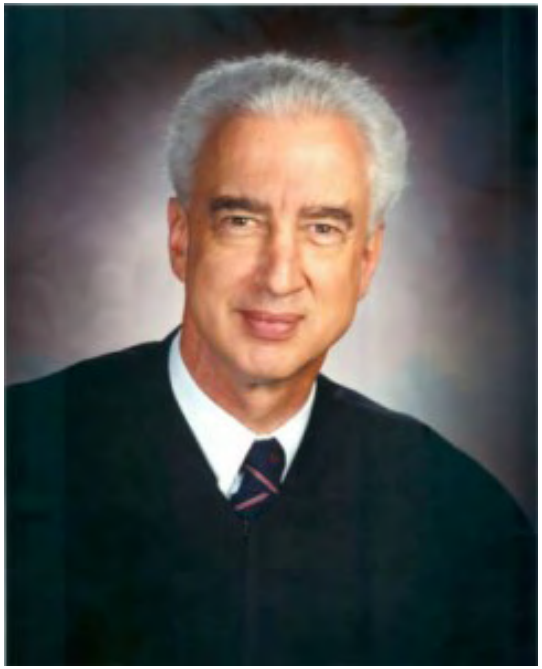
# USPTO

- Aside from ***examination of applications***, until America Invents Act ("AIA") took effect on ***Sept. 16, 2012***, offered two procedures for ***third parties to petition USPTO***, during ***enforceable term***, to conduct ***patent reexamination***:
- ***Ex parte* reexamination**—started July 1981, still available—average 1,000 requests/year
- ***Inter partes* reexamination**—started Nov. 1999, ended AIA—average 100 requests/year

# USPTO

- Widely criticized for issuing, particularly in the ‘90s, patent ***claims*** that are ***overly broad and vague***:
  - Many with ***no economic value***:
    - 5,443,036 (Aug. 22, 1995) *Method of Exercising a Cat*
  - Some of ***huge economic value***:
    - ***5,412,730*** (May 2, 1995) *Encryption Data Transmission System Employing Means for Randomly Altering the Encryption Keys*
    - ***$45 million in licensing revenue***

# Patent Litigation: A Judge's Opinion

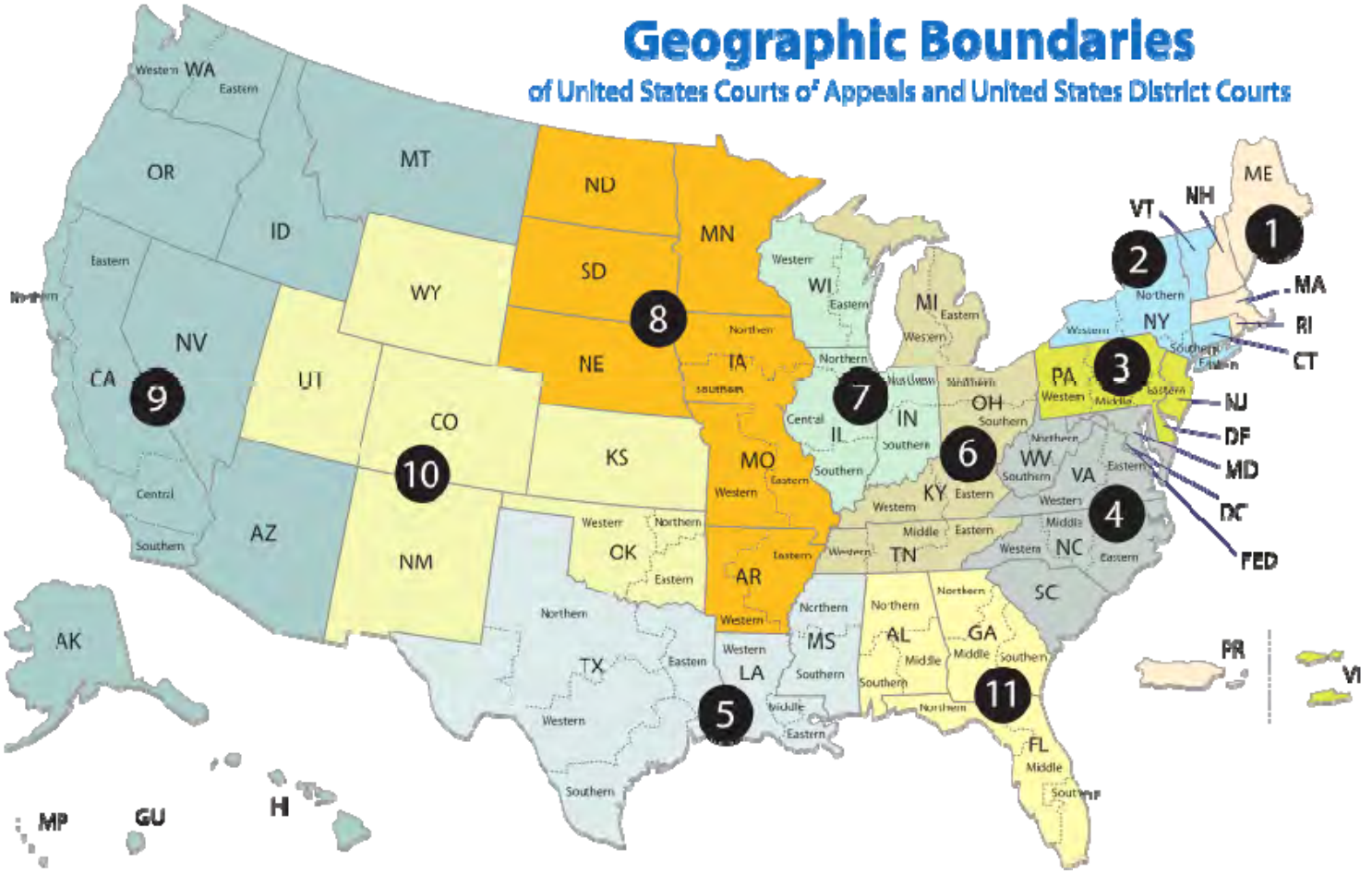


***"Patent litigation…is too expensive, too slow, too disruptive and too unpredictable"***

Hon. Paul R. Michel, Chief Judge (ret.), Court of Appeals for the Federal Circuit (2004-10)

*Patent Litigation and Federal Rules - Podcast* (Feb. 24. 2016) Federalist Society

# Patent Litigation: 94 District Courts




www.uscourts.gov

# Patent Litigation: 94 District Courts


***S.D. New York***

- 28 judgeships
- Cases filed in 2015
  - Criminal: ~ 700
  - ***Civil: 10,302 (pat. 146)***

***E.D. Texas***

- 8 judgeships
- Cases filed in 2015
  - Criminal: ~ 400
  - ***Civil: 5,072 (pat. 2,557)***

Civil data: justia.com; criminal data, SD NY photo: uscourts.gov; ED Tex photo: arstechnica.com

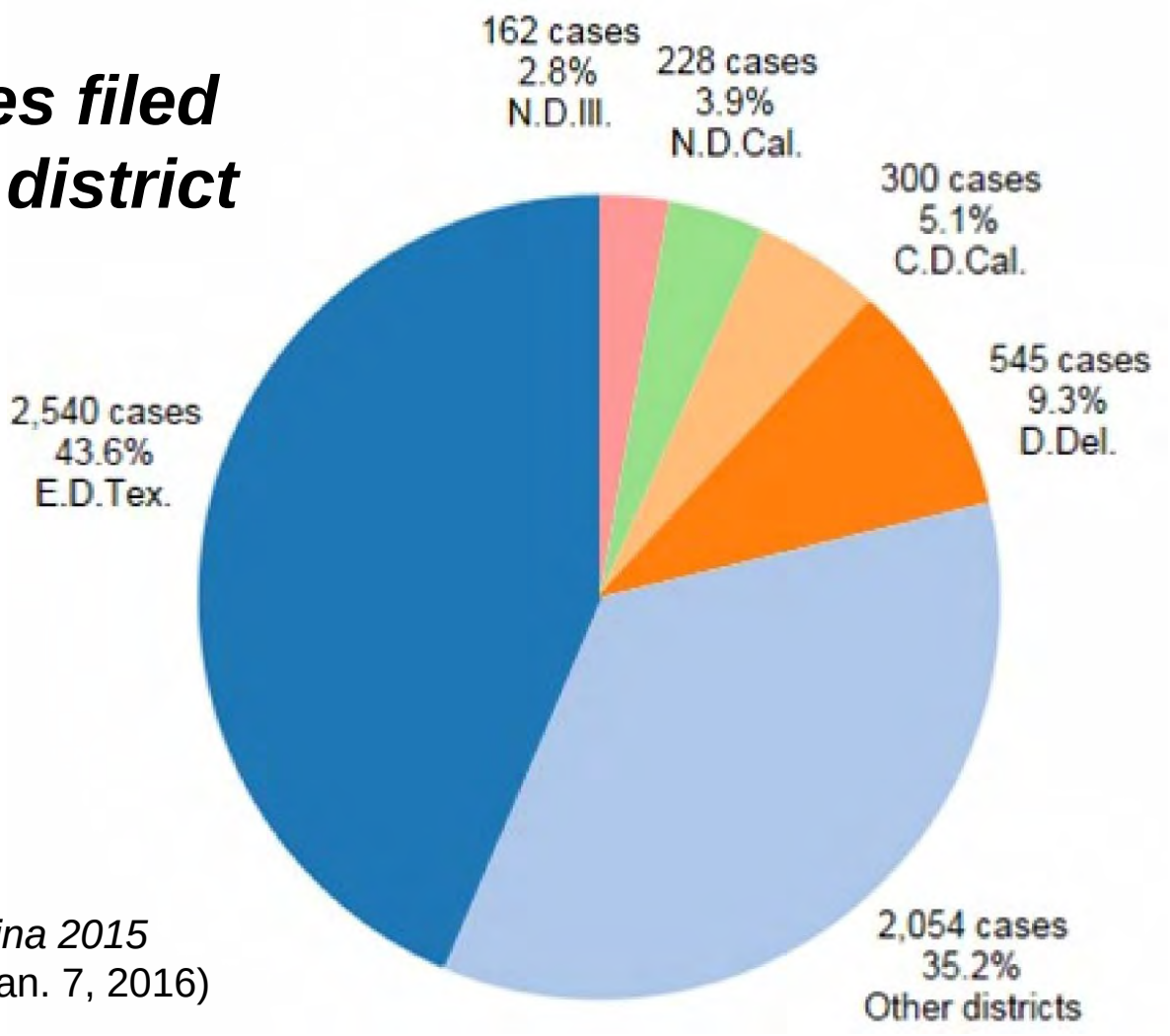
# Patent Litigation: Which District?

- ***Patent owner*** may ***start infringement proceedings in district of his choosing***,* by filing ***complaint*** for ***money damages*** and/or an ***injunction***, order barring present and future infringing activities
- ***Alleged infringer*** may ***start declaratory proceedings in district of his choosing***,* by filing ***complaint*** seeking declaration of invalidity, non-infringement or non-enforceability, but generally only if ***already threatened with infringement suit and actively planning infringing activities***

* Degree of owner/infringer's contact with the district will limit the choice

# Patent Litigation: Which District?

***Patent cases filed in 2015, by district***




B. Howard , *Lex Machina 2015 End-of-Year Trends* (Jan. 7, 2016)

# Patent Litigation: One Appeals Court

- ***Court of Appeals for the Federal Circuit (CAFC)***, created 1982 to make ***patent law geographically*** and ***doctrinally more uniform***
- ***Three-judge panel*** hears ***patent appeals*** from ***all 94 district courts***, USPTO and ITC (and non-patent matters from other federal agencies)
- Key cases heard by all 12 active judges ***en banc***
- CAFC decisions ***appealable to US Supreme Court***, but ***accepts only 1% of requests***
- District court decision to Federal Circuit opinion takes around ***two years***

# Patent Litigation: What Went Wrong?

- ***Too expensive:*** depending on amount at issue, if not dismissed before, complaint through trial easily cost parties ***$2 to 5 million*** each (***attorneys***, ***discovery, experts, trial***)
- ***Too slow:*** complaint through trial, typically ***two to three years***, if appealed to CAFC, ***two more***
- ***Too disruptive:*** key personnel and resources diverted to litigation, instead of core business (unless business ***is*** litigation)
- ***Too uncertain:*** if damages sought, ***lay jury*** may decide ***infringement***, ***validity*** and ***damages***

# Patent Litigation: NPE vs. PE

- ***Non-Practicing Entities*** (NPEs)
  - Risks ***loss of patent*** for potential ***huge rewards*** (fee-shifting extremely rare)
  - No core business to disrupt; discovery expenses contained; familiarity with arguments and court procedures; ***spread costs across multiple cases***
- ***Practicing Entities*** (PEs)
  - ***Risk crippling damage award***, wants case to end
  - Certain ***disruption, uncertain outcome*** and ***ever-increasing costs*** as trial approaches, give huge ***incentive to settle early with NPE***

# Patent Litigation: “Mr. NPE”

- Erich Spangenberg, former Dallas law partner, acting through ***IPNav*** and related entities, responsible for ***more than 1600 district court infringement actions***
- “A ***strong protection of IP rights is important to protecting our economy***….I don’t understand ***why just because it’s prevalent, it should be free***.”

IP NAV
FULL SERVICE PATENT MONETIZATION

A. Greenberg, *Meet The Texas Lawyer* ..., Forbes (Nov. 9, 2012)

# Patent Litigation: “Mr. NPE”

- ***US 5,412,730***, *Encryption Data Transmission System Employing Means for Randomly Altering the Encryption Keys,* ***priority Oct. 6, 1989***, i.e., ***pre-WWW***, issued May 2, 1995, relates to ***modem transmission*** of ***encrypted data*** using “pseudo random” numbers
- Original owner, ***Telequip***, maker of coin dispensers, sold 30 encrypted modems before exiting market
- In 2006, Telequip absorbed by larger manufacturing company, Spangenberg acquires ‘730 patent for ***$750,000***

J. Mullin, *Newegg on trial…*, Ars Technica (Nov. 21, 2013)

# Patent Litigation: “Mr. NPE”

- In 2008, ***TQP Development***, a Texas corporation with two employees, owner ***Spangenberg*** and inventor ***Jones***, begins asserting ***‘730 patent***
- Allege infringement by any website using ***web-based encryption combining commonly-used cryptographic protocols***, SSL and RC4
- Asserted against ***hundreds of companies*** across business sectors ranging from telecommunications to finance, from sports marketing to pet supplies

J. Mullin, *Newegg on trial…*, Ars Technica (Nov. 21, 2013)

# Patent Litigation: “Mr. NPE”

- At Nov. 2013 trial in ***Marshall, Tex.,*** describes his “***sue first, ask questions later***” approach
- Admits ***139 licenses*** issued to ***‘730 patent***, worth ***$45 million*** and, remarkably, shares ***actual examples***:
- Microsoft and Apple, ***“relatively easy to deal with”;*** Target ***$40,000***; Dodge & Cox ***$25,000***; Pentagon Credit Union $65,000; QVC $85,000; MLB ***$85,000***; Petsmart $400,000; PMC $400,000 Cigna $425,000; Bank of America $450,000; First National $450,000; Visa $500,000; Amazon ***$500,000***; UPS ***$525,000***, etc.

* Case No. 2:11-cv-00248
J. Mullin, *Newegg on trial…*, Ars Technica (Nov. 21, 2013)

# Patent Litigation: “Mr. NPE”

- Specialist computer vendor ***Newegg*** among the few who ***did not settle*** with ***TQP Development***


  - ***May 2011:*** complaint, E.D. Tex. (Marshall)*
  - ***March 2013:*** ***Markman*** hearing to ***construe claims***
  - ***Nov. 18 to 26, 2013:*** six-day trial, renowned ***developers of RC4 cipher*** and ***public-key cryptography testifiy for Newegg***
  - ***Nov. 25, 2013:*** jury finds Newegg infringes, claims valid, TQP due ***$2.3 million*** in compensation

* Case No. 2:11-cv-00248

# Patent Litigation: “Mr. NPE”

Case 2:11-cv-00248-JRG Document 407 Filed 11/25/13 Page 1 of 3 PageID #: 6491

QUESTION 1

Did TQP Development, LLC (“TQP”) prove by a preponderance of the evidence that Newegg Inc. (“Newegg”) directly infringed any of the asserted claims of the ‘730 Patent?

**Answer “Yes” or “No” for each claim:**

| **’730 Patent** | **Infringed?** |
|---|---|
| **Claim 1** | Yes |
| **Claim 6** | Yes |
| **Claim 8** | Yes |
| **Claim 9** | Yes |

# Patent Litigation: “Mr. NPE”

Case 2:11-cv-00248-JRG Document 407 Filed 11/25/13 Page 2 of 3 PageID #: 6492

QUESTION 2

Did TQP prove by a preponderance of the evidence that Newegg induced its customers to infringe any of the asserted claims of the ‘730 Patent?

**Answer “Yes” or “No” for each claim:**

| **’730 Patent** | **Induced Infringement?** |
|---|---|
| **Claim 1** | Yes |
| **Claim 6** | Yes |
| **Claim 8** | Yes |
| **Claim 9** | Yes |

# Patent Litigation: “Mr. NPE”

Case 2:11-cv-00248-JRG Document 407 Filed 11/25/13 Page 2 of 3 PageID #: 6492

QUESTION 3

Did Newegg prove by clear and convincing evidence that any of the following claims of the ’730 Patent are invalid?

**Answer “Yes” or “No” for each claim:**

| **’730 Patent** | **Invalid?** |
|---|---|
| **Claim 1** | NO |
| **Claim 6** | NO |
| **Claim 8** | NO |
| **Claim 9** | NO |

# Patent Litigation: “Mr. NPE”

Case 2:11-cv-00248-JRG Document 407 Filed 11/25/13 Page 3 of 3 PageID #: 6493

QUESTION 4

What sum of money, if paid now in cash, do you find from a preponderance of the evidence would fairly and reasonably compensate TQP for its damages resulting from Newegg’s infringement of the ’730 Patent?

**Answer in Dollars and Cents:**

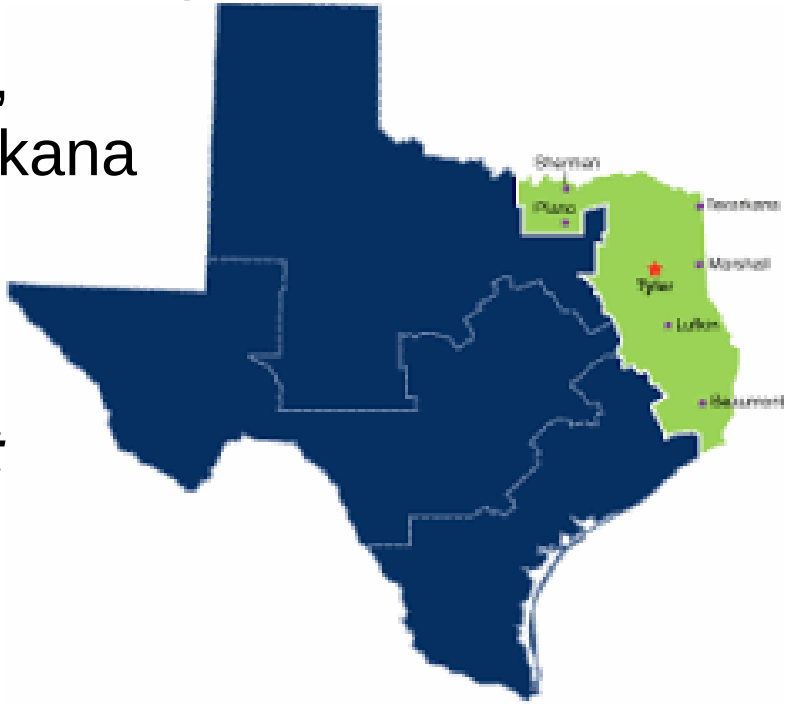
$ 2,300,000

# Patent Litigation: “Mr. NPE”

- ***Feb 2014:*** *Newegg* requests Judge Gilstrap set aside verdict, because ***infringement impossible under court’s own claim construction***
- ***June 2014:*** renewed motions to set aside verdict, citing collateral effect of non-infringement rulings in *TQP v. Intuit* (E.D. Tex.) (Bryson, J) (CAFC by designation)
- ***July 6, 2015:*** Newegg petitions CAFC to order Judge Gilstrap to decide motion to set aside verdict
- ***July 15, 2015: Judge Gilstrap sets aside verdict***
- ***Nov. 2015:*** TQP appeals to CAFC

# Patent Litigation: E.D. Texas

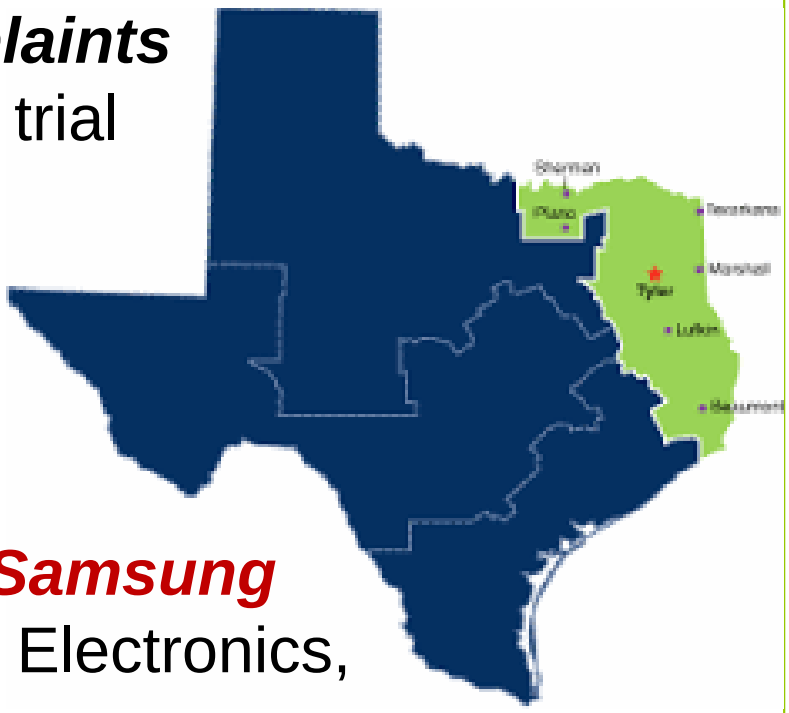
- Largely rural district, with only ***1% of US population***
- Headquarters in Tyler (pop. 100,000)
- Divisions in Beaumont, Lufkin, Marshall, Sherman and Texarkana
- ***44% of all infringement cases filed in US in 2015***
- ***64% of all NPE infringement cases filed in US 2015***




*RPX says NPE patent litigation increased in 2015*…, IP Watchdog (Jan. 5, 2016)

# Patent Litigation: E.D. Texas

- Juries have on occasion awarded huge damages
- Local rules allow ***generic complaints*** and ***disfavor resolution*** before trial (absent settlement)
- Hon. Rodney Gilstrap in Marshall (pop. 24,000) handling ~1,000 patent cases
- Top ***NPE defendants in 2015***: ***Samsung (42)***, AT&T, HP, Apple, Dell, LG Electronics, Amazon, HTC, Lenovo and Sony




*RPX says NPE patent litigation increased in 2015*…, IP Watchdog (Jan. 5, 2016)

# Patent Litigation: E.D. Texas

***Marshall, Texas courthouses***

State (right)
Federal (left)


A. Frean, *Goats are fighting back…*, TIMES (Apr. 28, 2015)

# Patent Assertion: A Necessary Evil

- Despite (per Judge Michel) being ***too expensive***, t***oo slow, too disruptive and too uncertain***
- Despite ***evident abuses by NPEs***, asserting patents with overly broad and vague claims
- Despite failures, ***particularly in E.D. Tex***., to ***identify and dismiss meritless cases early***
- ***Patent assertion*** in district court is ***a necessary evil***, allowing ***patent owners to hold infringers to account***, in the event that even ***good faith licensing negotiations break down***

# Patent Assertion: A Necessary Evil

***"Men are not hang'd for stealing Horses, but that Horses may not be stolen."***

George Savile, First Marquess of Halifax (1633-95)

*COMPLETE WORKS* at p 229 (ed. Raleigh, Oxford 1912); Portrait (1662-69), Claude Lefèbvre, Devonshire Collection

# Patent Legislation: Brief History

- ***Patent Act of 1790:*** introduced ***registration system***
- ***Patent Act of 1836:*** created Patent Office examination
- ***Patent Act of 1952:*** at request of President Truman, USPTO director P.J. Frederico and attorney Giles Rich work ***part-time for five years*** to codify decades of court decisions and into a ***carefully-crafted*** statute; ***enacted by unanimous vote***

- ***AIA of 2011: extensive***, ***expensive*** and ***deeply partisan*** lobbying

# Patent Legislation: AIA vs. NPEs (mainly)

- ***Electronics, e-commerce, financial sectors: USPTO procedures for invalidating*** vague and overly broad patents favored by NPEs, as ***alternative to district court***
- ***Everyone except NPEs*** (and ***attorneys***): ***curb NPE actions in district court*** (particularly E.D. Tex.)
- ***Multinationals:*** harmony with EPO, JPO, etc., examination, treatment of prior art (“first to file”)
- ***Universities:*** keep one-year grace period
- ***USPTO:*** set fees and end fee diversion
- ***American Inventors:*** none of the above

# Patent Assertion: Criticisms pre-AIA

The ***very great***…***facility with which patents are procured is producing evils of great magnitude***. It encourages the flagitious peculations of impostors . . . ***[F]rauds***…***are daily imposed***…under the ***pretence of some legal sanction***….***frivolous and useless alterations*** in articles in common use ***are denominated improvements***….(1826)

"[A] ***large class of patents***…***that do not cover practical machines***…and are ***good for nothing except to be bought and speculated upon by*** those who are justly called ***patent sharks"*** (1876)

Dolin, *Dubious Patent Reform*, at 887-8

# America Invents Act of 2011

- ***New prior art:*** "first inventor to file" (weak grace period for inventor disclosures) for "AIA" applications, those "effectively filed" after March 15, 2013
- ***Rationalized USPTO procedures:*** handling of declarations from employed inventors; working round uncooperative inventors, etc.
- ***USPTO fees and satellite offices:*** more control over fee amounts; Denver, Dallas, Detroit, San Jose
- ***Immediate end to frivolous false-marking cases***

# AIA of 2011: “Opposition-like” PGR

- ***Post-Grant Review***
  - opposition-like USPTO procedure for ***contesting validity*** of a patent before panel of expert judges at Patent Trial and Appeal Board (“PTAB”)
  - available grounds include ***lack of novelty***, ***obviousness***, ***ineligible subject matter***, ***vagueness*** or ***lack of enablement***
  - generally available only within ***nine-months of grant***
  - patents arising on applications effectively filed after March 15, 2013; ***15 petitions*, none completed***

* USPTO PTAB statistics (Jan 31, 2016)

# AIA of 2011: “Business Methods”

- ***Covered Business Methods:***
  - ***USPTO/PTAB contentious procedure*** for parties to ***challenge validity*** of a business method patent asserted against them district court
  - available grounds include ***lack of novelty***, ***obviousness***, ***ineligible subject matter***, ***vagueness*** or ***no enablement***
  - available since Sept. 16, 2012 for patents, regardless of filing date; ***400 petitions filed*,100 completed***

* USPTO PTAB Statistics (Jan 31, 2016)

# AIA of 2011: *Inter Partes* Review

- New ***USPTO/PTAB contentious procedure*** for ***third parties*** to ***challenge validity*** for ***lack of novelty*** or ***obviousness*** over ***patents*** and ***printed publications***
- Available ***anytime during enforceable patent term*** (if "AIA" patent, 9 months after grant or PGR completion)
- ***Anyone may petition, except*** (1) ***patent owner***, (2) ***defendant in infringement suit filed a year or more ago***, (3) declaratory judgment plaintiff, (4) requester of earlier decided IPR, PGR, CBM for same claims (***estoppel***)
- Available ***since Sept. 16, 2012*** for ***all patents***

# AIA of 2011: *Inter Partes* Review

- Petitioner submits ***detailed invalidity arguments*** and names "***real party in interest***"
- Patent owner preliminary response within ***3 months***
- Within ***3 months*** of preliminary response, PTAB determines whether ***reasonable likelihood*** of ***petitioner prevailing*** against at least 1 claim
  - ***PTAB denies petition, no CAFC appeal****
  - ***PTAB accepts petition***, ***institutes IPR trial***, ***final decision*** within ***12 months***, extendable by ***6 months***, ***appealable to CAFC***

* before S.Ct. in *Cuozzo Speed Techs. v. Lee,* 15-446 (arg. Apr 25, 2016, opinion due by July)

# AIA of 2011: *Inter Partes* Review

- Once instituted, ***IPR trial*** (one year duration, extendable by 6 months) ***includes:***
  - limited ***expert discovery***
  - ***optional*** (very rarely used) ***claim amendment by owner***
  - ***owner written response*** to PTAB institution decision
  - ***petitioner written reply*** to owner response
  - Brief ***oral hearing*** (if requested)
  - ***written final decision*** of PTAB

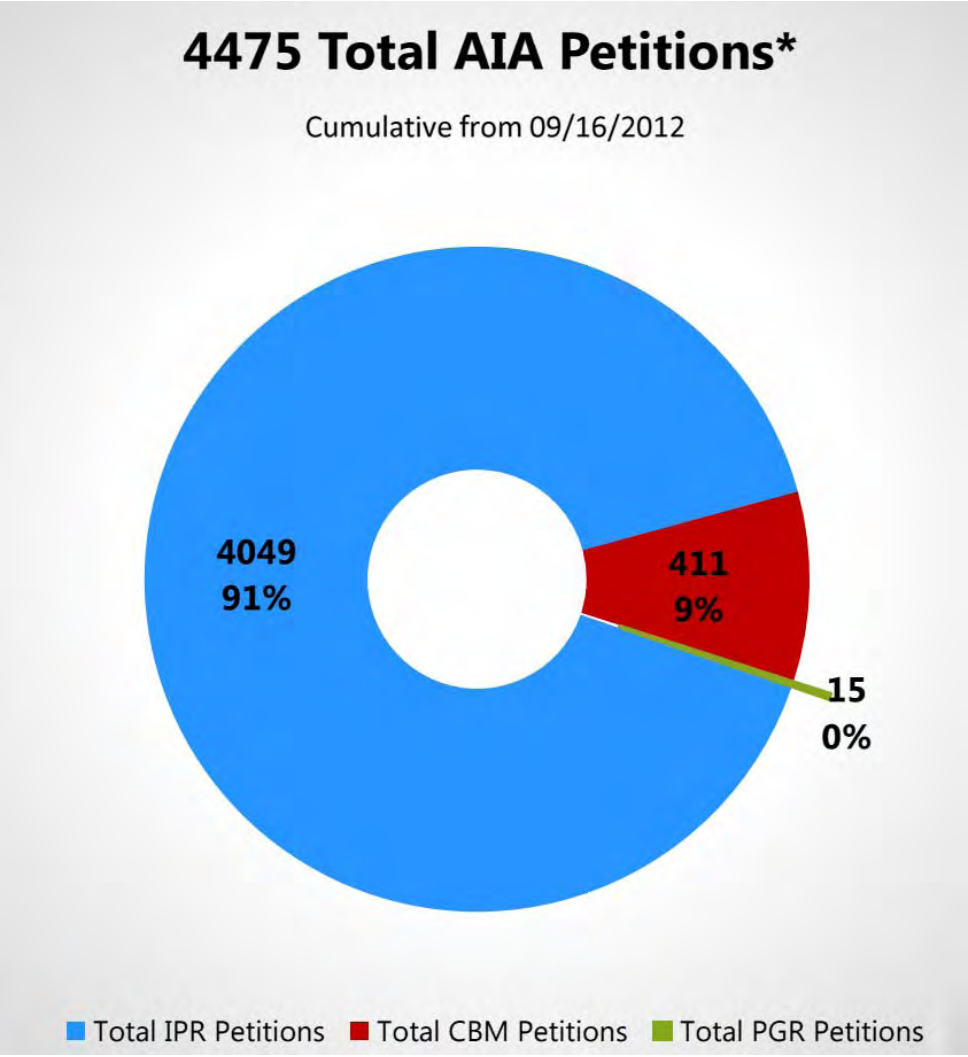
# AIA of 2011: *Inter Partes* Review

- ***PTAB*** applies ***broadest reasonable claim interpretation****
  - ***district courts*** adopt narrower construction according to ***understanding of skilled person****
- ***PTAB*** assesses ***validity*** under ***preponderance of the evidence*** , lower standard than
  - ***district court*** "***clear and convincing***"**
- PTAB ***construes claims more broadly*** and ***requires lower burden of proof*** for invalidation

* before S.Ct. in *Cuozzo Speed Techs. v. Lee,* 15-446 (arg. Apr 25, 2016, opinion by July)
** upheld by S.Ct. in *Microsoft v. i4i*, 10-290 (2011)

# AIA of 2011: *Inter Partes* Review

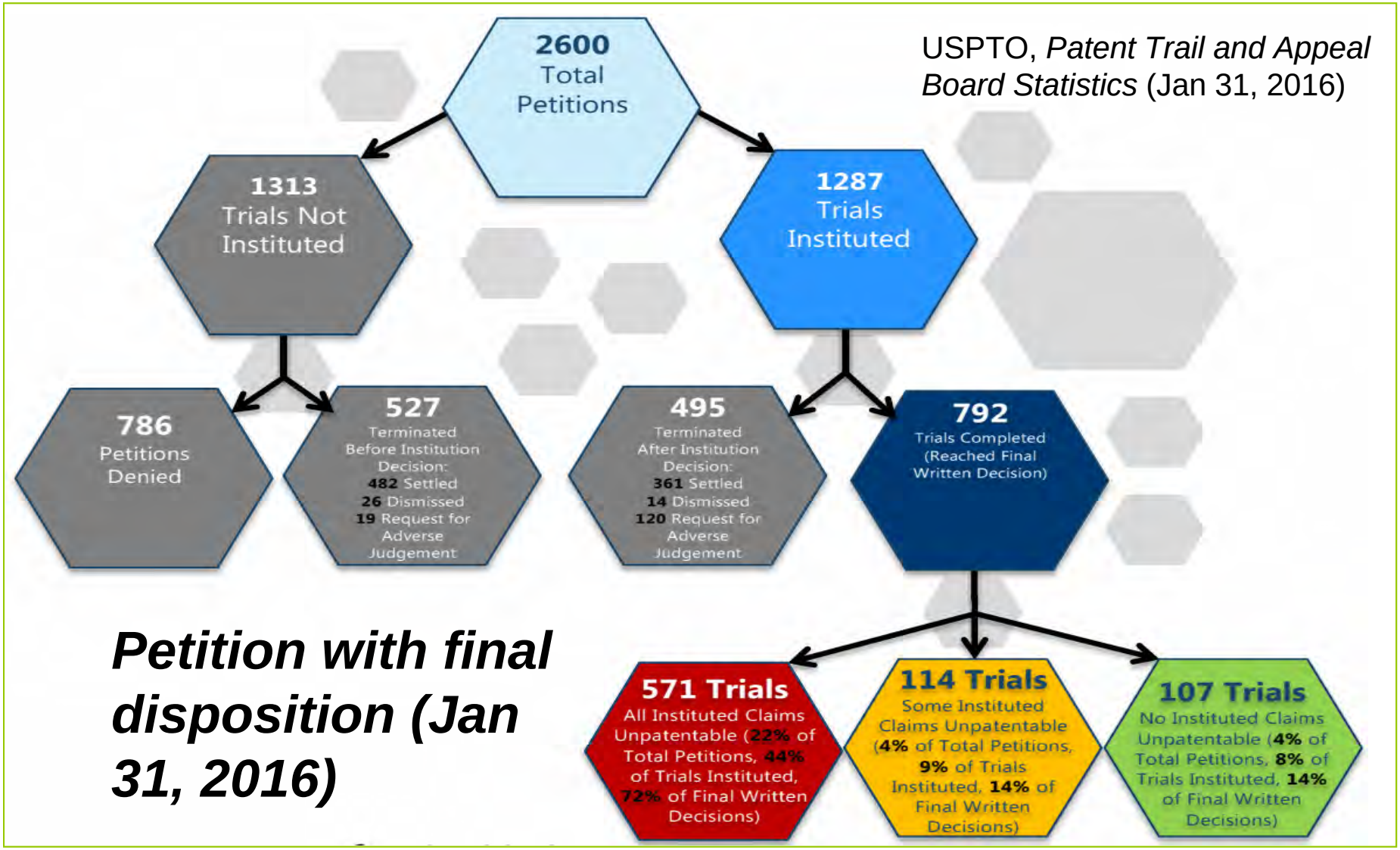
Total number of ***AIA*** (***IPR***, ***CBM*** and ***PGR***) ***petitions filed***:
***Sept. 16, 2012*** to ***Jan 31, 2016***




USPTO, *Patent Trail and Appeal Board Statistics* (Jan 31, 2016)

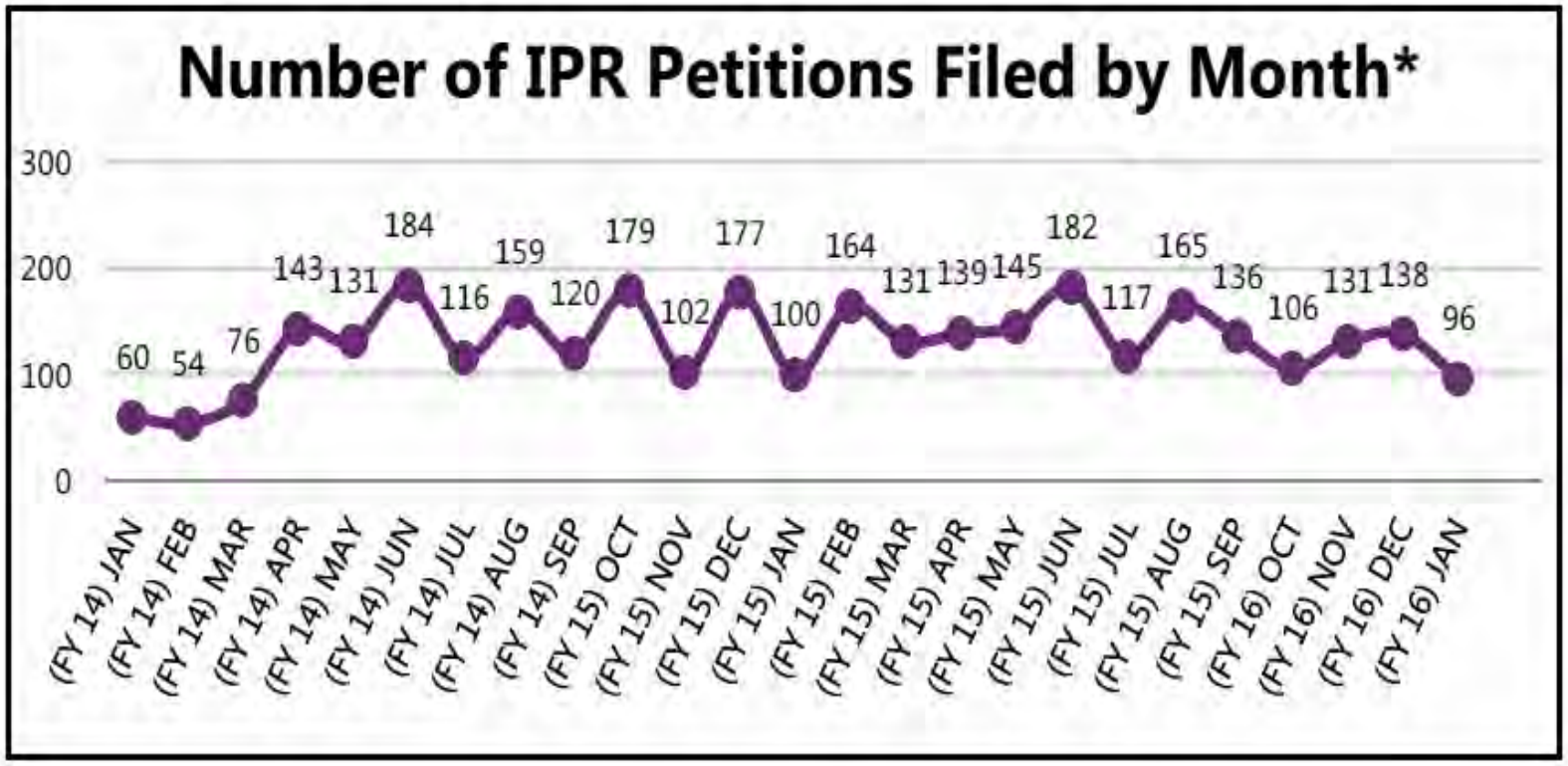
# AIA of 2011: *Inter Partes* Review

USPTO, *Patent Trail and Appeal Board Statistics* (Jan 31, 2016)




***Petition with final disposition (Jan 31, 2016)***

# AIA of 2011: *Inter Partes* Review



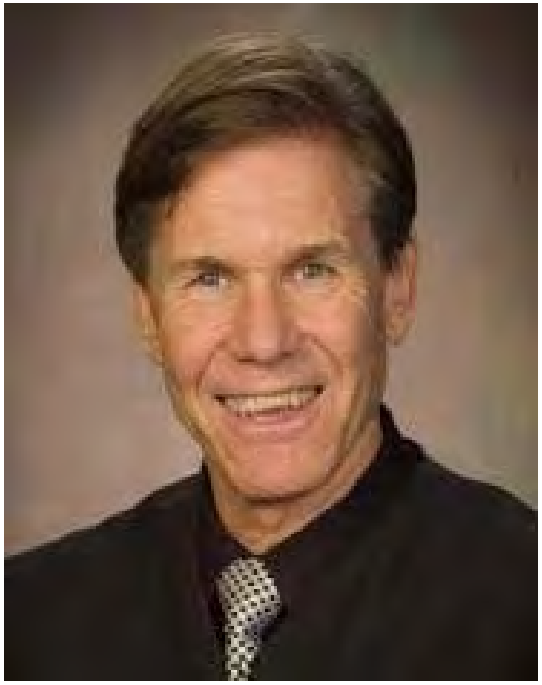

USPTO, *Patent Trail and Appeal Board Statistics* (Jan 31, 2016)

# AIA of 2011: *Inter Partes* Review

- ***Expectations***
  - ***"faster, cheaper, better" alternative to district court*** for invalidating patents favored by NPEs
  - no more than ***400* petitions per year***
- ***Realities***
  - ***adjunct to district court**: 18-24 months*** (*IPR* only); ***$300,000***/party; ***invalidity still issue*** in district court
  - Close to ***2000* petitions per year***
  - ***high invalidation rates/entry to all*** facilitate ***abuse***, systemic ***decrease in licensing*** and ***patent value*****

* CBM, PGR and IPR; USPTO PTAB Statistics (Jan 31, 2016); **FED SOC, Teleconf. (July 11, 2015)

# *Inter Partes* Review: A Judge's Opinion



***USPTO "giving birth to [intellectual] property rights", while in the PTAB***, administrative patent judges ***"acting as death squads, killing property rights"***

Hon. Randal R. Rader, Chief Judge (ret.), Court of Appeals for the Federal Circuit (2010-14)

*AIPLA Annual Meeting* (Oct. 25. 2013)

# *IPR* Opportunists: NPE *New Bay Capital*

- VirnetX holds almost 100 patents and applications related to secure communications
- Based on technology first developed by ***SAIC*** in 1990s for military/CIA
- Portfolio transferred (almost entirely) to ***publicly-traded VirnetX***
- VirnetX's website includes a secure connection technology "white paper"; annual reports show 20 employees  in Nevada
- ***VirnetX is an NPE***

# *IPR* Opportunists: NPE *New Bay Capital*

- ***Aug. 11, 2010: VirnetX*** sues ***Apple*** (and five others) in E.D. Tex.* for infringement of five patents allegedly covering Apple's *Facetime* and *VPN on Demand* services


- ***April 25, 2012:*** Court construes disputed claim terms
- ***Nov. 6, 2012:*** Jury finds claims valid and infringed, orders Apple pay VirnetX ***$368,160,000***
- ***Jan. 7, 2013:*** Apple appeals to Federal Circuit

* Case No. 6:10-cv-00417

# *IPR* Opportunists: NPE *New Bay Capital*

- After CAFC appeal filed, ***VirnetX*** contacted by previously-unknown ***New Bay Capital LLC*** ("NBC"), requesting ***10% of $368 million damage award in exchange for not filing IPRs*** against ***five patents*** found to be infringed by ***Apple:***
  - ***VirnetX had only bad options:*** pay NBC $37 million, or, see stock devalued when IPR petitions filed and then have to contest IPRs
  - ***NBC had only good options:*** collect $37 million from VirnetX, or, (presumably what happened) short VirnetX stock before filing IPRs

# *IPR* Opportunists: NPE *New Bay Capital*

- VirnetX declines NBC's invitation to pay ***$37 million "IPR-avoidance" fee***
- ***June 23, 2013:*** NBC files IPRs against all five VirnetX patents, VirnetX stock value drops
- ***July to Aug. 2013:*** Apple tries to join its previously-filed IPR petitions (ultimately rejected as untimely), to NBC IPR petitions
- ***Nov. 12, 2013***: All ***five NBC IPRs terminated*** before institution, after NBC withdraws

# *IPR* Opportunists: NPE *New Bay Capital*

- ***Sept. 16, 2014: Federal Circuit* vacates VirnetX $368,160,000 award:***
  - affirms validity of VirnetX patents
  - ***reverses-in-part claim construction***
  - ***reverses in part infringement rulings***
  - rejects methods used by VirnetX damages expert
  - ***vacates Nov. 25, 2012 jury award*** and remands to E.D. Tex. "for further proceedings consistent with this opinion."

* Case No. 2013-1489

# *IPR* Opportunists: NPE *New Bay Capital*

- ***Nov. 6, 2012:*** same day as ill-fated jury verdict, VirnetX files ***second Apple infringement case*** (E.D. Tex.) for ***infringement of 4 of 5 first-case patents***
- ***Nov. 21, 2013: RPX Corp.***, a provider of "patent risk management solutions" ***files IPRs*** against 4 patents
- ***June 5, 2014: PTAB dismisses RPX IPRs***, since already time-barred ***Apple is "real party in interest"***
- ***Apr. 1, 2015:*** Apple E.D. Tex. cases consolidated
- ***Feb. 3, 2016, jury finds*** patents valid and infringed, and ***Apple must again pay VirnetX***

* Case No. 6:12-cv-00855

# *IPR* Opportunists: NPE *New Bay Capital*

Case 6:12-cv-00855-RWS Document 425 Filed 02/03/16 Page 1 of 6 PageID #: 31362

**IN THE UNITED STATES DISTRICT COURT**
**FOR THE EASTERN DISTRICT OF TEXAS**
**TYLER DIVISION**

**VERDICT FORM**

1. Apple does not contest that the Original Version of VPN on Demand feature (iOS 3-6, 2009–2013) infringed VirnetX's '135 & '151 patents. What sum of money do you find from a preponderance of the evidence would fairly and reasonably compensate VirnetX for this infringement?

**Amount: $** 334,908,773.73

# *IPR* Opportunists: NPE *New Bay Capital*

Case 6:12-cv-00855-RWS Document 425 Filed 02/03/16 Page 4 of 6 PageID #: 31365

**IN THE UNITED STATES DISTRICT COURT**
**FOR THE EASTERN DISTRICT OF TEXAS**
**TYLER DIVISION**

**VERDICT FORM**

6. To the extent you found infringement in Questions 2, 3, 4, or 5, what **additional** sum of money over and above what you awarded in response to Question 1, if paid now in cash, do you find from a preponderance of the evidence would fairly and reasonably compensate VirnetX for this infringement through the time of trial?

**Amount: $** 290,725,067.31

# *IPR* Opportunists: NPE *Phigenix*

- ***June 10, 2013:*** **NPE *Phigenix*** offers to license ***8,080,534*** (Dec. 20, 2011), *Targeting PAX2 for the Treatment of Breast Cancer*, to ***Genentech***
- ***Jan. 31, 2014: Phigenix*** sues ***Genentech*** (***N.D. Ga.)*** for alleged infringement of ***8,080,534*** by Genentech's KADCYLA® targeted breast-cancer treatment

G. Dolin, *Dubious Patent Reform* p 946 (2015)

# *IPR* Opportunists: NPE *Phigenix*

- ***Apr. 22 2014: Phigenix*** files ***IPR petition*** against ***8,337,856***, *Methods of treatment using anti-ERBB antibody-maytansinoid conjugates*, obtained by ***ImmunoGen***, assigned to ***Genentech***
- ***May 29, 2014; Phigenix*** files second ***IPR*** petition against ***7,575,748***, *Methods of treatment using anti-ErbB antibody-maytansinoid conjugates*, owned ***ImmunoGen***, licensed to ***Genentech***

PHIGENIX, INC.
PHARMACEUTICAL AND BIOMEDICAL RESEARCH COMPANY

Genentech
A Member of the Roche Group

IMMUNOGEN, INC.

G. Dolin, *Dubious Patent Reform* p 946 (2015)

# *IPR* Opportunists: NPE *Phigenix*

- ***Dec. 9, 2015: PTAB*** decides ***not to institute IPR*** against ***ImmunoGen/Genentech 7,575,748***
- ***Mar. 17, 2015:*** On ***Genentech's*** motion, ***N.D. Ga. Phigenix 8,080,534 infringement*** case transferred to ***N.D. Cal.*** (now in discovery phase)
- ***Oct. 27, 2015: PTAB*** final decision ***upholds all claims*** of ***ImmunoGen/Genentech 8,337,856*** (no record of CAFC appeal)

PHIGENIX, INC.
PHARMACEUTICAL AND BIOMEDICAL RESEARCH COMPANY

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IMMUNOGEN, INC.

G. Dolin, *Dubious Patent Reform* p 946 (2015)

# *IPR* Opportunists: NPE *CFAD*

- Renowned Texas hedge-fund manager J. Kyle Bass joins forces with “Mr. NPE”
- Coalition for Affordable Drugs “aim[s] to ***bring down drug prices*** that are ***kept artificially high by dubious patents” by filing IPRs…***

G. Morgenson, *Working to Lower Drug Costs…*, NY TIMES (Nov. 2, 2015)

# *IPR* Opportunists: CFAD

- ***Feb. to Sept. 2015***, CFAD I to IV, VI to XI and Bass/Spangenberg between them file ***33 IPR petitions*** against ***11 different pharmaceutical companies***
- ***July 28, 2015: Celgene***, ***target of 5 IPR petitions***, requests ***PTAB sanction Bass/Spangenberg*** vehicle CFAD VI LLC
  - ***Celgene*** argue that ***filing IPRs*** while ***shorting Celgene stock*** amounts to ***abuse of process***, since IPRs were ***meant to combat profit-seeking NPEs***

IPR2015-01092-Paper-18

# *IPR* Opportunists: CFAD

- ***Sept. 25, 2015: PTAB denies Celgene request*** for sanctions:
  - "***Profit is at the heart of nearly every patent and nearly every inter partes review***. As such, an economic motive for challenging a patent claim does not itself raise abuse of process issues. ***We take no position on the merits of short-selling*** as an investment strategy other than it is legal, and regulated."

IPR2015-01092-Paper-18 at page 3

# *IPR* Opportunists: CFAD

- ***March 11, 2016: 13 instituted; 11 rejected; 9 pending decision on institution***
- Bass/Spangenberg have vowed will ***not settle***
- Spangenberg has alleged that ***heavy redaction in e-mails*** between ***Director Lee and PTAB judges*** may disguise ethical failings*
- To date, no CFAD IPR has reached final decision…

* spangenblog.com (March 6, 2015)

# AIA: Made Things Worse not Better

- ***Patent litigation*** was already too ***expensive***, ***slow***, ***disruptive*** and ***unpredictable,*** particularly in ***E.D. Tex.*** and for flings by subset of ***NPEs***
- ***IPR*** has merely added to ***expense***, ***time***, ***disruption*** and ***uncertainty*** of ***litigation*** (most district court cases associated with at least one IPR) and created ***new opportunities for abuse***

# AIA: Made Things Worse not Better

- ***IPR's*** lack of any real ***standing requirement*** and ***high invalidation rates*** allow for various abuses by opportunists:
  - ***extraction of payment*** from IPR target (New Bay Capital)
  - ***shorting of target's stock*** (CFAD, New Bay Capital)
  - ***negotiating tool/retaliation*** (Phigenix)

# AIA: Made Things Worse not Better

- ***IPR's*** lack of any real ***standing requirement*** (arising from ***weak estoppel***), ***high invalidation rates***, and ***limited grounds for invalidation*** (lack of novelty and non-obviousness only), allow for ***serial litigation***
- Widely reported* that the ***IPR*** regime has caused
  - ***drastic reduction in incentives to license***
  - ***a system-wide decrease in patent value***

* FED SOC, Teleconf. (July 11, 2015) and (Feb. 24, 2016); Econs. and Profs. Letter to Rep. Goodlatte (Mar. 10, 2015)

# AIA: Made Things Worse not Better

- ***IPRs*** are a particular problem for ***universities and SMEs***, who rely on ***early-stage investment in R&D***
- Concern in ***pharmaceutical*** and ***biotech***, where return on investment can take ***decades***
  - Balance between brand name and generic pharmaceutical companies, established under ***ANDA, disrupted by IPR threat to patent owners***
- Ultimate effect of lower R&D spending will be to restrict future economic growth

* FED SOC, Teleconf. (July 11, 2015) and (Feb. 24, 2016); Econs. to Rep. Goodlatte (Mar. 10, 2015)

# Court Problems: Judicial Solutions

- ***Problem: generic infringement complaints***—as opposed to ***particular products*** matched to ***particular patent claims*** (to extent knowable from publicly available information)
  - ***Solution:*** end to "form 18" pleading, must plead specific allegations* (effective ***Dec. 1, 2015***)
- ***Problem:*** overly broad, burdensome discovery
  - ***Solution: discovery*** relevant to pleadings in complaint ***must be*** "***proportional to the needs of the case***" (Rule 26(b)(1), effective ***Dec. 1, 2015***)

* Implementing *Ashcroft v. Iqbal*, 556 U.S. 662 (2009), *Bell Atlantic v. Twombly, 550 U.S. 544 (2007)*

# Court Problems: Judicial Solutions

**Form 18. Complaint for Patent Infringement.**

(Caption – See Form 1.)

1. (Statement of Jurisdiction — See Form 7.)

2. On ___*date*__, United States Letters Patent No. _____ were issued to the plaintiff for an invention in an *electric motor*. The plaintiff owned the patent throughout the period of the defendant's infringing acts and still owns the patent.

3. The defendant has infringed and is still infringing the Letters Patent by making, selling, and using *electric motors* that embody the patented invention, and the defendant will continue to do so unless enjoined by this court.

4. The plaintiff has complied with the statutory requirement of placing a notice of the Letters Patent on all *electric motors* it manufactures and sells and has given the defendant written notice of the infringement.

Therefore, the plaintiff demands:

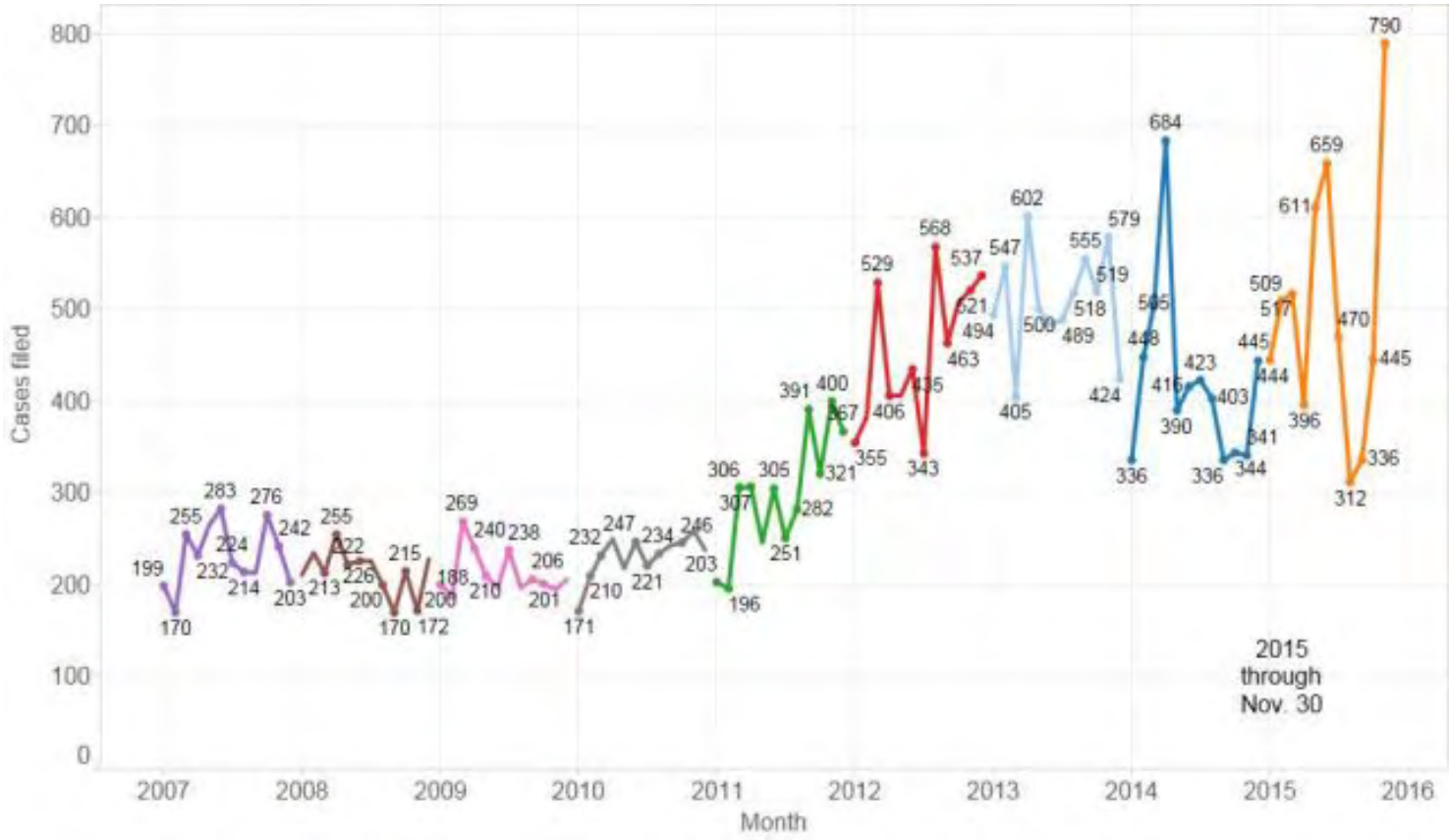
(a) a preliminary and final injunction against the continuing infringement;

(b) an accounting for damages; and

(c) interest and costs.

# Court Problems: Judicial Solutions

## Patent cases filed/month*, though Nov. 2015




* Ars Technica

# Court Problems: Judicial Solutions

- ***Problem:*** failure to weed out dubious cases early
  - ***Solution:*** CAFC/Supreme Court clarify standards for patent-eligibility*, indefiniteness**, etc.
- ***Problem:*** low risk to party bringing dubious case of paying opponent's costs
  - ***Solution:*** greater ease for ***District Court*** to ***award costs*** in § 285 "exceptional cases", and greater chance award ***withstands appeal****

Proposed PTAB rule changes, 80 Fed. Reg. 50,720–47 (Aug. 20, 2015);
* *Bilski v. Kappos*, 561 U.S. 593 (2010), *Mayo v. Prometheus*, 132 S. Ct. 1289 (2012), *AMP* v. *Myriad*, 133 S. Ct. 2107 (2013), *Alice v. CLS Bank* 134 S. Ct. 2347 (2014);
** *Nautilus v. Biosig*, 134 S.Ct. 2120 (2014);
*** *Octane v. Icon*, 134 S. Ct. 1749 (2014) and *Highmark v. Allcare*, 134 S. Ct. 1744 (2014)

# Court Problems: Judicial Solutions

- ***Problem:*** grossly disproportionate number of patent infringement filings in ***E.D. Tex.***
  - ***Solution:*** require ***more concrete relation between defendant*** and ***district where case heard*** and make it ***easier for defendants to transfer cases to more appropriate districts*** (interpretation of "venue" statutes argued before Federal Circuit panel on ***Mar. 11, 2016****)

* *In re TC Heartland, LLC*, 16-105

# PTAB Problems: Possible Solutions

- ***Problem:*** extraordinarily high invalidation rates in IPR proceedings
  - ***Solution:*** narrower claim construction standard* and lower burden of proof for invalidation, in line with District Court
  - ***Solution:*** modify PTAB rules/procedures to favor patent owner (e.g., facilitate claim amendment) and discourage opportunists
  - ***Solution:*** tighten standing requirements (would require change in the statute)

Proposed PTAB rule changes, 80 Fed. Reg. 50,720–47 (Aug. 20, 2015).

* Also before S.Ct. in *Cuozzo Speed Techs. v. Lee,* 15-446 (arg. Apr 25, 2016, opinion by July)

# Patent Legislation: Please…No More

- Legislation often ***unfocused*** and ***heavy-handed***, resulting in ***unintended consequences***, like the AIA, ***so more reform could make things even worse***
- Current proposals include ***"Innovation Act"*** (H.R. 9)
  - court procedural ***rules specific to patent cases***
  - ***heightened pleading standards***
  - ***fee-shifting in patent cases***
- Other suggestions have included ***exempting pharmaceutical companies from IPRs***

R. Epstein, *Patent Law Gone Awry…,* FORBES (Feb. 13, 2015); Econs. and Profs. Letter to Rep. Goodlatte (Mar. 10, 2015)

# Summary

***"Laws are generally not understood by three sorts of persons, viz. by those who make them, by those who execute them, and by those who suffer, if they break them."***

George Savile, First Marquess Of Halifax

*COMPLETE WORKS* at p 224

# Unified Patent Court

- CONSIDERING that the fragmented market for patents and the ***significant variations between national court systems are detrimental for innovation***, ***in particular*** for ***small and medium sized enterprises*** which have ***difficulties to enforce their patents*** and to ***defend themselves against unfounded claims*** and claims relating to patents which should be revoked

AGREEMENT PREAMBLE

# UPC: Opportunities for NPEs

- ***Papst Licensing (founded 1992), St. Georgen, DE***
  - Around 100 patent infringement complaints in US district courts
  - Infringement actions in German and Dutch courts
  - What does the UPC offer?

papstlicensing.com; cases filed from justia.com, data since Jan 1, 2014; photo ap-verlag.de

# UPC: Opportunities for NPEs

- ***Central Division*** (London, Paris Munich)
  - In ***revocation***, how strict will the ***standing*** requirement be? (like PTAB or District Court?)
  - Will opportunists be able to follow IPR methods?
- ***Local and Regional Divisions***
  - ***Cost allocations*** sufficient to ***dissuade opportunistic infringement*** claims? (Feb 26, 2016 notice)
- ***Will dubious claims be dismissed swiftly enough?***
- ***Will divisions diverge?*** (E.D Tex.?)

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- Gregory Dolin, *Dubious Patent Reform*, Boston Coll. L. Rev., Vol. 56, p. 881 (May 20, 2015) (http://lawdigitalcommons.bc.edu/cgi/viewcontent.cgi?article=3449&context=bclr
- *RPX 2015 NPE Activity Highlights* (Jan, 4, 2016) (http://www.rpxcorp.com/wp-content/uploads/sites/2/2016/01/RPX-2015-NPE-Activity-Highlights-FinalZ.pdf)
- G. Quinn, *RPX says NPE patent litigation increased in 2015, Eastern District of Texas leads way*, Ipwatchdog (Jan. 5, 2016) (http://www.ipwatchdog.com/2016/01/05/npe-patent-litigation-increased-2015/id=64724/)
- J. Mullin*, Newegg on trial: Mystery company TQP rewrites the history of encryption*, Ars Technica (Nov. 21, 2013) (http://arstechnica.com/tech-policy/2013/11/newegg-on-trial-mystery-company-tqp-re-writes-the-history-of-encryption/)

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- *Patent Case Management Judicial Guide*, Federal Judicial Cent. (3d ed. 2015) (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2637605)
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- USPTO performance statistics (http://www.uspto.gov/learning-and-resources/statistics)
- USPTO IPR decision and document archive (https://ptabtrials.uspto.gov/prweb

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- A. Frean, *Goats are fighting back against the trolls in America's new patent wars*, TIMES (Apr. 28, 2015) (http://www.thetimes.co.uk/tto/business/columnists/alexandrafrean/article4424027.ece)
- B. Howard, Lex Machina 2015 End-of-Year Trends (Jan. 7, 2016) (https://lexmachina.com/lex-machina-2015-end-of-year-trends/)
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- R. Epstein, *Patent Law Gone Awry: How Bob Goodlatte's Bill Combines Useless Rigidity With Dangerous Discretion,* FORBES (Feb. 13, 2015) (http://www.forbes.com/sites/richardepstein/2015/02/13/patent-law-gone-awry-how-bob-goodlattes-bill-combines-useless-rigidity-with-dangerous-discretion/#565023e7c49c)
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