

# ROUNDTABLE

## Resolving patent disputes

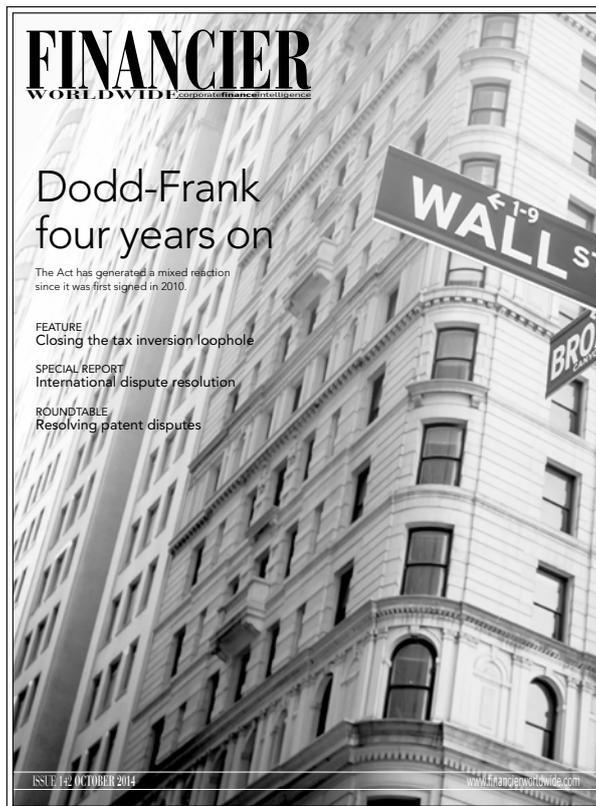
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## R O U N D T A B L E



## RESOLVING PATENT DISPUTES

Market players are seeing a general increase in patent disputes across a range of sectors, but notably in pharmaceuticals and technology. Many disputes are brought by non-practicing entities, or 'patent trolls', attempting to monetise portfolios; others are contested between direct competitors. Regulatory changes, particularly in the US, are also having an impact on the nature and course of patent disputes. When a dispute surfaces, experts suggest that parties explore all available options outside of litigation, but be prepared to litigate if other avenues are exhausted. ▶▶

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Gary E. Hood is a skilled and successful trial attorney. A veteran of nearly 20 years of courtroom litigation, he has successfully led a variety of litigation teams in various types of lawsuits. Mr Hood joined Polsinelli in 2011 to establish and lead the firm's Hatch-Waxman pharmaceuticals practice, and has been named an IP Star and Chicago Leading Lawyer each of the past two years. A former officer in the US Navy, he developed and employs a unique case preparation method that identifies success strategies early and enables him to allocate resources to maximum client effect.



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**FW:** To what extent are you seeing an increase in patent disputes in today's business world? What are some of the common sources of these conflicts?

**Schenk:** The number of patent infringement cases filed in the US has grown at double-digit growth rates in recent years. One key driver of this trend is the increasing awareness of the value of patents in our so-called 'innovation economy'. Now more than ever, patent owners recognise the value of their technology and seek opportunities to monetise that technology in a variety of ways. Oftentimes this process results in a dispute between parties about the validity and infringement of one party's – or both parties' – patents. Patent monetisation entities and non-practicing entities have also contributed to the recent growth in patent litigation. These companies are often formed to extract value from patents through licensing or litigation. There has been debate as to whether these entities play a valuable role in a market-driven economy or represent an inefficient use of resources.

**Sacksteder:** The vast majority of patent disputes in the United States fall into either of two primary categories: disputes between competitors in a market, and disputes to monetise a patent portfolio. Most, but not all, of latter disputes are initiated by so-called non-practicing entities (NPEs), sometimes called patent 'trolls'. Although suits among competitors have remained steady, and most of the highest profile cases fall into that category, we have seen the sharpest upswing in NPE suits. The motivations for such disputes are simple – the profit motive, as an entity dedicated to wringing money out of its patents executes its business model. Competitor suits, by contrast, are motivated by more complex and dynamic factors in the market. For example, a well-established company may employ its patents in an attempt to throw a roadblock in the way of a newer, but threatening, rival.

**Chiu:** We have witnessed an overall increasing trend in patent disputes in China for the past five years. According to the Intellectual Property Protection by Chinese Courts, published by the PRC Supreme People's Court (SPC), newly accepted civil patent disputes increased by an average of 19 percent from 2009 to 2013. The increase in the number of patent disputes partly results from the Chinese government's policy of strengthening judicial protection of intellectual property. We have also seen cases where Chinese companies obtain 'low quality patents' – taking advantage of China's patent system where utility model patents do not undergo substantive examination – and file malicious actions. However, we have seen fewer cases commenced by non-practicing entities, or so-called 'patent trolls', in China.

**Collier:** Statistically, there has been a steady increase in the number of patent cases filed in United States courts over the past few years. Over the last two years, filings of patent cases in federal courts have risen over 10 percent, with over 6400 suits filed during that period. The increase in the number of patent cases being filed has largely been driven by suits initiated by NPEs, those entities that do not commercially practice the inventions of their patents. In 2013, NPEs filed 67 percent of all new patent infringement cases, compared to less than 30 percent in 2009. This increase may be attributable to recent patent law changes that make it more challenging for multiple defendants to be joined in one suit. This trend, however, would also seem to indicate that other recent patent law developments, such as the increased use of inter partes reviews (IPRs) to challenge patent validity, have not deterred NPEs from asserting their

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JUERGEN DRESSEL

patent rights in the courts to date.

**Vary:** Over the past five years, dispute levels have been pretty constant. There is a perception that the peak has passed and some commentators have suggested that the 'smartphone wars are over'. Though I don't believe that is so, there are two changes that contribute to that perception. The first change is that patentees used to bring claims in the US as a matter of course, but the US is becoming less popular because, per patent, it is an expensive venue and it is also becoming more difficult for a patentee to get a meaningful remedy there. So patentees are choosing other venues, but those generally don't get reported as extensively as US actions. The second change is that it is difficult to enforce a Standards Essential patent unless the patentee has first offered arbitration. Willing licensees will accept that arbitration, and the whole dispute is then resolved entirely in private. So to the casual observer it might look like the numbers are dropping. In truth there are just as many disputes being resolved in parallel today, but with less fanfare and at lower cost, often without recourse to the courts.

**Dressel:** In the pharmaceutical arena, patent litigation has dramatically increased in recent years, especially between originators and generics, and likely will continue to do so over the coming years. The main reasons are: many blockbuster drugs lost patent exclusivity, thereby attracting more attention by generics; generics are no longer only challenging the low-hanging fruit of blockbuster drugs, but now almost any drug; the number of generics has increased as non-US and non-EU companies enter the market which in the past only supplied active ingredients and finished drug product; and, last but not least, the consolidation of generics has led to more sophisticated and litigation-savvy global generic players. Additionally, pharmaceutical patent disputes are increasing in traditionally less active countries like India, Russia, South Korea and China, and in the future likely in Japan.

**Hood:** I don't believe that there has been an increase in the number of patent disputes in today's business world. That is not to say that businesses are not finding themselves embroiled in patent disputes more often. While total case filings may have increased, I believe that this is largely due to recent legislative changes pursuant to the America Invents Act (AIA), which required separate filings for separate defendants in most instances. This has shown itself, for instance, in NPE or 'troll' litigation. The actual vol- ►

ume of even this kind of patent litigation, however, has begun to decrease, as the perceived ‘low hanging fruit’ has been picked. Certain business sectors have seen substantial patent litigation, such as for pharmaceuticals and cellular telephones, although for pharmaceuticals this is due to the legislative and regulatory framework that drives these disputes to litigation. Otherwise, patent disputes often result now from failed attempted collaborations.

**Badke:** Patent disputes continue to increase in technology driven businesses given the increasingly competitive market conditions. As a result, there has been a substantial increase in the new post-grant proceedings in the US Patent Office. The AIA has provided businesses with an alternative avenue to resolve certain patent issues at lower cost, with faster results than taking a case through trial. There also seems to be no abatement in suits brought by non-practicing entities, especially against technology companies. However, we are seeing less of an increase in dispute activity in the life sciences area, and in particular, in post-grant Patent Office proceedings.

**FW: What key trends have you seen in patent dispute resolution over the past 12-18 months? Can you comment on any legal or regulatory developments affecting this issue?**

**Sacksteder:** One of the most important trends in the US has been the rise of the defence of challenging the patent-eligibility of an asserted patent, often in the fields of software or business methods. The United States Supreme Court has broadened the practical application of this defence tremendously over the past few years, most recently with the *Alice v. CLS Bank* decision this summer. Under the Court’s decisions, patent claims covering a generic computerised implementation of an abstract idea face grave danger of being found invalid, sometimes very early in a lawsuit. We have several motions to dismiss on these grounds in pending cases and expect to employ this defence in other cases in the future.

**Dressel:** Key trends include the increasing involvement of antitrust authorities in patent litigation as well as litigation settlements between originators and generics. This started in the US and has now spread to the EU and countries like Turkey and South Korea. As a consequence it is becoming more and more difficult to terminate patent litigation by settlement, and more

patent litigations will continue up to a final decision.

**Hood:** The AIA ushered in a new era of patent dispute resolution, and we have seen increasing use of such resolution procedures as IPR and covered business method (CBM) proceedings. Decisions, both from the Patent Trial and Appeal Board (PTAB) and federal district courts, have begun to issue and inform businesses and their attorneys about how these procedures might best be utilised. There is, however, remaining uncertainty given conflict as between the administrative resolution procedures before the PTAB and legal resolution procedures in federal district courts. A trend that we’ve seen emerge, however, is the concurrent use of such administrative proceedings along with more traditional district court and ITC litigation to address and resolve patent disputes.

**Vary:** We have seen rather simplistic commentary about trolls or non-practicing entities. I don’t believe the nature of the patent holder is relevant – what is an issue is the business model of funding speculative litigation; in that sense it is no different to mass tort cases. This tarnishes patents in the eyes of the public: instead of being seen as a well-deserved reward for inventors, patents become seen as a tool of extortion by the undeserving. I believe that in large part this is the fault of the patent profession. The system we have created is so slow, complex and expensive that enforcement is only available to those with financial backing. Small wonder that innovators sell their patents: they don’t want or can’t afford to use the system we have created. And small wonder that the buyers of patents are those with deep pockets, and the will to employ strong tactics to enforce them.

**Collier:** One of the most notable developments in US patent dispute resolution over the last 18 months has been the increased use of the IPR procedure, a new trial proceeding before the United States Patent and Trademark Office (USPTO) to assess the patentability of claims of an issued patent. Since its inception in September 2012, this procedure has become a tool that many defendants have implemented against patents that they are accused of infringing. This procedure has not only often resulted in a stay of any pending litigation, but has also resulted in a high percentage of patents being invalidated. The number of IPRs being filed is increasing rapidly, with over 150 filed in June 2014 alone, in comparison to less than 20 that were filed in September 2012.

**Chiu:** One of the key trends is that the Chinese courts are willing to take a more active role in deciding patent infringement disputes and granting interim orders, such as preliminary injunctions or evidence preservation orders, to assist rights owners in collecting evidence that is otherwise inaccessible. As the new Civil Procedure Law, effective from 1 January 2013, expressly provides for the granting of these interim orders, courts have been more willing to grant them in patent and general IP disputes.

**Schenk:** In the past couple of years, there has been more focus on damages analysis in the early stages of a case. The high cost of patent litigation has been an issue for years, but until recently the solutions employed to minimise this cost tended to involve shifting the economic analyses – and thus, the costs associated with expert discovery – later in the case, rather than earlier. Now many judges recognise that this actually leads to uncertainty about the value of the case and makes it difficult for the parties to achieve resolution without protracted litigation. Both courts and the litigants themselves have started to utilise tools such as ▶▶

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GARY E. HOOD

early case assessment and court-ordered mediations to shift the damages analysis earlier in the case. In many cases this has led to more efficient use of corporate and judicial resources.

**FW:** What has been the impact of the America Invents Act (AIA) on patent litigation? How does the AIA impact patent challengers? And what practical benefits has inter partes review (IPR) brought to patent disputes?

**Hood:** The AIA created new avenues by which patents can be invalidated, and in much shorter time periods. Whereas former administrative procedures, such as re-examination, would often drag on for years, new procedures such as IPR seem to be complying with the mandated 12-18 month resolution window. From a practical standpoint, this means a patent challenger could potentially resolve a patent dispute in half the time as before. Additionally, if a parallel federal district court proceeding is stayed pending the IPR, the patent challenger can obtain significant cost savings given the more limited scope of the IPR proceeding.

**Badke:** The AIA has definitely resulted in an increase in dispute activity, especially in the technology areas. Common sense would suggest that an increase in AIA activity has resulted in some decrease in patent litigation that otherwise would have been commenced in the absence of post-grant options. Because it is a relatively low cost option compared to trial, IPR, for example, is particularly useful in heading off potential patent disputes that companies may see coming, before products are fully developed or launched. By being able to ‘clear the field’ of invalid patents, IPR thus provides companies more certainty as to the freedom to market a product without an undue risk of a large damage claim or an injunction. IPR benefits challengers by providing a faster proceeding than in the District Court, and involves less risk to the challenger because it focuses on invalidity only. Another benefit of IPR is that a District Court action may be stayed pending an IPR proceeding, thereby promoting judicial economy. If the patent survives IPR, the parties may elect to enter a licensing arrangement and avoid additional litigation altogether.

**Schenk:** The AIA introduced a series of new procedures for reviewing previously granted patents, including IPR, post grant review, and CBM review. These procedures allow questions of patent validity to be decided outside of the litigation context, giving would-be defendants access to a less expensive avenue to challenge a patent’s validity than through litigation. These procedures can also benefit the holder of a patent that is found to be valid by strengthening its patent rights, as a third party initiating a review may be prevented from separately challenging the patent on any ground that was raised or reasonably could have been raised in the proceedings.

**Collier:** A significant impact that the AIA has had on US patent litigation is the ability for defendants to institute an IPR with the USPTO. The IPR allows a petitioner to challenge a patent under §102 – lack of novelty – or §103 – obviousness – based on any prior patents or printed publications. This mechanism offers several attractive elements for a patent challenger: it adopts a broader claim construction standard than used in the district court; a presumption of patent validity does not apply and only a preponderance of the evidence is needed to invalidate a claim; the decision makers will generally have better technical expertise; and it is often faster and lower cost than litigation in federal courts. One disadvantage, however, is that if an IPR is instituted

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JIM BADKE

and a final written decision is issued, the challenger will be precluded, or ‘estopped’, from later raising any invalidity ground that it reasonably could have raised, or did raise, during the IPR.

**Dressel:** IPR is being increasingly used as an additional and cheaper – although not really cheap – method of clearing the way and removing patents blocking the freedom-to-operate early, however not so much, yet, for pharmaceutical patents. For the impact of AIA on patent litigation it might be too early to tell.

**Sacksteder:** IPRs and CBMs are significant new tools in the defensive patent litigator’s tool kit. Conversely, they represent new and dangerous obstacles for a party asserting patents. They provide the ability to challenge questionable patents in a more streamlined process than district court litigation, with a more favourable burden of proof for the party challenging validity, often providing the opportunity for the court litigation to be stayed while the IPR or CBM goes forward. We use these proceedings frequently on the defensive side and consider them for most defensive patent disputes we handle. That being said, these proceedings are not always a ‘silver bullet’ for the defendant in a patent dispute. Although the percentage of IPR and CBM reviews being instituted was initially quite high, that percentage appears to have fallen significantly since early 2014.

**FW:** What role is Section 337 of the USITC playing in patent disputes? What advice can you offer to parties engaged in Section 337 patent disputes?

**Collier:** While Section 337 investigations still play a notable role in patent disputes, they have generally decreased in popularity since peaking in 2011. That year, 69 ITC investigations were instituted, but decreased to 40 in 2012 and to 42 in 2013. So far, 23 investigations have been instituted in 2014. While there is speculation as to why patentees are no longer availing themselves of the ITC today at the same rate, one notable development is that the White House, for the first time since 1987, vetoed an ITC exclusion order on products found to infringe a standard-essential patent in August 2013. Based on the precedent that the veto arguably set for issuing a Section 337 exclusion order, especially where it involves standard-essential patents, the veto may further decrease the popularity of ITC proceedings.

**Vary:** The ITC is important as it offers what other courts do not: ►►

a decision in a reasonable timescale. The life of a typical mobile phone is a year or so, during which time they are superseded by new models. The ITC is one of very few tribunals which may reach a decision before the products it relates to are off the market. But this comes at a cost, excessively burdensome discovery and the very long delay between giving its judgment and that judgment being enforceable – following the Commission review and the presidential veto period.

**Hood:** Section 337 disputes continue to play the same role in patent disputes that they have for years. This type of proceeding provides a tool for potentially excluding infringing imports. Although monetary damages are not available, an exclusion order which is available in this type of proceeding can be extremely valuable to a business. These proceedings are highly accelerated as well, as compared to federal district court proceedings, generally resolving within 12-18 months. They can prove expensive, however, so a business engaged in such proceedings should be prepared from the outset to be fully engaged in fast paced proceedings and for significant expense. The business should be sure to choose legal counsel who is experienced with such proceedings, as there is no time to learn as one goes in this type of process.

**Sacksteder:** In our experience, patentees typically employ Section 337 to obtain injunctive relief – which is an exclusion order – more quickly than could be obtained in district court, or in instances where an injunction might be difficult to obtain in court. Respondents should carefully select and focus on their best arguments. This will substantially decrease costs and allow the ALJ and Commission to focus on arguments that have the greatest likelihood of success. Conversely, a shotgun approach can bury the key issues and limit the amount of time the ALJ has to analyse those issues. Complainants engaged in 337 disputes should take care to exhaustively prepare all aspects of their case before filing, particularly issues such as domestic industry where the information typically is entirely within the complainant's control.

**Schenk:** Under Section 337, the ITC may issue an exclusion order barring the products at issue from entry into the United States, as well as a cease and desist order directing the violating parties to cease certain actions. Oftentimes, patent holders will employ a dual-track strategy, filing infringement actions in both the ITC and Federal Court. The goal is to obtain an exclusion

order from the ITC barring any future infringement, along with damages from Federal Court to compensate for infringement that has already taken place. Patent holders who are developing a strategy for enforcing their patent rights should be aware of the potential benefits of filing an action in the ITC, either in lieu of or in conjunction with a corresponding case in Federal Court.

**Badke:** Section 337 provides another way in which companies, in particular technology companies, can quickly resolve patent disputes, given the accelerated nature of the proceeding as compared to US District Courts. Because the ITC is very patent and technology savvy, litigators should be very well prepared on the law and technology, and should not hesitate to rely on infringement positions or patent defences that may otherwise be deemed too technical for a US District Court case, especially when a jury would otherwise decide the factual issues.

**FW: From your point of view, what have been some of the notable developments in Europe's response to protecting patents in recent years?**

**Dressel:** The European Patent Office (EPO) has started initiatives like 'raising the bar' for inventive step which hopefully will increase the presumption of validity of patents in courts and thus provide more business certainty for all stakeholders. The EPO also plays an important role in international harmonisation of patentability criteria – for example, in the Trilateral Cooperation with the Japanese Patent Office and the US-Patent and Trademark Office. Somewhat surprisingly, legislation and implementation of the Unitary Patent (UP) and the Unified Patent Court (UPC) has picked up speed and likely will become effective in 2016. This will hopefully make patenting and patent litigation significantly cheaper and further harmonise jurisprudence across Europe, thus contributing to the generation of a true European market. Success will heavily depend on the quality of the judges and courts and thus the predictability of litigation outcomes.

**Schenk:** One key development has been the creation of the UPC, which was developed in parallel with the EU's new UP system. The Court is expected to begin hearing cases in late 2015 or in 2016. There is some interesting debate about the impact the Court will have on patent litigation in Europe. Some say it will reduce the costs of litigating and decrease uncertainty by providing a single venue with authority across Europe. Others believe it will increase opportunities for forum shopping and that patent holders will be unwilling to take the risk of an adverse ruling on infringement or invalidity, which would be binding throughout the EU.

**Badke:** The UPC will provide a more cost effective forum to enforce patents and decide validity across the European Union. It will soon be possible to obtain a single court decision effective across Europe, and because there will be separate courts each dedicated to different technologies, greater consistency in decision making and better results should follow.

**Vary:** The two most notable changes are the resurgence of the UK and Dusseldorf. For a time the UK gained a reputation as the graveyard of patents. That has, thankfully, changed. Patentees are now successful in enforcing their patents. The UK's great weakness, however, is capacity. For some curious reason there is a limit on the number of high court judges, so that we have only two specialist patent judges at any one time. This means that it can take 18 months or more to reach trial, which is just ►►

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MICHAEL J. SACKSTEDER

too slow. Dusseldorf has long been the flagship of the German patent courts, but for many years was much slower to trial than Mannheim, which consequently became the venue of choice. But now, with a third chamber open, Dusseldorf is cutting through its backlog and offering serious competition to Mannheim.

**Sacksteder:** As US lawyers who are called upon to assist our clients in planning international patent enforcement strategies, we have been tracking with close interest the availability of injunctions in large markets in Europe. Our ability to seek injunctive relief in the US is now limited to matters in the International Trade Commission and to district court actions where we can show unique harm if the injunction does not issue. We have seen the UK and Germany take different approaches to the issuance of injunctions. We have also watched with interest the treatment of injunctive relief on standards essential patents, where we have seen one approach in Germany and are awaiting with interest further developments elsewhere.

**FW: How important is it for companies to develop a strategy for resolving patent disputes through quick and decisive action? Are companies paying enough attention to this issue, in your opinion?**

**Vary:** Patent litigation in most countries is slow, and it is not just possible but often preferable as an infringer to adopt a wholly defensive, wholly reactionary position. Many infringers in our industry have done just that for considerable periods without risk. They know that most of the time the patentee loses. Even if the patentee wins, injunctions are unlikely. And paying damages on one or two patents is cheaper than taking a licence to hundreds. I certainly would not advise proactive strategies such as pre-emptive opposition or revocation proceedings: all you do is streamline your opponent's portfolio and strengthen their patents for them before they deploy them against you.

**Hood:** Quick and decisive action is critical to successfully and efficiently resolving a patent dispute. Delay and indecision can undermine or in some instances entirely preclude available strategies and mechanisms for resolving patent disputes. Some companies are paying sufficient attention to this issue, particularly those in industries where patents are prevalent or their business model necessarily takes into account patent protection. Other companies, however, such as those with less experience in a particular industry, often overlook the significant potential for disruption to business that can come from patent issues.

**Chiu:** Enforcing patents in China involves many of the same issues which need to be considered when enforcing patents in other countries. However, because of the size of China, with its many different provincial and municipal courts and distinct procedural rules dealing with patent matters, companies might overlook unique or practical issues for patent disputes in China. For example, you need to know your counterpart very well and avoid the possibility of local protectionism, if necessary lodging the case somewhere other than the place where your counterpart is domiciled. A company may also commence a lawsuit in the name of one of its local affiliates, to allow actions to be taken more swiftly, without the need to go through the process of legalisation and notarisation of formality documents, such as power of attorney. Companies should clearly identify their goals before commencing the action and allocate legal budgets efficiently. In most cases, stopping the infringing activities will be the prime focus,

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RICHARD VARY

so it may not be advisable for a rights owner to expend a great deal of resources and effort to pursue damages claims.

**Collier:** Given that every patent dispute is unique, companies must understand what tools are available to them for effective resolution and to have the flexibility to implement different strategies to address the unique circumstances that a patent dispute presents. While developing a strategy early in the dispute is important, it is equally important to revisit that strategy as circumstances change. Companies today are more sophisticated in understanding patent dispute strategies, but may neglect the business impact of implementing those varying strategies. Accordingly, when developing a patent dispute strategy, it is important to involve the right balance of legal and business personnel to ensure the most effective strategy is developed and implemented.

**Sacksteder:** An aggressive early approach is almost always the best way to handle defending against a patent dispute. In light of the number and effectiveness of defences currently available, a party asserting a patent has numerous obstacles to clear before reaching any kind of favourable resolution. It is essential to raise all justified obstacles as early as practicable, not only for substantive reasons, but also to signal to the other side that you are not afraid to put up a fight. Even if the ultimate goal is to settle the dispute for a reasonable amount, responding aggressively at the outset is likely to contribute to that objective. For example, we have seen NPE settlement demands decrease tenfold once it becomes clear that the NPE's target is not an easy mark.

**Dressel:** Due to strong incentives by national healthcare systems especially in the big markets to substitute expensive originator drugs for cheaper generic drugs, the rate of generic erosion of the pharmaceutical markets has dramatically increased. Especially in countries without patent linkage – where a generic does not have to clear the way and no period for resolving a patent disputes without a change in the status quo is provided – the fast grant of ex parte preliminary injunctions is crucial for preserving the status quo and preventing irreparable harm. Both originators and generics need to know the strategic value of a patent portfolio covering a drug very early and need to prepare for aligned patent litigation in many countries. Most pharmaceutical companies will be aware of these issues.

**Badke:** It is often very difficult for a company to quickly and de- ►

cisively resolve a patent dispute given the length of time it typically takes to resolve a patent case and the competing competitive and financial interests of the parties to a dispute. Companies regularly involved in patent disputes, in my experience, give a lot of thought to strategies which minimise the length and cost of disputes such as licences, early settlement, avoiding costly future litigation by employing post grant proceedings when feasible, and accelerating litigation by bringing cases in the ITC or US District Courts that are experienced in handling patent cases in an expedited manner.

**Schenk:** Patent litigation is expensive, and companies are well advised to develop a strategy for resolving patent disputes as efficiently as possible. That being said, sometimes ‘quick and decisive’ action is not the best action. We see this in damages discovery, where companies often try to minimise the disruption to their businesses by producing only the bare minimum in terms of financial information. This ‘quick and decisive action’ can reduce legal fees and preserve resources in the short-run, but can also be short-sighted if it limits the information that is available to the company’s damages expert. With limited financial discovery, experts are often unable to perform the kind of detailed analysis that is required to meet the increasingly rigorous standards for admission of expert witness testimony.

**FW: What trends are you seeing with regard to resolution mechanisms? To what extent are alternative dispute resolution methods being considered as an alternative to litigation?**

**Chiu:** The Chinese courts have largely followed the SPC’s judicial opinion on prioritising the dispute resolution mechanism of mediation. According to the SPC, an average of around 68 percent first instance intellectual property cases between 2009 and 2013 were withdrawn or settled before judgment. Meanwhile, we have also seen an increasing number of licensing and IP transactional agreements, where the parties choose to arbitrate rather than go to court.

**Schenk:** Court-ordered mediation is being used more and more to encourage parties to resolve their disputes with the assistance of experienced and skilled mediators. Facilitating settlement through mediation helps courts manage dockets with thousands of pending patent cases, such as those in the Eastern District of

Texas and the District of Delaware, while introducing otherwise-unwilling parties to the benefits of alternative dispute resolution. Companies that can resolve patent disputes outside of litigation typically see reduced legal fees, less disruption to their business and less disclosure of sensitive information.

**Dressel:** At least for patent litigations between pharmaceutical originators and generics, where maintaining market exclusivity or being the first to market, respectively, are crucial for commercial success, relatively slow alternative dispute resolution methods – compared to preliminary injunctions – like mediation or arbitration, probably will not play a big role. This might become different for patent disputes – for example, between originators for resolving freedom-to-operate issues – because of the increasing potential to select very patent litigation-experienced mediators and arbitrators, the resolution across many jurisdictions and the possibility to agree on one or a few laws.

**Badke:** Many companies today are including arbitration provisions in patent licences to reduce the cost of litigation. However, I am not seeing a significant use of arbitration outside the context of such agreements. The reason for this may be a perception that arbitrators may ‘split the baby’, and make awards that often are less than or more than a party deserves. The inability to appeal many arbitration awards also is often viewed as a negative feature of arbitrations. Mediation is often ineffective in the early stages of a dispute. Parties to a dispute often need to undergo discovery and at least obtain a Markman claim construction ruling before mediation has a chance to be successful in resolving disputes. This added information better enables parties to handicap the risk of going to trial.

**Collier:** Recently, proceedings before the patent office, such as post-grant review and IPRs, have emerged as meaningful alternatives to litigation in federal court. Likewise, alternative dispute resolution in its various forms – such as mediation, early neutral evaluation and arbitration – are increasing in popularity for patent dispute resolution, and will generally be faster and less expensive than traditional litigation. Often, arbitration is called for by a provision in a patent licence, but voluntary arbitration by written agreement is also provided without such licence provision by 35 U.S.C. § 294. Companies should be aware of the varying forms of patent dispute resolution, and should be equipped to evaluate the best option for a given dispute.

**Companies should be aware of the varying forms of patent dispute resolution, and should be equipped to evaluate the best option for a given dispute.**

**Sacksteder:** ADR happens most often in the United States in disputes that have already resulted in litigation. Courts typically require parties to participate in ADR proceedings relatively early in a lawsuit. The most common ADR technique is mediation. Binding arbitration and early neutral evaluation – a hybrid between non-binding arbitration and mediation – are less popular. Mediation is only effective in cases where both parties are at least somewhat open to resolving the dispute, where a monetary settlement is a possibility for both parties – such as where the patentee is not seriously seeking an injunction – and where each party harbours at least some degree of insecurity about its litigation position.

**Vary:** The move to a greater use of arbitration, advocated by many standards setting organisations, is also proving popular with patentees and licensees alike. For example, in November 2013, Nokia and Samsung announced the extension of their licence for a further five years, with amount of additional pay- ▶▶

PAUL D. COLLIER

ments to be settled through binding arbitration.

**Hood:** I am seeing an increase in the use of the procedures that came into effect with enactment of the AIA, such as IPR and CBM proceedings. These are being instituted often in conjunction with parallel federal district court proceedings. As for alternative dispute resolution, such as arbitration, mediation and settlement conference, these types of procedures are often required at some point during a federal district court patent litigation case. The assigned judge or local rules of a court will mandate that the parties to the litigation choose an ADR method, and the parties often have say in the timing of the process. Such ADR procedures are, however, most often instituted not as an alternative to litigation, but rather as a required part of a litigation.

**FW: Could you outline any recent court cases and judgments which will have important implications for the treatment of patent disputes going forward?**

**Badke:** There have been several recent cases handed down by the US Supreme Court in which the ability of patent owners to bring infringement cases have been curtailed. In *Alice Corp v CLS Bank*, the Court found certain computer implemented methods to be patent-ineligible abstract ideas, further narrowing the permissible scope of business method patents. In *Limelight Network v. Akamai*, the Court determined that direct infringement by an individual or entity is a pre-requisite to a finding of induced infringement. And in *Octane Fitness v. Icon Health Fitness*, the Court left it to the District Court's discretion to find a case exceptional and award attorneys' fees, including in cases that involve dubious claims of infringement. Finally, the Court of Appeals for the Federal Circuit in *Apotex v. UCB*, upheld the District Court's finding of inequitable conduct, again confirming that the doctrine of inequitable conduct is not dead following *Therasense v. Becton Dickinson*, contrary to what many predicted.

**Sacksteder:** It has been a good year in the US courts for patent defendants. In addition to the *Alice v. CLS Bank* decision, several other recent Supreme Court decisions provide potential weapons for defendants in patent disputes. The *Octane Fitness* and *Highmark* cases should increase opportunities for defendants to recover legal fees from NPEs asserting weak patent claims in court. The *Nautilus v. Biosig* case appears to have tightened the requirement for definiteness in patent claims, making indefiniteness a viable validity challenge in more instances than before.

**Collier:** The Supreme Court recently has shown a greater willingness to delve into the patent field, issuing several patent law decisions during its last term. While the full implication of these decisions is yet to be understood, these rulings touch on a variety of patent law issues, ranging from invalidity and infringement standards to the standard for availability of attorney fees. Although not intended to deter patent enforcement, some view these rulings as striking a blow to those patent owners who may seek to assert weak patents.

**Schenk:** About five years ago, a series of decisions came out of the Court of Appeals for the Federal Circuit which established more rigorous standards for damages experts in determining a reasonable royalty. The general theme of these decisions was that experts must tie their reasonable royalty analyses closely to the facts of a given case. The application of these heightened standards led to an increasing number of exclusions of damages ex-

## Under the Chinese Patent Law, damages for patent infringement cases are calculated based on lost profits, illegal gain or reasonable royalties.

GEORGIA CHIU

pert testimony by district court judges. While this resulted in far fewer frivolous damages claims being presented to juries, it has also led to some exclusions of seemingly reasonable analyses. Earlier this year the CAFC signalled a reversal of this trend in *Apple v. Motorola*, when it acknowledged that although one approach may better account for certain aspects of a royalty estimation, this does not necessarily make other approaches inadmissible. It remains to be seen whether this will have a measurable impact on exclusions under *Daubert*.

**Hood:** The US Supreme Court's recent rulings about availability of attorneys' fees may have implications going forward with respect to battling patent disputes. In *Octane Fitness v. Icon Health & Fitness*, the Supreme Court loosened the standard for a district court to award a party in a patent case its attorney's fees, making it easier for a party who wins a patent case to recover its fees. Then, in *Highmark v. Allcare Health Management System*, the Supreme Court made it more difficult for the Federal Circuit Court of Appeals, which hears nearly all patent case appeals, to reverse a district court's decision regarding awarding attorney's fees. Taken together, these cases mean that businesses involved in patent disputes must carefully evaluate their positions and the strength of their claims and defences, as the fees involved in such litigation can be significant and the increased potential for liability to pay an opponent's fees may affect the calculus for the dispute.

**Chiu:** Under the Chinese Patent Law, damages for patent infringement cases are calculated based on lost profits, illegal gain or reasonable royalties. The courts are also entitled to award discretionary 'statutory damages' of up to RMB 1m – around US\$164,000 – depending on the circumstances of the case. One of the SPC's top 10 IP cases of 2013, *Zhongshan City Longcheng Daily Manufacture Co. v. Hubei Tongba Children's Goods Co., Ltd.*, however, found that if parties have agreed on the amount of damages, then the agreement shall prevail over the calculation methods provided in the Patent Law. Longcheng is the patent owner of a design patent which sued Tongba for infringement, but the parties agreed to enter into a mediation agreement, stipulating the damages for future infringement and the case was settled. Subsequently, Longcheng found that Tongba resumed the infringing activities and thus filed a patent infringement action claiming the agreed damages. However, both the first instance court and the appeal court awarded statutory damages on the ▶▶

ground that the damages should be calculated according to the Patent Law. The SPC held that where the parties have agreed upon the calculation method or the amount of damages, this agreement shall prevail. Rather than applying the legal provisions rigidly, it is encouraging to see the SPC, which decided the case, following a more flexible approach.

**Dressel:** An interesting case was decided in India in July 2014. The *Bayer v Natco* case confirmed the grant of a compulsory licence for Nexavar. In addition to already higher patentability standards than elsewhere, even a granted patent likely will not provide the market exclusivity necessary for business certainty essential for risky and expensive investments in research and development. Launches of a drug, because of requirements unique to the Indian patent system like local manufacturing, the lower price of a drug, or the availability of a drug to each and every eligible patient as a matter of principle, could make every patent vulnerable to compulsory licensing.

**FW: What initial steps should a company take upon learning that its patents may have been infringed?**

**Schenk:** A company that believes its patents are being infringed has a number of options. It could send a cease and desist letter to the infringer, attempt to negotiate a licence, or bring legal action in one or more of the available venues. There are pros and cons associated with each of these approaches. Legal counsel can help identify the risks of each approach and to develop a litigation strategy that makes sense given the unique circumstances of the case. Involving financial and economic experts who are experienced in IP matters can help ensure that the selected strategy minimises costs and economic risks while maximising the expected outcome of the case. For example, an early assessment of the patent holder's potential economic losses, even before a suit is filed, can help focus the amount of resources that should be devoted to enforcing the patents.

**Chiu:** First of all, companies should collect as much information as possible about the suspected infringers and their infringing activities. This information will allow the companies to decide whether they have a case, and to choose the most appropriate enforcement route. Different preparations apply depending on the chosen enforcement route. In the case of a rights owner that decides to file a civil action, we would normally suggest that it:

**Involving financial and economic experts who are experienced in IP matters can help ensure that the selected strategy minimises costs and economic risks while maximising the expected outcome of the case.**

KIMBERLY J. SCHENK

arranges for notarised purchases of the infringing samples; considers which of its Chinese patents are being infringed; carries out an infringement and validity analysis; decides where to sue and which entity should bring the lawsuit; prepares the formality documents; and considers if it is necessary to apply for a preliminary injunction or evidence preservation orders.

**Hood:** A first step is to objectively evaluate the strength of the infringement case, and before bringing suit you will need to have conducted a sufficient investigation and analysis of the infringement to satisfy legal standards. That means obtaining as much information as possible about the infringing device, system, use, and so on, including about notice of the patent and financial impact in order to properly evaluate potential monetary damages. You may also want to evaluate the infringer's financial viability, including its patent portfolio, to assess not only the likelihood of collecting any damages award, but also the possibility that the infringer will counter-sue for infringement. You will want to exercise care in communications you have with the infringer, so as to avoid being sued for a declaratory judgment of non-infringement or similar claims in an unfriendly or inconvenient location.

**Dressel:** Since the countries where generics might launch are quite predictable, securing good litigation counsel, and thus avoiding conflict situations, should be done well before any imminent infringement. In pharmaceutical patent litigation between originators and generics, preventing the generic launch is of utmost importance in order to avoid irreparable harm. Therefore, in many countries the threat of infringement is sufficient for initiating infringement proceedings. This can be the grant of a marketing approval for the generic drug or subsequent administrative steps necessary for launch, like pricing and reimbursement. As a consequence, a diligent observation of the market is essential. Depending on the jurisdiction, strict formal requirements for proving and documenting infringement are necessary.

**Collier:** Every company should consider an action plan to identify and address possible patent infringement to avoid being caught flat footed. The more refined this action plan is, the more efficient and effective the response will be. The plan should identify the key decision-makers to evaluate the possible infringement and the most effective strategy for dealing with it. The decision-making team should include individuals who can effectively voice and evaluate business and legal considerations that the possible infringement implicates. Legal strategy should be influenced by business objectives and, with those in mind, the decision-making team should evaluate the various dispute resolution mechanisms that are available, such as pursuing a licensing strategy or other business resolution, enforcing the patent through litigation or ADR, or taking no action at all. The team will want to conduct a cost-benefit analysis for each possible strategy.

**Sacksteder:** The first thing a company should do seems obvious, but often isn't done: the company should think carefully about what it wants to accomplish. Is the primary goal to obtain an injunction against a competitor, aimed at hindering the competitor's ability to compete in the market? Is it recovery of damages to compensate for past infringement? Or is it something else – perhaps publicly demonstrating the company's determination to defend its position as an innovator? Many possibilities exist, and they mandate different strategic and tactical decisions. For example, an attempt to obtain an injunction might focus on a single, fundamental and battle-tested patent, which may provide ►►

the best opportunity at attaining injunctive relief, while a dispute aimed at monetary recovery might cast a wider net, involving more patents that would need to be licensed.

**Badke:** Given the requirements of Federal Circuit case law, companies must perform adequate diligence to ensure that any suit is brought in good faith. In this regard, prior to bringing suit there should be rigorous examination of the infringing product, and an opinion of counsel obtained to ensure that there is a good faith belief that there is infringement and that the claims can withstand a validity challenge. When assessing infringement, it is advisable to construe the claim terms in a way most likely to be adopted by the Court, and thoroughly examine the prosecution history for possible disclaimers. When assessing validity, reasonable inquiries should be conducted as to possible prior public uses and sales, inventorship issues and the like, and a reasonable prior art search conducted. Only after the patent proves to be 'litigation worthy' in terms of infringement and validity should a suit be brought or other strategy employed which alerts the potential infringer to the alleged infringement or possible litigation.

**FW: What final advice can you offer to companies on effectively protecting their patents through monitoring potential infringements and enforcing their rights?**

**Sacksteder:** We are more often than not on the defence side of patent disputes – and we never represent NPEs – so my advice comes from that perspective. Some of the recent changes in the law require particular care in deciding what patents to assert, as well as how and against whom to assert them. *Octane Fitness* and *Highmark* created a significantly lower bar for patent defendants to recover attorney fees in cases of dubious merit, and cases such as *Alice* may push more patents into the 'dubious' category than before. So a patent owner's pre-suit investigation must be correspondingly stringent, in light of a significant potential downside risk that did not previously exist.

**Vary:** Never view litigation as the preferred option. If you can, arbitrate portfolios rather than litigate patent by patent. It's much quicker and cheaper for the patent owner and lower risk for potential licensee. But always be prepared to litigate if other approaches fail. If you have to, then pick your venue with care. Look for fast and reliable courts, which likely means looking beyond the US for better alternatives. You must also choose your patents with care. I disagree with the common viewpoint that you shouldn't verify your own claim in case you find some prior art that you have to disclose. If there is bad prior art to your patent you shouldn't be asserting the patent in the first place. Choose the best counsel for the jurisdiction. Don't just go with the local office of your current preferred US firm. Other countries are really very different; don't underestimate that. Don't think that US tactics will win everywhere.

**Schenk:** It is important for a patent holder to have a clear idea of the value of a case before beginning to enforce their rights – especially through litigation, which can be costly. Oftentimes a patent holder will enter litigation with an overly optimistic view of the scope of their patents or the amount of potential damages, only to find late in the litigation process that they have devoted a lot of resources to a case that is worth far less than they anticipated. Obtaining preliminary opinions from economic and technical experts in the early stages of a dispute – preferably prior to filing suit – can help to ensure that a company's enforcement strategy

is appropriate given the circumstances of the case.

**Collier:** Companies should know all of the legal avenues available to them to reach their business goals for asserting their patent rights and stay flexible about the best way to achieve them. Monitoring the marketplace is important from both a litigation and business perspective, and companies should stay informed about competing businesses, products and technologies. Intellectual property can often be some of the company's most valuable business assets, and companies should be cognizant of the effective ways to protect and enforce it.

**Dressel:** In pharmaceutical patent litigation against generics, a sufficiently early analysis of the patent portfolio and development of a detailed enforcement and defence strategy helps avoid last-minute surprises and misaligned arguments.

**Badke:** Companies should monitor the marketplace for potential infringement. They can employ post grant PTO proceedings, such as reissue or reexamination, to improve claim language or coverage to better capture infringing activity or improve the odds of winning any litigation. Claims in related pending patent applications can also be amended to cover infringing products prior to a suit being brought or in anticipation of infringers designing around issued claims. When it comes time to bring a lawsuit, one should consider bringing the case in a court that is pro-patent, and which provides a quick track to resolution. Cease and desist letters prior to filing suit should be avoided if the potential defendant can bring a declaratory judgment suit in a district that favours it, or is slower to trial. A slower track to trial often benefits the alleged infringer.

**Chiu:** Our final piece of advice is to fight a prepared battle by knowing yourself and knowing the battlefield. Companies are encouraged to 'localise' their patent filing strategy, taking into account the special features of the Chinese patent regime. For example, companies may decide to file utility model patents in addition to the invention patents covering the same technology, to ensure that they are able to lodge infringement action swiftly. This is because a utility model patent will be granted in an average of 8 to 12 months compared to invention patents, which could take around 2-4 years. Besides the differences in the laws and procedures governing patent litigation, attention should be paid to the distinct commercial and culture environment in China. The counterparty's ideology and goals are driven by these factors. Ideally, consulting with legal counsel who is familiar with the legal regime and also sensitive to the commercial culture will be important, if not critical, when drawing up an overall patent protection and enforcement plan.

**Hood:** As with any intellectual property asset, companies are wise to treat patents as valuable assets worthy of protection. Without this 'attitude', protection will not be entirely effective. As with other valuable assets, a company should regularly monitor its patents, including reviewing what competitors in the marketplace are doing. The company should have in place a system for collecting this competitor information, and assessing it against the company's patent portfolio to identify potential infringements. The company should have in place a system by which cease and desist letters, or even more formal dispute documents such as complaints, can be prepared, delivered and resolved. Finally, the company should honestly evaluate its options, and aggressively pursue available remedies when the situation calls for action. ■