



Security B –
TSMC Restricted
Secret

The TSMC Office of the General Counsel –
*Enabling the Nimbleness and Competitiveness
of a Global High Tech Company in the Post
Computer Age*

Dr. Richard L. Thurston, Esq.

March 27, 2014

**Directors Roundtable
New York City**

Enabling the Nimbleness and Competitiveness of TSMC in the Post Computer Age



● Introduction

- TSMC is a Taiwan Corporation.
- Taiwan is not China (most Taiwanese do not consider themselves Chinese, even though 84% are descended from Han Chinese).
- Taiwan is not a member of the UN (it lost its seat in 1971) and is also not a participant in most international treaties and conventions.
 - ◆ Only 21 UN Member States and the Vatican maintain official diplomatic relations with Taiwan.
- Taiwan is a **democracy and governed by the Rule of Law**.
- 165 Colleges and Universities exist in Taiwan for a local population of 23.34M people (possibly near its peak)
 - ◆ For countries with over 10M population, Taiwan has **second highest density in the world** (632 people per square kilometer).

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● TSMC (Taiwan Semiconductor Manufacturing Co., Ltd.) at a Glance.

■ General Information.

- ◆ Founded in Taiwan on February 21, 1987; Hdq – Hsinchu, Taiwan (traded on NYSE as *TSM*/ Taiwan Stock Exchange as “2330”); on NYSE closed on 3/24 with a Market Cap of USD \$99.2B
- ◆ Pioneered the Semiconductor Industry “*foundry*” business model;
- ◆ Global company with 40,000+ employees in Taiwan, USA, Europe, Japan, China, India, South Korea and Singapore.
- ◆ 2013 revenue = USD\$20.11B and net income = USD \$6.3B; #3 in industry
- ◆ Manufactures more than 8,600 different products using 202 different technologies for more than 450 customers (focus on Logic tech);
- ◆ Leads the Semiconductor industry in process technologies with annual R&D budget of 8% of revenues;
- ◆ 2013 annual capacity = 16.4 million 8-inch equivalent wafers

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- TSMC at a glance, continued.

- Corporate Structure -

- ◆ Chairman – Dr. Morris Chang; 2-Co-CEOs.
- ◆ Board of 9 Members, 5 of whom are independent members. Quarterly meetings in Taiwan (2.5 days ea.time)
- ◆ Audit Committee (since August 2002) and Compensation Committee, comprised of Independent Board members.
- ◆ Co-CEOs, General Counsel and CFO report to the Chairman.
- ◆ Long-established *Code of Ethics and Business Conduct*
- ◆ Strong Internal Control System

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- TSMC at a glance, continued

- Corporate Social Responsibility (CSR) – is “to uplift society”

- ◆ In 2013, Dow Jones Sustainability Index (DJSI) recognized TSMC as the Semiconductor and Semiconductor Equipment Industry Group Leader. TSMC is the first Taiwan company and only 1 out of 4 Asian companies to win the highest score and 1 of only 2 semiconductor companies chosen as index components for 13 consecutive years. Numerous other recognitions.
- ◆ ESH is fundamental to our culture (numerous “green” initiatives, including building certifications – 11 of our facilities are Leed certified.)
- ◆ Environmental Accounting (costs, benefits, reductions, etc.)
- ◆ Education and Cultural Foundation since 1998.

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- **TSMC Legal Organization at a Glance –**

- I am TSMC's 2nd General Counsel (joined on 1/2/2002).

- Legal Organization Demographics:

- ◆ 71 members of the legal organization.

- 36 licensed lawyers

- 6 not licensed but legally trained (Annual Bar Exam Pass Rate of approximately 11%)

- 11 technical staff

- 16 paralegals and secretaries

- Located in 5 Countries (Taiwan, US, Netherlands, Japan, China)



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- **Top Ten Areas of Legal's Focus in order of importance.**
 - Regulatory Compliance.
 - Trade Secret Management
 - Transactional/Contracts – existing data base of 80,000 contracts of which 75% are active, IT system created by Legal and TSMC IT - today Contract Management System is fully interactive & global..
 - Patent Portfolio Management
 - Litigation
 - Human Resources
 - (3 areas) Corporate/Finance/M&A
 - China



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● Top Ten Areas of Focus continued.

■ Regulatory Compliance (General Counsel is Chief Compliance Officer).

- ◆ Anti--bribery/corruption; anti-harrassment/discrimination; antitrust (unfair competition);environment; export control (Best in Class Export Management System); financial reporting/internal controls; insider trading; privacy; record retention; conflict minerals.
- ◆ Compliance and risk management.
- ◆ Training, training and more training – proactive approach.
- ◆ Extensive legal organization website (multi-lingual)
- ◆ Participation in international trade organizations to promote.

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● Top Ten Areas of Focus, continued.

■ Trade Secret Management –

- ◆ TSMC is an innovation company and trade secrets are our most important intellectual property – second to none!
- ◆ First Trade Secret Policy – 1999. Today, Trade Secret protection is one of the 6 core strategies of TSMC (known as “PIP”) and GC heads up.
- ◆ Direct and Indirect personnel involved = 300+, including, active IT Security organization with state of art equipment and software.
- ◆ Very active litigation program against theft and misappropriation including one of the largest US trade secret cases against one of our competitors (Keker, Haynes and Boone in US, DeHeng in China, and Lee & Li in Taiwan).
- ◆ Responsible for major Taiwan legislative reform.
- ◆ Annual Golden Trade Secret Awards.

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- **Most Common Channels by which TSMC's competitors try to obtain our trade secrets (not ranked):**
 - TSMC customers who second source and TSMC customers who sell product to our competitors ;
 - Tool vendors and suppliers;
 - TSMC employee publications; including PhD dissertations, and speeches;
 - Trade Associations;
 - Hiring of our employees (direct or indirect);
 - Patent filings;
 - Expert network firms;
 - Employees who send information to personal email accts;
 - Third party technology providers.

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- **Top Ten Areas of Focus, continued.**

- **Patent Portfolio Management**

- ◆ Strategic inventing driven, although “numbers” play a role.
- ◆ 2013 – filed record #2094 US Patent Applications.
- ◆ Record breaking #940 US patents issued.
- ◆ TSMC moved to “Top 30” US patent issuances and “Top 20” for US pre-grant publications.
- ◆ Global portfolio of 20,000+ (including pre-grant publications and acquisitions).
 - Pruning and monetization.

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● Top Ten Areas of Focus, continued.

■ Litigation

◆ Principal litigation relates to intellectual property issues.

- Trade secrets (see earlier), where we are plaintiff; and

- Patent infringement – where we are defendants.

 - » With nearly all SC operating companies we either have cross-licenses or covenants not to sue

 - » Lawsuits by NPEs (non-performing entities, AKA “trolls”) on rise!

 - » We will fight non-meritorious assertions either in the courts and/or to seek invalidation of the patents in suit.

 - » TSMC memberships in RPX and AST.



Use of Intangible Assets (Patents) for Business Purposes

March XX, 2014

DuaneMorris[®]

L. Norwood "Woody" Jameson
Partner
Duane Morris LLP

DUFF & PHELPS

Chris Bakewell
Global Intellectual Property Co-Leader
Duff & Phelps

Patents in the News

What's at Stake in the Supreme Court Decision in 'AMP v. Myriad Genetics'

Rose-Ellen Lessy | June 5, 2013

IP Cases to Watch on Supreme Court Docket



Written by Jeffrey Glenn Sheldon
Patent Application Attorney
Contributor Level 8

Intellectual Property
Posted 7 months ago · 1 helpful vote

As a testament to the increasing value of intellectual property, the Supreme Court will tackle a significant number of IP cases this term. Out of the 48 cases currently on the Supreme Court's docket for the October 2012 term, there are four key cases involving patents, copyrights, and trademarks.

While the number may still seem low to the casual observer, it reflects a growing rise in IP law cases before the Supreme Court. For example, ten years ago, the Court decided just 3 IP cases out of 73 opinions, according to SCOTUS Blog.

Below is a brief preview of the cases that will be decided this term:

Kirtsaeng v. John Wiley & Sons, Inc.: The Supreme Court will again tackle the legacy of "gray-market" products manufactured overseas and resold in the U.S. The issue is that § 602(a)(1) of the Copyright Act prohibits importation of a work "without the authority of the owner" of the copyright, and first-sale doctrine allows the owner of a copy "lawfully made under this title" to otherwise dispose of the copy without the copyright owner's permission. The question before the Court is how these provisions apply to textbooks that are legally acquired abroad and then imported into the United States to be sold.

Already, LLC v. Nike, Inc.: The Supreme Court will consider whether court is divested of Article III jurisdiction over a party's challenge to a party's then-existing commercial activities. Federal Circuit precedents allow a declaratory judgment of patent invalidity by a party who has not requested for a declaratory judgment of patent invalidity by the party, however, the Ninth and Second Circuits are split on the issue.

Bowman v. Monsanto Co.: The Supreme Court will address exhaustion, which eliminates the right to control or profit from an authorized sale. In this case, the Federal Circuit refused to find patent exhaustion in an authorized sale for the purpose of planting. The question presented is whether (1) refusing to find patent exhaustion in an authorized sale and by (2) creating an exception to the doctrine of patent exhaustion.

Cuno v. Missoni: The Supreme Court will consider whether the Federal Circuit's decision in *Cuno* is consistent with the Supreme Court's decision in *Grain Processing* under 28 U.S.C. § 1538 apf.

THE WALL STREET JOURNAL
WSJ.com

BUSINESS | Updated June 4, 2013, 12:10 a.m. ET

Obama Plans to Take Action Against Patent-Holding Firms

By JARED A. FAVOLE And BRENT KENDALL

WASHINGTON—The White House on Tuesday plans to announce a set of executive actions President Barack Obama will take that are aimed at reining in certain patent-holding firms, known as "patent trolls" to their detractors, amid concerns that the firms are abusing the patent system and disrupting competition.



Mr. Obama's actions, which include measures he wants to consider, are intended to target firms that are abusing the patent system and disrupting competition.

The Dangers of Patent-Driven Monopoly Power
By Joseph E. Stiglitz | Posted Sunday, May 12, 2013, at 7:00 AM
Posted Sunday, May 12, 2013, at 7:00 AM

The New York Times

The Opinion Pages

WORLD U.S. N.Y./REGION BUSINESS TECHNOLOGY SCIENCE HEALTH SPORTS OP-ED

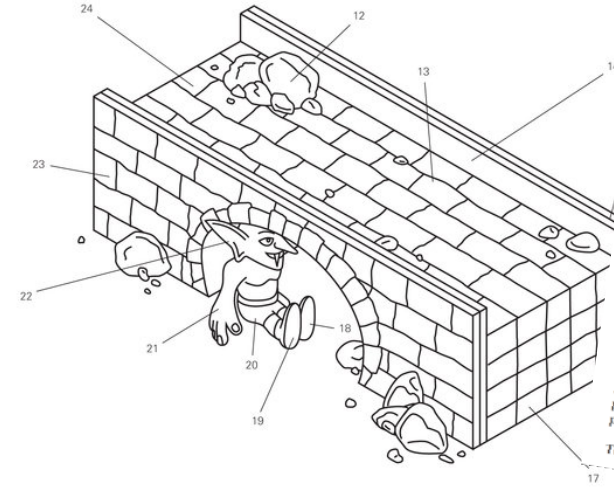
Stewart J. Guss
Houston Personal Injury Attorney
Get More For Your Claim

8+1 Personal Service, Great Results.



OP-ED CONTRIBUTORS

Make Patent Trolls Pay in Court



The Supreme Court recently began deliberations in a case that highlights a deeply problematic issue concerning intellectual property rights. Can human genes—your genes—be patented? Put another way, should someone essentially be permitted to own the right, say, to test whether you have a set of genes that imply a higher than 30 percent probability of developing breast cancer?

To those outside the arcane world of intellectual property rights, the answer seems obvious: No. You own your genes. A company might own, at most, the intellectual property underlying its genetic test; and, because the research and development needed to develop the test may have cost a considerable amount, the firm might rightly charge for administering it.

But a Utah-based company, Myriad Genetics, claims more than that. It claims to own the rights to any test for the presence of the two critical genes associated with breast cancer, and it has ruthlessly enforced that right, though the test is inferior to one that Yale University was willing to provide at much lower cost. Blocking such testing costs lives. Myriad is a true example of an American corporation for which profit trumps all other values, including the value of human life itself.

This is a particularly poignant case. Normally, economists talk about trade-offs: weaker intellectual property rights, it is argued, would undermine incentives to innovate. The irony here is that Myriad's discovery would have been made in any case, owing to a publicly funded, international effort to decode the entire human genome that was a singular achievement of modern science. The social benefits of Myriad's slightly earlier discovery have been dwarfed by the costs that its callous pursuit of profit has imposed.

More broadly, there is increasing recognition that the patent system, as currently designed, not only imposes untold social costs, but also fails to maximize innovation—as Myriad's gene patents demonstrate. After all, Myriad did not invent the technologies used to analyze the genes. If these technologies had been patented, Myriad might not have made its discoveries. And its tight control of the use of its patents has inhibited the development by others of better and more accurate tests for the presence of the gene. The point is a simple one: All research is based on prior research. A poorly designed patent system—like the one we have now—can inhibit follow-on research.

That is why we do not allow patents for basic insights in mathematics. And it is why research shows that patenting genes actually reduces the production of new knowledge about genes: The most important input in the production of new knowledge is prior knowledge, to which patents inhibit access.

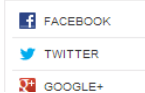
Fortunately, what motivates most significant advances in knowledge is not profit, but the pursuit of knowledge itself. This has been true of all of the transformative discoveries and innovations—DNA, transistors, lasers, the Internet.

A separate legal case has underscored one of the main dangers of patent-driven monopoly power: corruption. With prices far in excess of the cost of production, there are, for example, huge profits to be gained by persuading pharmacists, hospitals, or doctors to shift sales to your products.

The U.S. attorney for the Southern District of New York recently accused the Swiss pharmaceutical giant Novartis of

By RANDALL R. RADER, COLLEEN V. CHIEN and DAVID HRICK
Published: June 4, 2013


FROM an early age we are taught the importance of fighting fairly. But as the vast number of frivolous patent lawsuits have shown, too many people are rewarded for doing just the opposite.



Objectives

- Overview of patents, their history and their economic impacts
- Outline of past, present and future patent reform efforts
- Stimulate thoughts regarding the strategy of patenting, licensing and other alternatives on a global scale

What is a Patent?

pat·ent  [pat-nt or for 10, 12-15, peyt-; especially British peyt-nt]  [Show IPA](#)

noun

1. the exclusive right granted by a government to an inventor to manufacture, use, or sell an invention for a certain number of years.
2. an invention or process protected by this right.
3. an official document conferring such a right; letters patent.

Origin:

1250-1300; (adj.) Middle English < Latin *patent-* (stem of *patēns*) open, orig. present participle of *patēre* to stand wide open; (noun) Middle English, short for *letters patent*, translation of Medieval Latin *litterae patentēs* open letters

Synonyms

10. clear, palpable, conspicuous, unconcealed. See apparent.

Antonyms

10. dim, obscure, hidden.

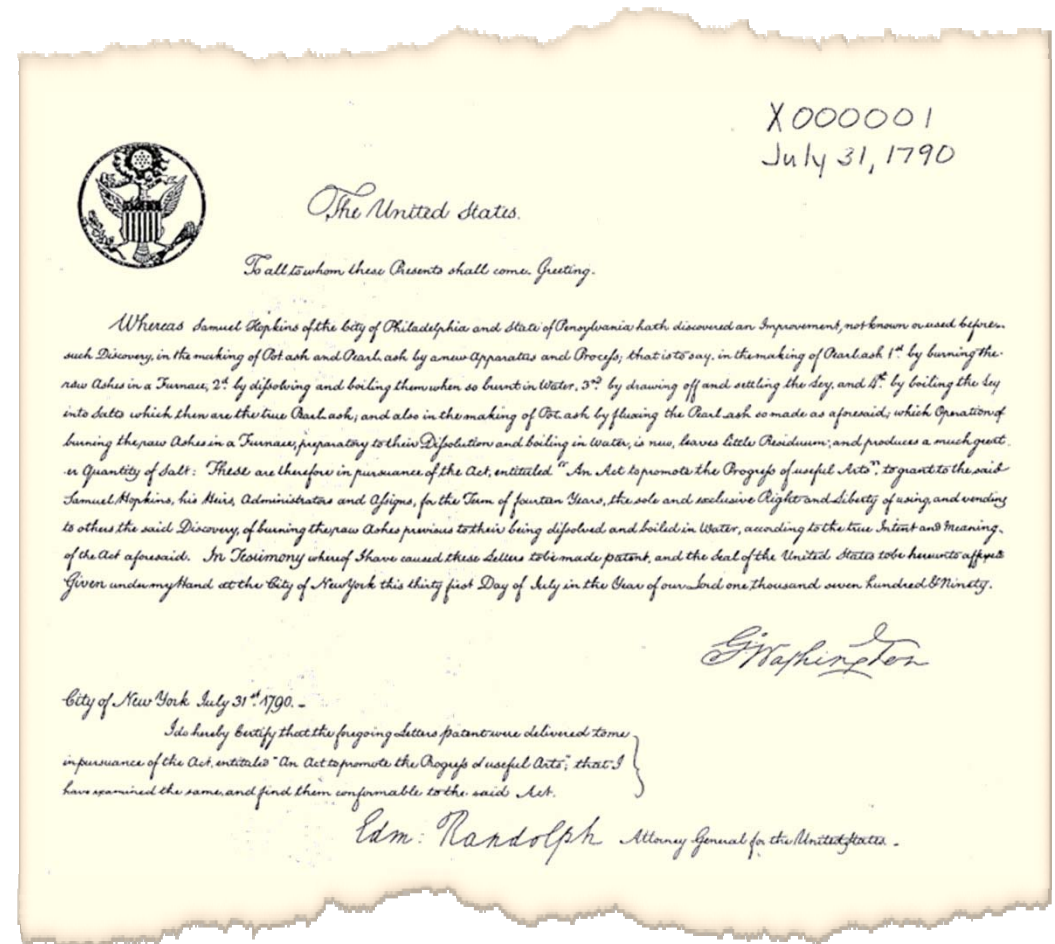
U.S. Constitution: Progress Clause

“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....”

ARTICLE I, SECTION 8, CLAUSE 8

Patent Act of 1790

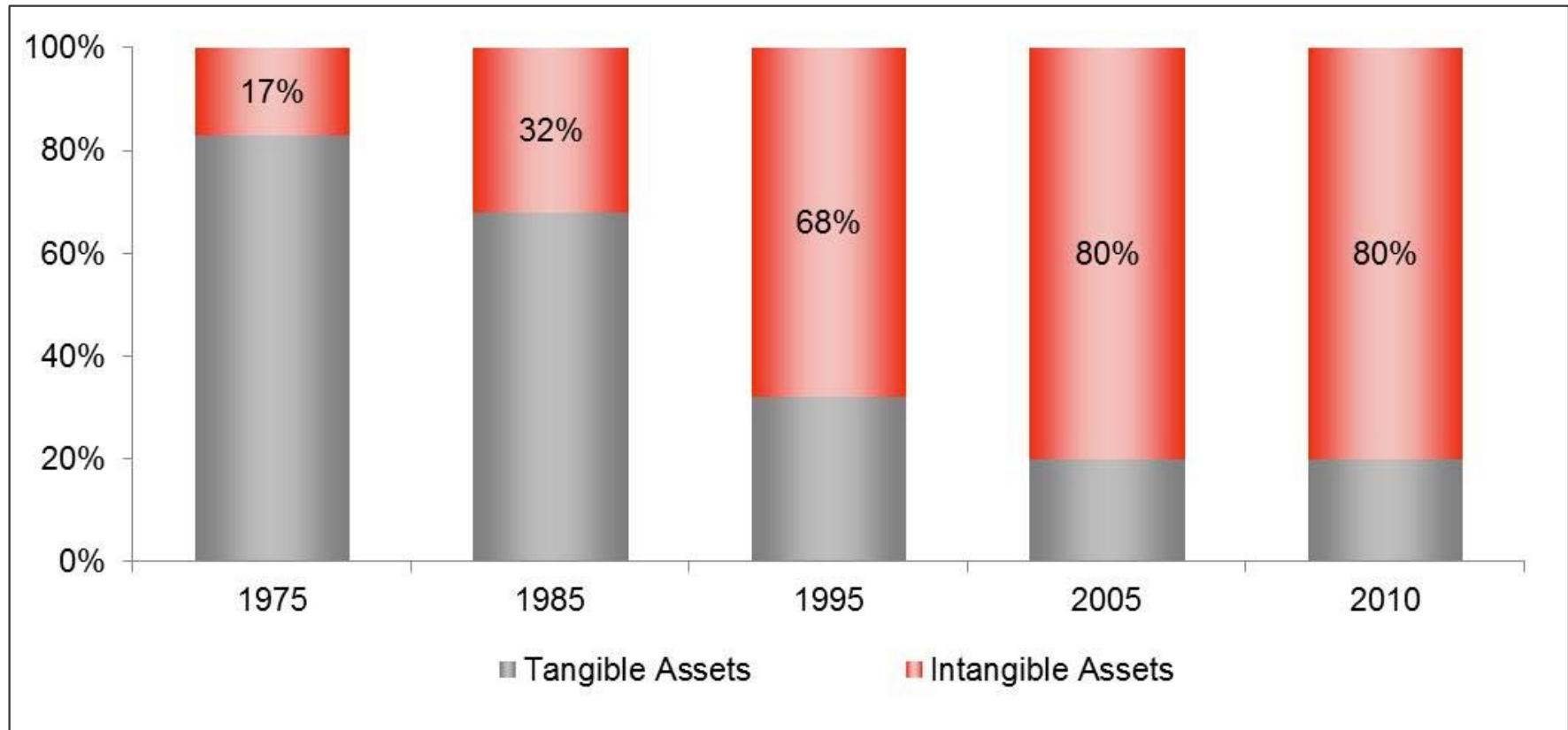
- Patent fees that most ordinary citizens could afford (~\$30)
 - Less than 5% of Britain's fees
 - Fees fixed for the next 70 years
- Simplified administrative procedures
 - Postage-free applications by mail
- Encouraged ordinary people to participate in inventive activity
 - Unprecedented numbers were able to generate income from invention... which led to even more innovation
 - By 1860, the number of new inventions patented in the U.S. was 7x the number in Britain



Source: "Was Thomas Edison a Patent Troll?" by Henry Northhaft (CEO of Tessera) and David Kline (widely published author), June 1, 2010

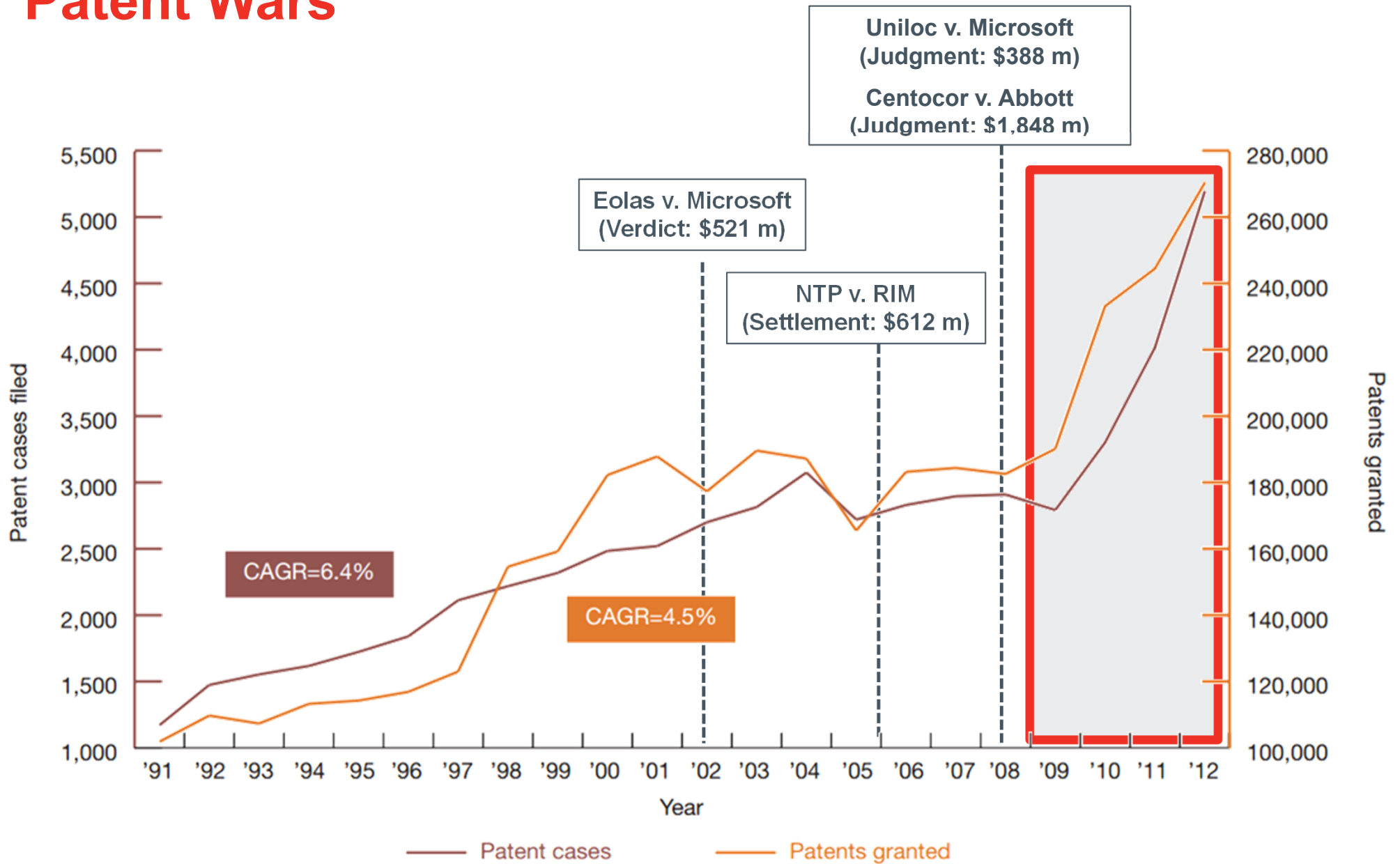
An Innovation Economy Based on Intangible Assets

Components of S&P 500 Market Value



Source: Ocean Tomo's Intangible Asset Market Value Study (<http://www.oceantomo.com/media/newsreleases/Intangible-Asset-Market-Value-Study-Release>).

Patent Wars



Source: 2013 Patent Litigation Study, PricewaterhouseCoopers.

Telecom Patent Wars – *Examples of Recent Activity*

April 2010	HTC enters patent license with Microsoft
June 2011	General Dynamics enters patent license with Microsoft
June 2011	Apple, EMC, Ericsson, Microsoft, RIM & Sony win auction of 6,000+ Nortel mobile-related telecommunications patents for \$4.5 billion (beating out Google)
July 2011	Google acquires 1,029 patents from IBM for an undisclosed amount
August 2011	Google announces intention to purchase Motorola Mobility for \$12.5 billion
August 2011	Google acquires 1,023 more patents from IBM for an undisclosed amount
September 2011	Acer and ViewSonic enter patent licenses with Microsoft
September 2011	Samsung enters patent license with Microsoft
October 2011	Quanta enters patent license with Microsoft
July 2012	RIM ordered to pay \$147 million to Mformation
August 2012	Apple gets jury verdict in patent dispute against Samsung
November 2012	HTC enters settlement patent license with Apple
September 2013	Microsoft announces acquisition of Nokia (and license of patents)
October 2013	Rockstar initiates lawsuit against Samsung, Google, Huawei, Asustek, HTC, LG, Pantech & ZTE
December 2013	Google initiates countersuit against Rockstar
February 2014	HTC and Nokia enter into patent license

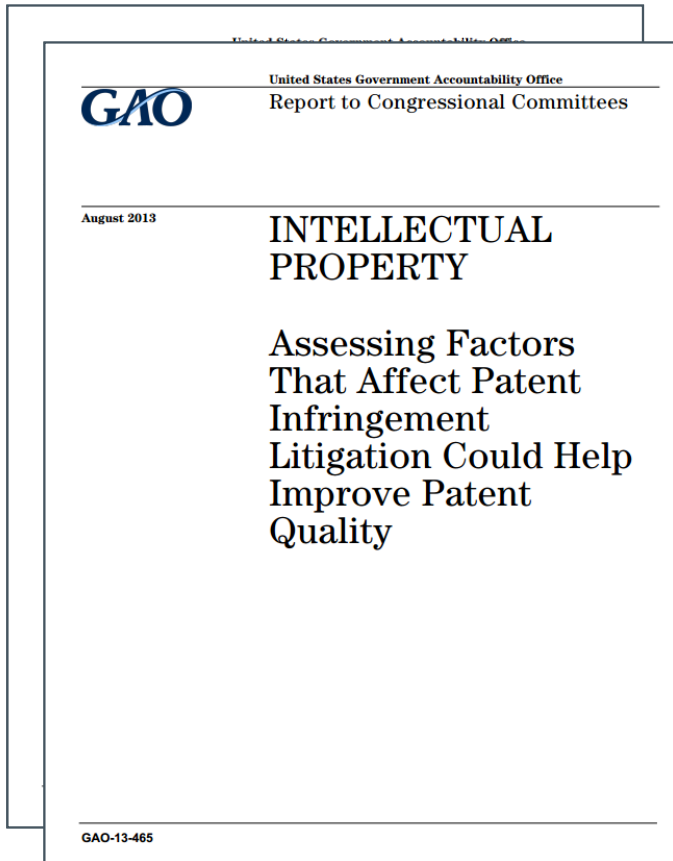
Growing Awareness of Patent Value

- **Damages awards 1995-2011:**
 - Median damages awards between \$1.9 million to \$16.1 million
 - But... many multi-hundred million cases
 - Highest awards in telecommunications industry
- **In the year 2012:**
 - 62% of the 2,500 U.S. patent lawsuits filed were brought by non-practicing entities (NPEs), which some disparage as “patent trolls”
- **In the year 2013:**
 - Patent lawsuits spiked by 20%
- **In the year 2014:**
 - To be continued...



Source: 2013 Patent Litigation Study, PricewaterhouseCoopers, White House Study on the impact of PAE activities on Innovation and Economy.

What is Really the Issue?



- **Defendants in infringement lawsuits increased 129%**
 - Software-related patents accounted for 89% of increase
- **Most NPE suits involve software patents**
- **68% of cases filed by operating companies**
 - Many are startups / small in size

Is the issue with the party bringing suit? Or the quality of software patents?

Source: "Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality," U.S. GAO, August 2013.

Objectives

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- Stimulate thoughts regarding the strategy of patenting, licensing and other alternatives on a global scale

President Obama on “Trolls”

- June 4, 2013 – The White House announces executive actions to rein in “patent trolls,” (their words) amid concern that the firms are abusing the patent system and disrupting competition.
- January 28, 2014 – President Obama renews his call for Congress to pass additional patent reform legislation.

Some firms "don't actually produce anything themselves. They're just trying to essentially leverage and hijack somebody else's idea to see if they can extort some money out of them."



Source: “Obama Aims At Firms That Work With Patents,” *Wall Street Journal*, June 4, 2013.

President Obama on “Trolls”

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“Sometimes these things are challenging, because we also want to make sure that the patents are long enough that people’s intellectual property is protected. We’ve got to balance that with making sure that they’re not so long that innovation is reduced.”



Source: “Obama Aims At Firms That Work With Patents,” *Wall Street Journal*, June 4, 2013.

Federal Circuit Judge Rader: What is a “Troll”?

“Anyone -- from IBM and Microsoft down to the smallest patent owner -- who asserts a patent far beyond its value.”

October 18, 2009

“Any party that attempts to enforce a patent far beyond its actual value or contribution to the prior art.”

September 27, 2011

“Trolls [...] make money by threatening companies with expensive lawsuits and then using that cudgel, rather than the merits of a case, to extract a financial settlement.”

June 4, 2013



Randall R. Rader
Chief Judge
U.S. Court of Appeals for
Federal Circuit

Federal Circuit Judge Rader: What is a “Troll”?

The New York Times

The Opinion Pages

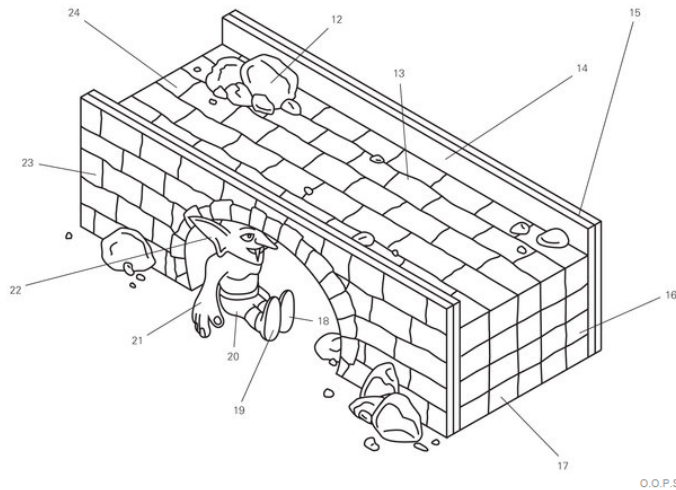
WORLD U.S. N.Y./REGION BUSINESS TECHNOLOGY SCIENCE HEALTH SPORTS OPINION

By RANDALL R. RADER, COLLEEN V. CHIEN and DAVID HRICIK

Published: June 4, 2013

OP-ED CONTRIBUTORS

Make Patent Trolls Pay in Court



By RANDALL R. RADER, COLLEEN V. CHIEN and DAVID HRICIK
Published: June 4, 2013

FROM an early age we are taught the importance of fighting fairly. But as the vast number of frivolous patent lawsuits have shown, too many people are rewarded for doing just the opposite.

Related

Obama Orders Regulators to Root Out 'Patent Trolls' (June 5, 2013)

The onslaught of litigation brought by “patent trolls” — who typically buy up a slew of patents, then sue anyone and everyone who might be using or selling the claimed invention — has

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PRINT

“... trolls have an important strategic advantage over their adversaries: they don’t make anything.”

June 4, 2013

Perceived benefits to NPEs or “trolls”

- Fewer documents, fewer witnesses and much smaller legal bill
- No fear of a counterclaim
- No reputation concerns
- Contingent-fee attorney arrangements

Source: “Make Patent Trolls Pay in Court,” New York Times, June 4, 2013, Judge Rader, Colleen Chien and David Hricik.

Great Inventor or “Patent Troll”?

- Patent Act of 1790 encouraged ordinary people to participate in inventive activity
- 400 iconic “great inventors” of the 19th century...
 - More than 70% had only a primary or secondary school education
 - About 50% had little or no formal schooling at all
 - Roughly two-thirds were non-practicing



Matthias Baldwin
Inventor: locomotive



Elias Howe
Inventor: sewing machine



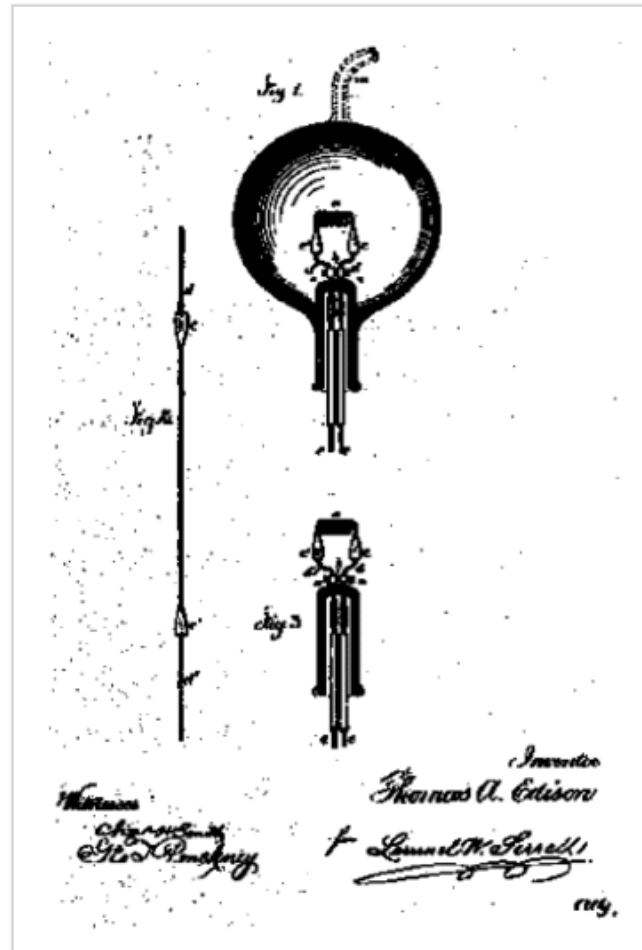
Thomas Edison
Inventor: electric light and phonograph

Source: “Was Thomas Edison a Patent Troll?” by Henry Northhaft (CEO of Tessera) and David Kline (widely published author), June 1, 2010

Great Inventor or “Patent Troll”?



Thomas Edison
Inventor: electric light and
phonograph

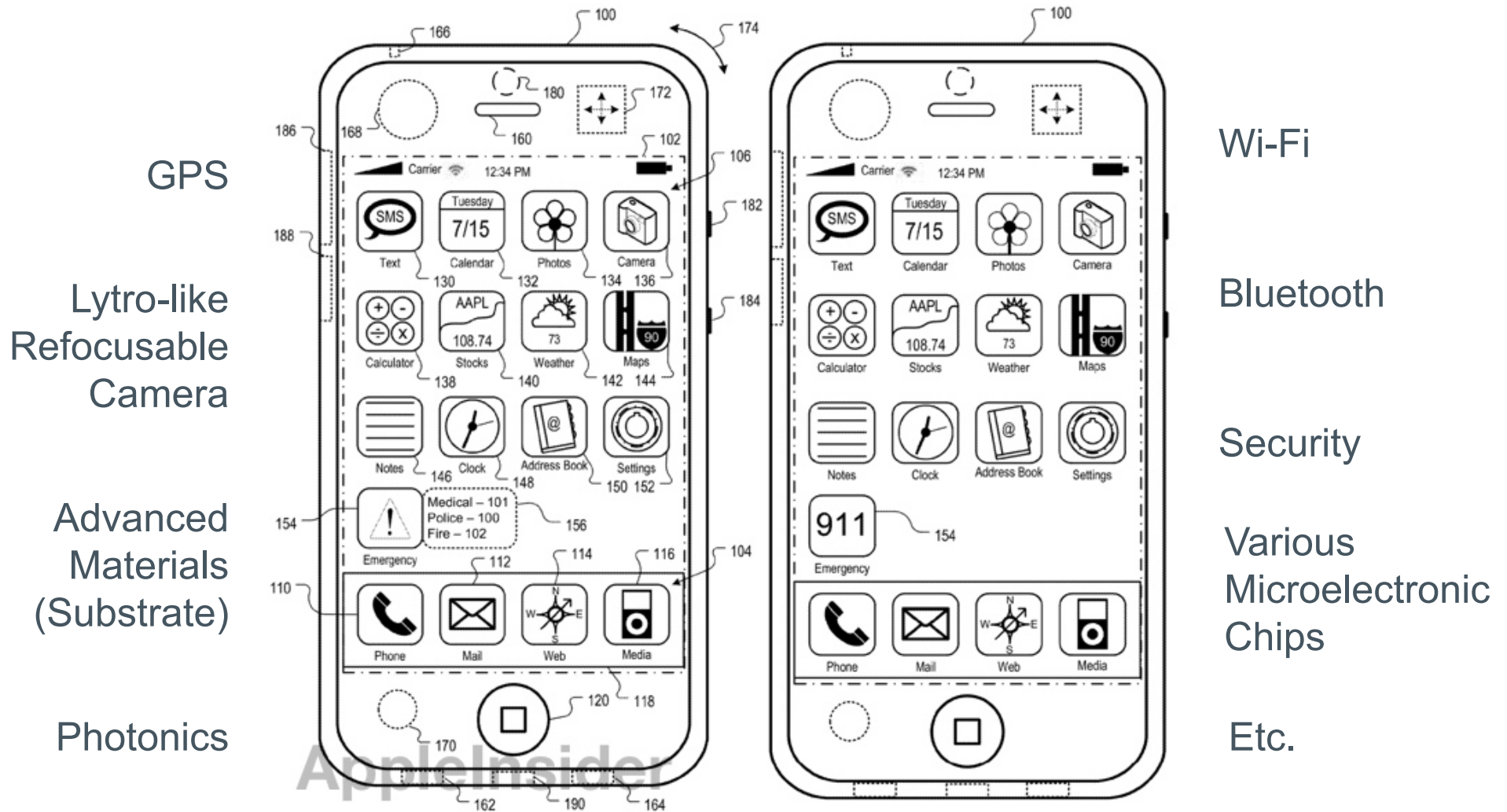


- **Thomas Edison actually did not “invent the light bulb” ...**
 - Actually, he improved upon a 50-year-old idea to produce a reliable, long-lasting source of light
- **Ultimately received 1,000+ patents, more than any other inventor**

Changes in the Law Must Be Necessary... Right?



Products Increasingly Complex



Source: "Rebalancing the Patent Economy," by Patrick Terroir, (IAM) Magazine, March-April 2014.

Big Changes in Damages Case Law ...

“The entire market value rule is a narrow exception...”

- **Its not enough to show that:**
 - Patented method “is viewed as valuable, important, or even essential to the use of the [product]”
 - Produced without patented feature “would be commercially unviable”
- **Intent is to measure and separate demand drivers**



See, for example, the following opinions:

***Cornell Univ. v. Hewlett- Packard Co.*, 609 F. Supp. 2d 279 (N.D.N.Y. 2009)**

***Lucent Technologies, Inc. v. Gateway*, 580 F.3d 1301 (Fed. Cir. 2009)**

***Uniloc USA v. Microsoft*, 632 F. 3d 1292 (Fed. Cir. 2011)**

***LaserDynamics, Inc. v. Quanta Computer Co.*, Slip Op. 2011-1440 (Fed Cir. August 30, 2012)**

Settlement Licenses (*LaserDynamics*)

United States Court of Appeals
for the Federal Circuit

LASERDYNAMICS, INC.,
Plaintiff-Appellant,
v.
QUANTA COMPUTER, INC.,
Defendant-Cross Appellant,
and
QUANTA COMPUTER USA, INC.,
QUANTA STORAGE, INC., AND
QUANTA STORAGE AMERICA, INC.
Defendants.

2011-1440, -1470

Appeals from the United States District Court for the
Eastern District of Texas in case no. 06-CV-0348, Judge
T. John Ward.

Decided: August 30, 2012

MATTHEW C. GAUDET, Duane Morris LLP, of Atlanta,
Georgia, argued for plaintiff-appellant. On the brief were
ROBERT L. BYER, of Pittsburgh, Pennsylvania, and
GREGORY M. LUCK, of Houston, Texas, and KRISTINA

“Despite the longstanding disapproval of relying on settlement agreements to establish reasonable royalty damages, we recently permitted such reliance under certain limited circumstances.”

(citing to *ResQNet*)

Settlement Licenses (*ResQNet*)

United States Court of Appeals for the Federal Circuit

2008-1365, -1366, 2009-1030

RESQNET.COM, INC.,

Plaintiff-Appellant,

and

KAPLAN & GILMAN, LLP
and JEFFREY I. KAPLAN, ESQ.,

Sanctioned Parties-Appellants,

v.

LANSА, INC.,

Defendant-Cross Appellant.

Jeffrey I. Kaplan, Kaplan Gilman & Pergament, LLP, of Woodbridge, New Jersey, argued for plaintiff-appellant and sanctioned parties-appellants. With him on the brief was Michael R. Gilman.

James H. Hulme, Arent Fox, LLP, of Washington, DC, argued for defendant-cross appellant. With him on the brief was Janine A. Carlan. Of counsel was Leo M. Loughlin.

Appealed from: United States District Court for the Southern District of New York

Senior Judge Robert W. Sweet

- **Federal Circuit overturned a royalty rate as “speculative and unreliable”**
 - Based on prior licenses when “none of these licenses even mentioned the patents-in-suit or showed any other discernable link to the claimed technology”
- **Settlement agreement involving the patented technology deemed “most reliable” evidence in the case**

Potential Relevance of Settlements...

- **Settlement licenses (as opposed to non-litigation licenses), can be a matter of policy for the patentee**
- **Since *MedImmune, Inc. v. Genentech Inc.*, 549 U.S. 118 (2007), frequency of settlement licenses has increased**
 - Under the prior law, initiating party subject to “reasonable-apprehension-of-suit” test for determining subject matter jurisdiction
 - Under the current law:
 - » Patentee asserts rights based on activities of alleged infringer, *and*
 - » Alleged infringer contends it has rights to engage in activity without a license
- **Practical outcome: Difficult to initiate third party licensing discussions without triggering a declaratory judgment action challenging patent validity**

Source: *Dethroning Lear - Incentives to Innovate after MedImmune* by Rochelle Cooper Dreyfuss and Lawrence S. Pope, *Berkeley Technology Law Journal*, Volume 24 (February 2014).

Patentee's "Right to Exclude"

Cite as: 547 U. S. ____ (2006) 1

Opinion of the Court

NOTICE: This opinion is subject to formal revision before publication in the preliminary print of the United States Reports. Readers are requested to notify the Reporter of Decisions, Supreme Court of the United States, Washington, D. C. 20543, of any typographical or other formal errors, in order that corrections may be made before the preliminary print goes to press.

SUPREME COURT OF THE UNITED STATES

No. 05-130

EBAY INC., ET AL., PETITIONERS v.
MERCExchange, L. L. C.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF
APPEALS FOR THE FEDERAL CIRCUIT

[May 15, 2006]

JUSTICE THOMAS delivered the opinion of the Court.

Ordinarily, a federal court considering whether to award permanent injunctive relief to a prevailing plaintiff applies the four-factor test historically employed by courts of equity. Petitioners eBay Inc. and Half.com, Inc., argue that this traditional test applies to disputes arising under the Patent Act. We agree and, accordingly, vacate the judgment of the Court of Appeals.

I

Petitioner eBay operates a popular Internet Web site that allows private sellers to list goods they wish to sell, either through an auction or at a fixed price. Petitioner Half.com, now a wholly owned subsidiary of eBay, operates a similar Web site. Respondent MercExchange, L. L. C., holds a number of patents, including a business method patent for an electronic market designed to facilitate the sale of goods between private individuals by establishing a central authority to promote trust among participants. See U. S. Patent No. 5,845,265. MercExchange sought to license its patent to eBay and Half.com, as it had previously done with other companies, but the

• Diminished by eBay case

– Under the prior law, injunctions were nearly automatic

– Under the current law, more is required to obtain an injunction

– As a result, injunctive relief rarely available to NPEs

• Erosion of patent value?

International Trade Commission (ITC)

- **ITC can grant an “exclusion order” to prevent the sale of infringing products in the U.S. by blocking them at the U.S. border**
 - Patentee is required to establish a “domestic industry” in the U.S. via a two prong test
 - » Technical prong
 - » Economic prong (may include U.S. licensing activities)



ITC Exclusion Orders

August 2013 - Trade Representative Froman overturned an exclusion order on Apple Products recommended by the ITC

- Citing to patents being essential to certain standards

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

August 3, 2013

The Honorable Irving A. Williamson
Chairman
United States International Trade Commission

The Honorable Irving A. Williamson
August 3, 2013
Page Three

patents incorporated into technical standards without which such standards cannot be implemented as designed, when the patent holder has made a voluntary commitment to offer to license these SEPs on FRAND terms. Licensing SEPs on FRAND terms is an important element of the Administration's policy of promoting innovation and economic progress and reflects the positive linkages between patent rights and standards setting.

I have reviewed the various policy considerations set out above based on the information provided in this case, including information developed in connection with the Commission's determination. Although the parties dispute the facts vigorously, it is beyond the scope of this

After extensive consultations with the agencies of the Trade Policy Staff Committee and the Trade Policy Review Group, as well as other interested agencies and persons, I have decided to disapprove the USITC's determination to issue an exclusion order and cease and desist order in this investigation. This decision is based on my review of the various policy considerations discussed above as they relate to the effect on competitive conditions in the U.S. economy and the effect on U.S. consumers.

Sincerely,



Ambassador Michael B. G. Froman

findings on these issues to the maximum extent possible. I will look for these elements in any numbered SEPs that are presented for policy review. The ITC will consider these issues in its public interest determinations.

Growing Awareness of Patent Value

- **Damages awards 1995-2011:**
 - Median damages awards between \$1.9 million to \$16.1 million
 - But... many multi-hundred million cases
 - Highest awards in telecommunications industry
- **In the year 2012:**
 - 62% of the 2,500 U.S. patent lawsuits filed were brought by NPEs, which some disparage as “patent trolls”
- **In the year 2013:**
 - Patent lawsuits spiked by 20%
- **In the year 2014:**
 - Lawsuits filed: **Down?** ↓
 - Patents filed: **Down?** ↓



Source: 2013 Patent Litigation Study, PricewaterhouseCoopers, White House Study on the impact of PAE activities on Innovation and Economy.

What Lies Ahead?



Recent Legislative Efforts

Patent Abuse Reduction Act (S. 1013)	2/21/2013	Raise pleading requirements, discovery costs and fee-shifting provision
SHIELD Act (H.R. 845)	2/26/2013	<u>S</u> aving <u>H</u> igh-tech <u>I</u> nnovators from <u>E</u> gregious <u>L</u> egal <u>D</u> isputes
Patent Quality Improvement Act (S. 866)	5/5/2013	Extend the "Covered Method" review program to all industries and make permanent
End Anonymous Patents Act (H.R. 2024)	5/15/2013	Increase transparency; involve real party in interest
Patent Litigation and Innovation Act (H.R. 2639)	7/9/2013	Reduce abusive troll litigation with pleading, joinder and discovery provisions.
Stopping the Offensive Use of Patents Act (STOP Act) (H.R. 2766)	7/21/2013	Extend the "Covered Method" review program to all industries
Innovation Act (H.R. 3309)	10/22/2013	Passed on Dec. 5, 2013. Raise pleading requirements, involve real party in interest, cost of discovery, define "core documentary evidence," delay discovery until end of claim construction, cost and fee-shifting, and end-user protection.
Innovation Protection Act (H.R. 3309)	10/27/2013	Stop fee diversion
Patent Litigation Integrity Act (S. 1612)	10/29/2013	Fee-shifting provisions and obligation for patent owner to post bond
Patent Transparency & Improvements Act (S. 1720)	11/7/2013	End-user protection, demand letters and transparency of ownership
Demand Letter Transparency Act (H.R. 3540)	11/18/2013	Create national database of demand letters
Transparency in Assertion of Patents Act (S. 2049)	2/26/2014	Minimum requirements for notice of infringement
Vermont, Nebraska, Oregon, Kentucky, etc.	May 2013 - Present	Criminalize bad faith demand letters

Attempts to regulate correspondence

Source: "Patent progress's guide to patent reform legislation," Patent Progress, March 4, 2014

The Innovation Alliance

- **Strongly opposes Transparency in Assertion of Patents Act (S. 2049)**
(minimum requirements for notice of infringement)
- **Emphasizes the following principles:**
 - “Innovation ecosystem drives the American economy”
 - Changes in the law should narrowly focus on:
 - » Improving quality
 - » Enhancing certainty
 - » Preserving market-based valuations of patents
- **Key is vigorous pre-grant review**

“Patent reform measures should not disadvantage emerging, pro-innovation, patent-dependent business and their ecosystem.”



Source: <http://www.innovationalliance.net/our-principles>.

Other Ongoing Changes in the Law

- **Lower bar for invalidating patents based on obviousness**
- **More difficult to obtain willful infringement**
- **Courts have adopted local patent rules**
- **American Invents Act of 2011 (passed)**
 - Created first to file system
 - Expanded prior art globally
 - Made it more difficult to sue multiple entities as part of the same suit
 - Created “Patent Office Litigation” to challenge patents

White House Goals of Additional Patent Reform

- I. “Greater Transparency of Patent Ownership”
- II. “Improve Patent Quality”
- III. “Protect Main Street”
- IV. “Other Things”



“Greater Transparency of Patent Ownership”

- Accurately record and update ownership information with USPTO
- Report “the attributable owner” and/or “the real party in interest”
- Increased difficulty of hiding abusive litigation tactics behind shell companies



“Improve Patent Quality”

- **Increased technical training for patent examiners**
 - Ensure “functional claims” are clear and consistent
 - Encourage use of glossaries in patent specifications
 - Innovators and engineers to volunteer to train examiners
- **Crowdsourcing hard-to-find prior art evidence**
 - Increased clarity
 - Identification of true novelty
 - Avoidance of overly broad claims
 - Patents more easily enforceable



“Protect Main Street”

- **USPTO online platform**
 - Database of patents and their specificity
 - Legal services
 - Who is sued under the same patent?
 - Risks and benefits of litigation vs. settlement
- **Empower small and medium-sized companies facing patent lawsuits**



Source: Fact Sheet- Executive Actions: Answering the President's Call to Strengthen Our Patent System and Foster Innovation, the White House, Feb. 20, 2014

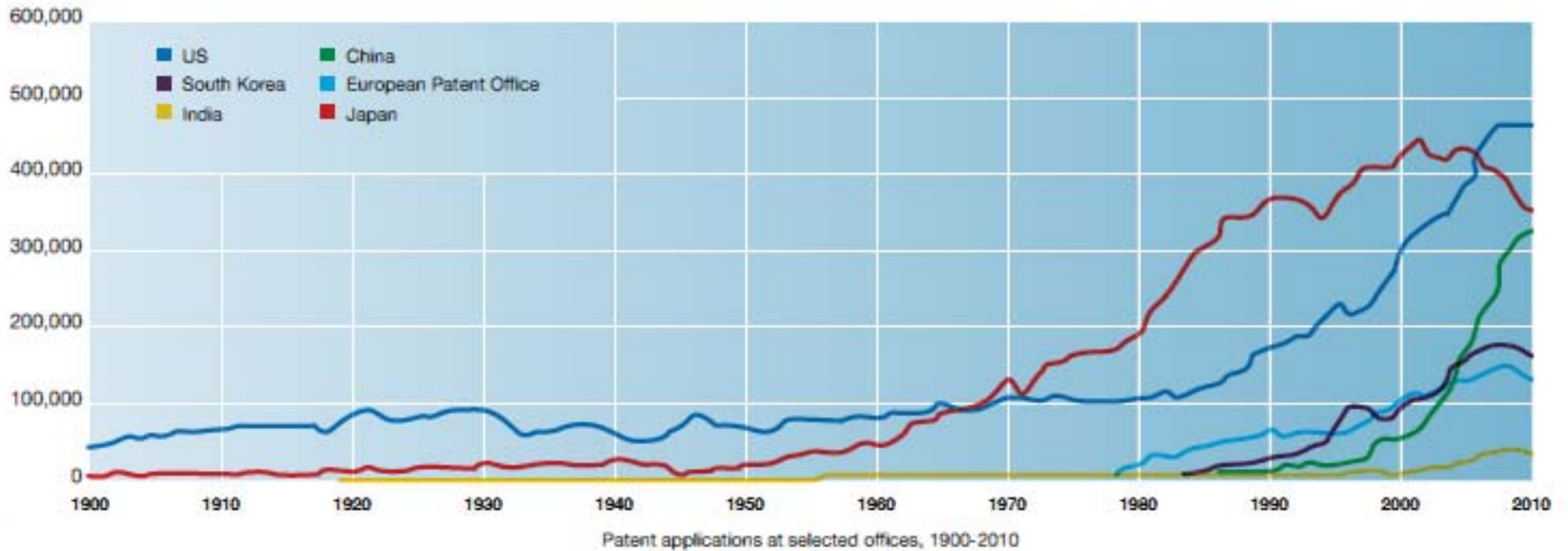
Other Measures

- **Fee-shifting**
- **Increased patent pleading standards**
 - Innovation Act requires pleadings to include each patent, claim and allegedly infringing product/service and to explain infringement “with detailed specificity”
- **Ending discovery abuse**
 - Delay discovery during claim construction
 - Limited to “core documents”
 - Add’l documents paid by plaintiff
- **Pro bono and pro se assistance to innovators**
 - Expand American Invents Act pro bono program (2011)
- **USPTO Patents for Humanity program**

Objectives

- Overview of patents, their history and their economic impacts
- Outline of past, present and future patent reform efforts
- Stimulate thoughts regarding the strategy of patenting, licensing and other alternatives on a global scale

Patents an Increasingly Global Issue



Source: WIPO, 2011

European Perspective



- **European patent legal system still fragmented by country**

*“In practice, this gives rise to a number of difficulties when a patent proprietor wishes to enforce a European patent [...] in several countries: **high costs, risk of diverging decisions and lack of legal certainty.** [...] Parties seek to take advantage of differences in national courts' interpretation of harmonized European patent law and in procedural laws.”*

“The European patent system offers a quite different environment, with a litigation rate that is traditionally far lower than in other regions, notably the US.”

- **Unified Patent Court (“Federalism”) in progress**
 - Federal approach similar to U.S. patent system



Benoît Battistelli
President of the
European Patent Office

While Changing, the U.S. Patent System ...

“The United States is recognized for having robust intellectual property rights protection, allowing an investor to safely conduct and commercialize its valuable business activities.”

- **Largest single market for intangible assets**
 - Over 80,000 domestic patent grants
 - Contributes 1/3 of global filings
 - 1st in R&D expenditure (% of GDP)
 - 5th most innovative nation (WIPO 2013 Index)
- **Most enforcement options**
- **Rich body of federal case law**
 - Other markets more fragmented and less transparent



Source: "Foreign Direct Investment in the United States," International Trade Administration, December 31, 2013.



**UNCERTAINTY
AHEAD**

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INTER PARTES REVIEW AT THE USPTO



David M. O'Dell

haynesboone
Setting precedent.



Agenda

- *Inter Partes* Review (IPR)
- Comparisons of Litigation and IPR
- Interactions between Litigation and IPR
- Haynes and Boone



Inter Partes Review

- Advantages:
 - Relatively fast – 1.5 years
 - Rely on expert testimony
 - good for difficult technology
 - Before the PTO
 - Good for technical discussions
 - Petitioner participation, including appeal
 - Medium cost – \$ hundreds of thousands

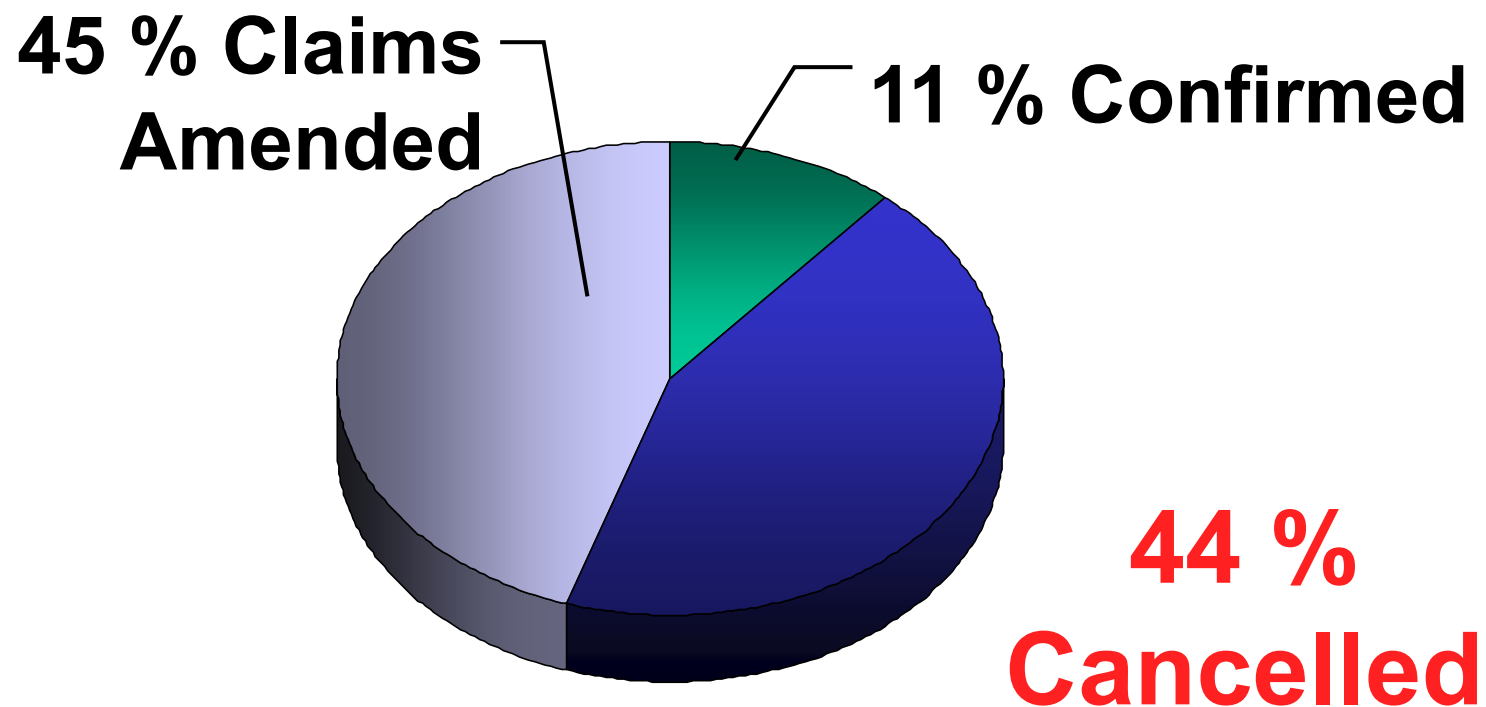


Inter Partes Review

- Dis-advantages:
 - Limited to printed publications
 - 102, 103 only
 - Difficult to “adjust” position mid-stream
 - Litigation estoppel
 - Strict timing requirements
 - within 1 year of litigation

Inter Partes Review

- Inter Partes Reexamination Statistics





Comparisons

Costs

Average cost of Litigation Defense: US \$4,500,000*

Average cost of *Inter Partes* Review: US \$200,000*

Average cost of *Ex Parte* Reexam: US \$30,000

*Source: AIPLA, Report of Economic Survey 2013



Comparisons

Burden of Proof

- Litigation:
 - Clear and convincing evidence
 - Patent is presumed valid
- IPR:
 - Preponderance of the evidence
 - No presumption of validity



Comparisons

Fact Finder

- Litigation:
 - The jury determines questions of fact;
 - The judge determines questions of law.
- IPR:
 - A three judge panel of “persons of competent legal knowledge and scientific ability” determine outcome.



Comparisons

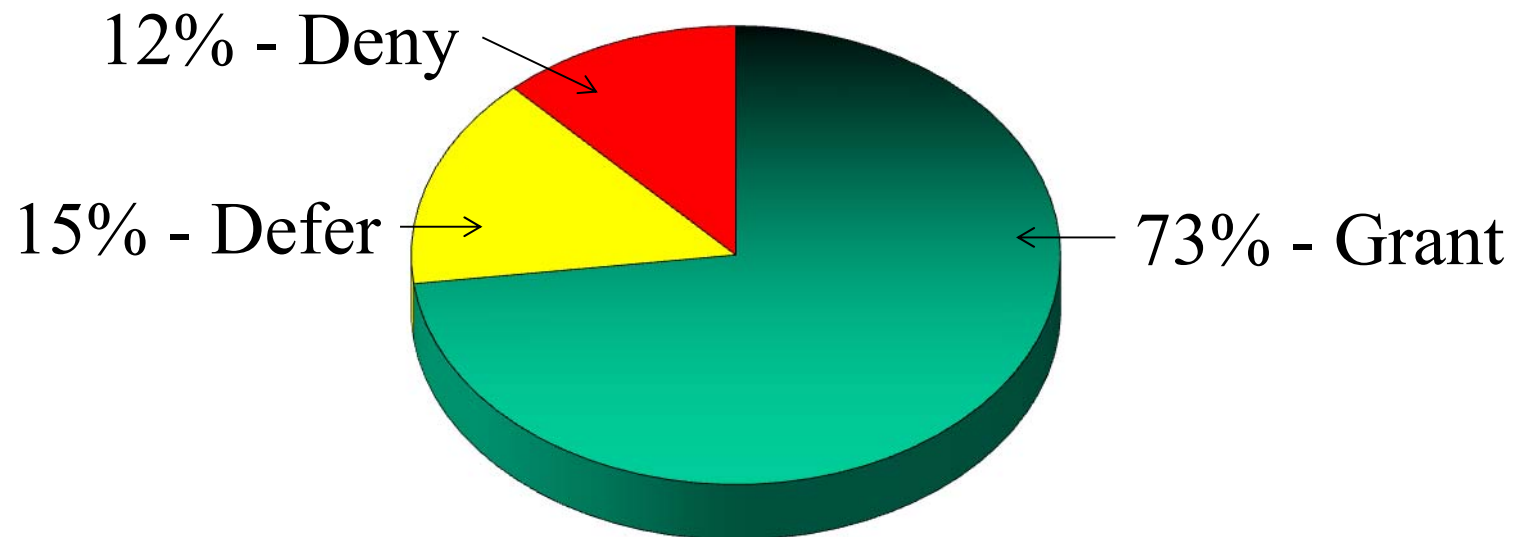
Claim Construction

- Litigation:
 - Ordinary meaning
 - Limited by prosecution history estoppel.
- IPR:
 - Broadest reasonable interpretation in light of spec
 - Also limited by prosecution history estoppel.
 - Usually the same as ordinary meaning,
 - but not if the specification says otherwise

Stay of Litigation

In the first year of IPRs:

- 86 decisions on motion to stay
- 63 (73%) granted



*Source: Intellectual Property Today, Dec. 2013 at 34-35.



Interactions

Stay of Litigation, Factors Being Considered:

- Unfair tactical advantage
- Whether the parties are direct competitors (and thus compensation by money alone is adequate)
- Likelihood to suffer prejudice at trial
- IPR filed in early stages of litigation

HumanEyes Technologies Ltd. v. Sony Corp., C.A. No. 12-398-GMS (D. Del. Dec. 2, 2013)



Interactions

Estoppel – 35 USC § 315(e)

- At PTO:
 - The petitioner ... may not request or maintain a proceeding before the Office with respect to **that claim** on any ground that the petitioner **raised or reasonably could have raised** during that inter partes review..
- At District Court:
 - The petitioner ...may not assert either in a civil action ... or in a proceeding before the [ITC] **that the claim** is invalid on any ground that the petitioner **raised or reasonably could have raised** during that [IPR].



Interactions

Timing for IPR – 35 USC § 315(b)

An inter partes review may not be instituted if the petition requesting the proceeding is **filed more than 1 year** after the date on which the petitioner, real party in interest, or privy of the petitioner **is served with a complaint** alleging infringement of the patent. The time limitation set forth in the preceding sentence shall not apply to a request for joinder under subsection (c).

Haynes and Boone

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JONES DAY. one firm worldwide

Creating a
New Global Innovator



TOKYO ELECTRON

	APPLIED MATERIALS	TOKYO ELECTRON	HOLDCO
JURISDICTION OF ORGANIZATION:	Delaware	Japan	Netherlands
HEADQUARTERS:	Santa Clara, California, USA	Tokyo, Japan	Santa Clara and Tokyo
MARKET CAPITALIZATION:	\$20 Billion	\$9 Billion	\$29 Billion
EXCHANGE LISTING:	Nasdaq	Tokyo Stock Exchange	Nasdaq and Tokyo Stock Exchange
EMPLOYEES:	~15,000 worldwide	~12,000 worldwide	~27,000 worldwide
PATENTS:	~10,500 issued	~16,000 issued	~26,500 issued
LTM REVENUE:	\$7.2 Billion	\$5.4 Billion	\$12.6 Billion
COMPLEMENTARY PRODUCTS AND TECHNOLOGIES:	Chemical Vapor Deposition, Physical Vapor Deposition, Implant and Chemical-Mechanical Planarization Specialty in Single-Wafer Solutions	Track, Furnace, Dielectric Etch, Cleaning, Batch Atomic Layer Deposition, Display Specialty in Batch Solutions	
INSTALLED BASE:	33,000 tools	54,000 tools	87,000 tools

Strategic Rationale

- Applied Materials and Tokyo Electron, two of the premiere manufacturers of semiconductor equipment in the world, are joining together to create a new global innovator for the semiconductor and display industries
- By bringing together their complementary leading technologies and products, they will create an expanded set of capabilities in precision materials engineering and patterning to solve their customers' high-value problems better, faster and at lower cost

Transaction Highlights

- All stock transaction creating a new company with combined market capitalization of approximately \$29 billion
- After the close, Applied Materials holders will own approximately 68% of the new company and Tokyo Electron holders approximately 32%
- Expect to achieve \$250 million in annualized run-rate operating synergies by the end of the first full fiscal year and \$500 million in annualized run-rate operating synergies in the third full fiscal year
- In addition, the new company expects to realize meaningful savings as a result of the new corporate structure
- Targeting \$3.0B in stock repurchases to be executed within 12 months following the transaction close
- Expected to be accretive to EPS exiting the first full fiscal year following transaction close with a strong commitment to returning cash to shareholders

New Company Structure; Shared Leadership

Headquarters and Listings

- ▶ Dual headquarters in Santa Clara and Tokyo
- ▶ Dual listing on Nasdaq and Tokyo Stock Exchange
- ▶ Incorporated in the Netherlands

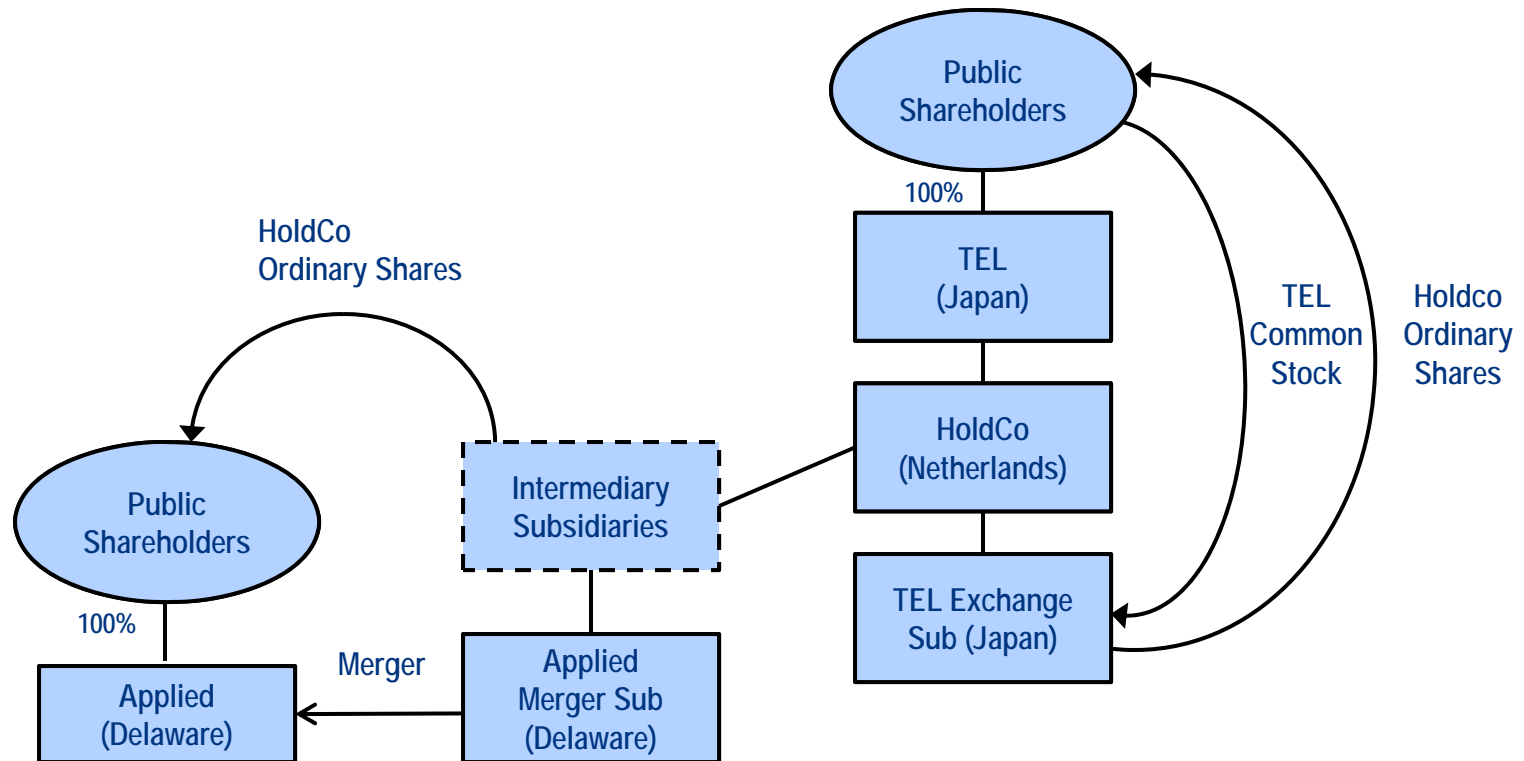
Leadership Team

- ▶ Chairman: Tetsuro Higashi (TEL)
- ▶ Vice Chairmen: Mike Splinter (Applied) and Tetsuo Tsuneishi (TEL)
- ▶ CEO: Gary Dickerson (Applied)
- ▶ CFO: Bob Halliday (Applied)

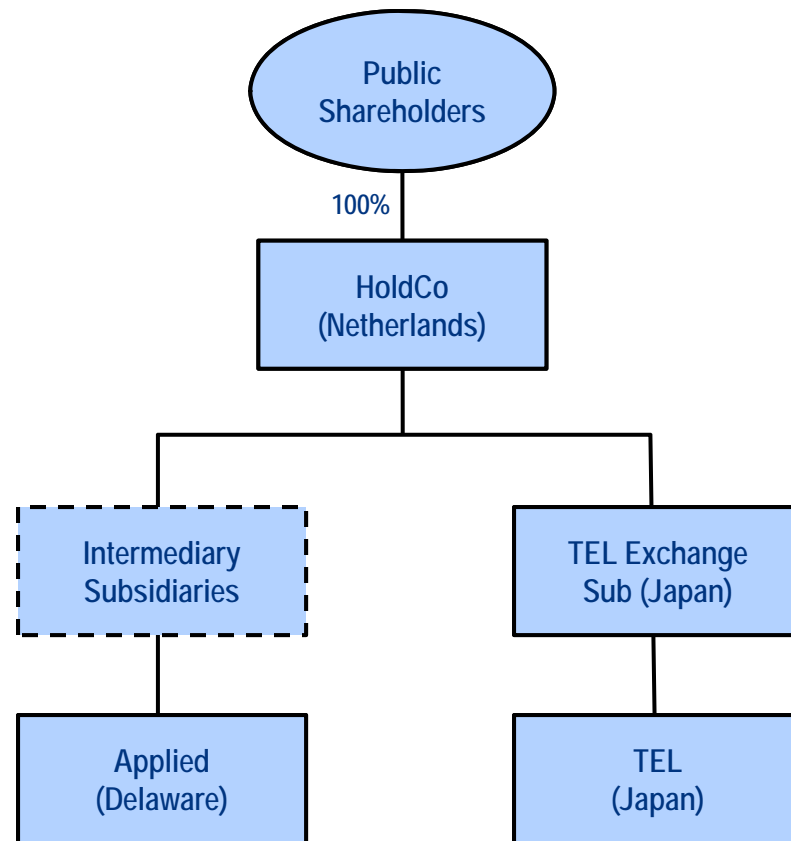
Board of Directors

- ▶ Single Board structure with eleven directors (seven independent)
 - Five Applied Materials nominated directors (three independent)
 - Five Tokyo Electron nominated directors (three independent)
 - One additional independent director to be mutually agreed

Transaction Structure



Final Organizational Structure





JONES DAY
COMMENTARY

ACCENTURE GLOBAL SERVICES: THE CONTINUED STRUGGLE TO DIVINE PATENT-ELIGIBLE SUBJECT MATTER

The U.S. Supreme Court in *Bilski v. Kappos*¹ and its predecessor decisions has made clear that claims directed to abstract ideas are unpatentable under 35 U.S.C. § 101. Unfortunately, the clarity in § 101 appears to end there. In *Bilski*, the Supreme Court declined to articulate a practical test for determining whether a claim was directed to an unpatentable abstract idea. The Supreme Court noted that certain existing tests (e.g., the machine-or-transformation test) supply only “useful clues” as to whether a claim was too abstract to be patentable. While providing high-level guidance, the Supreme Court left the task of developing details of a workable framework for examining subject matter eligibility to the lower courts.

Since the June 2010 *Bilski* decision, the Federal Circuit has struggled to develop such a rigorous test for § 101 patentability. This struggle was put on display in the May 2013 *CLS Bank en banc* decision, where a fractured court issued five opinions attempting to describe the appropriate mechanism for analyzing subject matter eligibility, with none of

those opinions garnering the support of a majority of the 10 participating judges.² The saga continues with the Federal Circuit’s September 5, 2013 decision in *Accenture Global Services, GmbH v. Guidewire Software, Inc.*,³ where two § 101 approaches articulated in *CLS Bank* again battled head-to-head. In this round, Judge Lourie’s approach from the plurality opinion of *CLS Bank* prevailed, with the abstract idea at the core of the claims not being saved by reciting computer or industry-specific limitations, while Chief Judge Rader dissented in favor of his approach in *CLS Bank*.

PROCEDURAL POSTURE

In December 2007, Accenture sued Guidewire alleging infringement of U.S. Patent No. 7,013,284 (the ‘284 patent). The ‘284 patent describes a computer program for handling insurance-related tasks including the identification and delegation of tasks that are to be performed based on an event. Upon the occurrence

of an event, the system determines what tasks need to be accomplished for that transaction and assigns those tasks to various authorized individuals to complete them. The system claims at issue included the following limitations:

- An “insurance transaction database” that contains a claim folder storing insurance transaction information;
- A “task library” containing rules for handling occurrences of events;
- A “client component” for communicating with a claim handler; and
- A server that includes an “event processor,” a “task engine,” and a “task assistant” for determining tasks to be completed and delegating those tasks to a claim handler.

As discussed below, the Court examined these computer/software components as part of its analysis of whether the components imparted sufficient concreteness to overcome the claims being only an abstract idea.

After the Supreme Court issued its decision in *Bilski*, Guidewire renewed its motion for summary judgment, arguing that the ’284 patent is drawn to abstract ideas. The district court granted Guidewire’s motion, finding the system and method claims ineligible. The district court held that the ’284 patent was “directed to concepts for organizing data rather than to specific devices or systems, and limiting the claims to the insurance industry does not specify the claims sufficiently to allow for their survival.”⁴

Accenture appealed with respect to the system claims but declined to further argue the patentability of the method claims, which were largely similar to the system claims.

JUDGE LOURIE’S LEAD OPINION

Judge Lourie, joined by Judge Reyna, analyzed the system claims following his approach described in the plurality opinion of *CLS Bank*. Generally, patent eligibility under § 101 includes two steps: (i) whether the claimed invention fits within one of the four statutory classes set out in § 101; and (ii) whether any of the judicially recognized exceptions to the subject-matter eligibility apply (e.g., the exclusion of

abstract ideas). The court did not explicitly address the first question but presumably found the claimed invention to be a “machine,” given that the court acknowledged that the claims recite “certain computer components.”

However, in assessing whether the claimed invention fits within the exclusion of abstract ideas, Judge Lourie provided that a court must determine whether the claim poses any risk of preempting an abstract idea. “To do so the court must first identify and define whatever fundamental concept appears wrapped up in the claim. Then, proceeding with the preemption analysis, the balance of the claim is evaluated to determine whether additional substantive limitations narrow, confine, or otherwise tie down the claim so that, in practical terms, it does not cover the full abstract idea itself.”⁵ Judge Lourie used these two preemption-related inquiries to assess whether the claimed invention was reciting merely an abstract idea. He first did so by comparing the appealed system claims to the method claims that were not appealed.

Preemption Analysis by Comparing the System Claims

to the Method Claims. Judge Lourie analyzed the system claims in the context of the *method* claims, which the district court had ruled unpatentable and Accenture did not appeal. In order for the system claims to recite patent eligible subject matter, the majority opinion stated that the system claims must include a “meaningful limitation to the abstract method claim, which has already been adjudicated to be patent-ineligible as abstract ideas.”⁶ Focusing on the second preemption-related question, Judge Lourie compared the largely similar system and method claims of the ’284 patent to determine whether any such meaningful limitation could be found in the system claim. Accenture had pointed to system claim 1’s inclusion of an “insurance claim folder,” a “task library database,” a “server component,” and a “task engine” as showing that the system claim is meaningfully different from the method claims. However, the majority opinion found that “these software components are all present in the method claims, albeit without a specific reference to those components by name.”⁷

For example, Judge Lourie found that the recitation of a particularly implemented “claim folder” in system claim 1 was present in method claim 8 that described use of a

similarly structured transaction database, without specifically referring to a claim folder. The comparison concluded by stating that “other than the preamble to claim 1 stating that it is a system claim, the limitations of system claim 1 recite no specific hardware that differentiates it from method claim 8.”⁸ This comparative analysis concluded with the passage from the *CLS Bank* plurality opinion that “[i]ndeed, in this case [t]he system claims are [akin] to stating the abstract idea [of the method claim] ... and adding the words: ‘apply it’ on a computer.”⁹

Preemption Analysis Focused Solely on System Claims.

The majority opinion also analyzed the preemption issue by examining the first preemption-related inquiry of first identifying and defining “whatever fundamental concept appears wrapped up in the claim.”¹⁰ Judge Lourie identified the abstract idea at the heart of the system claim as “generating tasks based on rules to be completed upon the occurrence of an event.”¹¹

Having identified the fundamental concept of the claim, the decision then proceeded with the second part of the preemption analysis by determining whether additional substantive limitations narrow, confine, or otherwise tie down the claim so that, in practical terms, it does not cover the full abstract idea itself. Stripping away the abstract idea of the claims, the majority found that claim 1 only attempted to limit the abstract idea by applying it in a computer environment and within the insurance industry. They found that “those types of limitations do not narrow, confine, or otherwise tie down the claim.” “[S]imply implementing an abstract concept on a computer, without meaningful limitations to that concept, does not transform a patent-ineligible claim into a patent-eligible one. Further, as the Supreme Court stated in *Bilski*, limiting the application of an abstract idea to one field of use does not necessarily guard against preempting all uses of the abstract idea.”¹²

The majority decision concluded with a comparison of the claims at issue with those considered in recent Federal Circuit decisions. Accenture had argued that the ’284 patent’s detailed specification, including significant detail regarding the implementation of the claimed software modules, should influence the subject matter eligibility

decision, as it did in *Ultramercial, Inc. v. Hulu, LLC*.¹³ Judge Lourie dismissed these arguments, stating that “the important inquiry for a § 101 analysis is to look to the claim” and that “the complexity of the implementing software or the level of detail in the specification does not transform a claim reciting only an abstract concept into a patent-eligible system or method.”¹⁴

The court then found that the ’284 patent claims at issue were more similar to the patent-ineligible system from *CLS Bank* (which contained limitations such as a data storage and a general-purpose computer that received transactions, adjusted variables in the data storage unit, and generated instructions) and *Bancorp Servs., LLC v. Sun Life Assurance Co. of Can.*¹⁵ (including digital storage, a policy generator, a debtor, and calculators) than the advertising-as-a-currency claims of *Ultramercial* that limited transactions to an internet website, offering free access conditioned on viewing a sponsor message, and applying only to a media product.

In sum, the majority opinion found that the system claims are “patent-ineligible both because Accenture was unable to point to any substantial limitations that separate them from the similar, patent-ineligible method claim and because, under *CLS Bank*, the system claim does not, on its own, provide substantial limitations to the claim’s patent-ineligible abstract idea.”¹⁶

JUDGE RADER’S DISSENT

Chief Judge Rader dissented. Judge Rader prefaced his comments by quoting his statement in *Ultramercial* that “[a]ny claim can be stripped down, simplified, generalized, or paraphrased to remove all of its concrete limitations, until at its core, something that could be characterized as an abstract idea is revealed. A court cannot go hunting for abstractions by ignoring the concrete, palpable, tangible limitations of the invention the patentee actually claims.” Judge Rader stated that “[i]n [his] judgment, the court has done precisely that.”¹⁷

Judge Rader first took the majority to task for its reliance on Accenture’s failure to appeal the method claims. He stated

that “the court creates a very unsound policy by requiring litigants to appeal the invalidity of every claim or else risk the potential for estoppel or waiver of other claims.... Accenture’s willingness to narrow issues should not create an admission that defeats its appealed claims.”¹⁸ Judge Rader also noted that no part of *CLS Bank* carries the weight of precedent, and that the majority opinion’s first approach, where similar system and method claims rise and fall together, was rejected by more than half of the *en banc* court.

Judge Rader noted his preference for analyzing patent-eligible subject matter according to his approach in *CLS Bank*, viz., looking at the subject matter of the claim as a whole. The dissent stated that the claims describe a specific combination of computer components that interact in a specific manner that is explicitly recited in the claims. Despite the majority’s attempt to strip away and trivialize these limitations, Judge Rader found that the “claims offer significantly more than the purported abstract idea and meaningfully limit the claims’ scope.”¹⁹ To illustrate, the dissent identified certain examples of a person performing the abstract idea identified by the majority, that is “generat[ing] tasks based on rules to be completed upon the occurrence of an event,” in a number of ways without infringing the claim.²⁰

In conclusion, Chief Judge Rader lamented that “no one understands what makes an idea abstract,” and that after *CLS Bank*, “nothing has changed.” He commented that the Federal Circuit opinions “spend page after page revisiting our cases and those of the Supreme Court, and still [] continue to disagree vigorously over what is or is not patentable subject matter.” He comments that “[i]ndeed, deciding what makes an idea abstract is reminiscent of the oenologists trying to describe a new wine.” The dissent concluded by urging reviewing courts to “consult the statute” and the broad categories of patent-eligible subject matter therein and argued that the “‘ineligible’ subject matter in these claims [at issue in *Accenture*] is a further testament to the perversity of a standard without rules—the result of abandoning the statute.”²¹

CONCLUSION

Accenture reiterates the varying approaches used by the Federal Circuit in current 35 U.S.C. § 101 jurisprudence. Until the varying approaches are reconciled, § 101 jurisprudence for software and business method patents will remain murky, with results being sometimes determined based on the panel that is drawn to decide a particular case. While such a lack of clarity may be discouraging to some, *Accenture* provides additional insight into what areas of focus a particular panel of judges may have when evaluating § 101 issues. Additionally, it provides an opportunity for patent prosecutors to hone their patent applications to have specifications and claims that address the issues raised in *Accenture*, especially if their applications relate to computer technology in the financial or insurance areas.

To read related *Jones Day Commentaries*, please see “*CLS Bank*: Is This the ‘Death of Hundreds of Thousands of Patents?’” and “*The Machine-or-Transformation Test Is “a Useful and Important Clue” for Determining Patent Eligibility Under Section 101, But Not the Sole Test.*”

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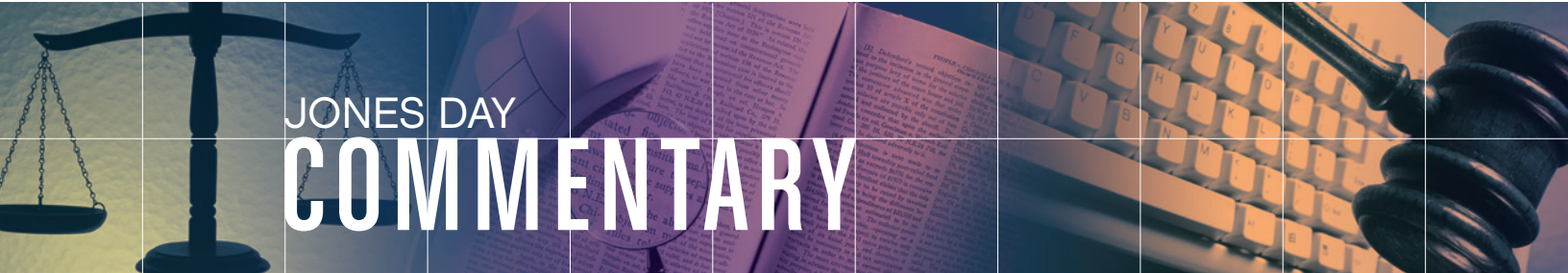
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ENDNOTES

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- 3 *Accenture Global Servs., GmbH v. Guidewire Software, Inc.*, No. 2011-1486 (Fed. Cir. Sept. 5, 2013).
- 4 *Accenture Global Servs., GmbH v. Guidewire Software, Inc.*, 691 F. Supp. 2d 577, 621 (D. Del. 2010).
- 5 *Accenture Global Servs.*, No. 2011-1486, slip op. at 8 (majority opinion).
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- 21 *Id.* at 5.



CAN A PATENT APPLICATION VIOLATE THE COPYRIGHT LAWS?

Recent decisions from two federal district courts have rebuffed efforts by publishers of scientific journals to claim copyright violations based on the copying of the publishers' articles for purposes of preparing patent applications submitted to the U.S. Patent & Trademark Office ("PTO"). While these decisions confirm that copying and distributing articles in conjunction with preparing patent applications should fall within the "fair use" exception to copyright infringement, the plaintiff publishers have indicated their intentions to seek appellate review of the issue.

PLAINTIFFS' ALLEGATIONS

Plaintiffs in the cases are the American Institute of Physics and the publishing houses John Wiley & Sons, Inc. and Blackwell Publishing, Ltd., which produce and distribute scientific journals that contain scholarly articles in several scientific disciplines. (Blackwell Publishing is a subsidiary of John Wiley & Sons.) The defendants are law firms that prosecute patent applications before the PTO as well as foreign patent offices. The law firms downloaded or copied various

articles published by the plaintiffs. The firms subsequently submitted copies of those articles to the PTO as evidence of "prior art" in conjunction with applications for patents and distributed copies to their clients, lawyers within the firm working on the applications, and, in some instances, foreign patent attorneys.

In *American Institute of Physics and John Wiley & Sons, Inc. v. Schwegman, Lundberg & Woessner, P.A.* (D. Minn. Civ. No. 12-528), plaintiffs initially asserted that the law firm engaged in unauthorized copying by submitting copies of the articles to the PTO. The plaintiffs subsequently abandoned that allegation (after the PTO itself intervened in the case on the side of the defendant) and focused their claims on the firm's downloading, storing, internal copying, and distribution of the articles by email. The firms had downloaded 18 articles, most of them from the PTO's own website but others from varied sources. The firm then copied the articles to the firm's document management system, where they were accessible to lawyers in the firm. The publishers asserted that these

activities, along with viewing the documents and emailing copies of certain articles to the firm's clients or other attorneys, constituted infringement. On August 30, Judge Richard Kyle of the District of Minnesota entered summary judgment for the defendants, adopting a prior report and recommendation of a magistrate judge.

In two other cases, *American Institute of Physics and Blackwell Publishing, Ltd. v. Winstead PC* (N.D. Tex. No. 3:12-CV-1230) and *John Wiley & Sons, Ltd. and American Institute of Physics v. McDonnell Boehnen Hulbert & Berghoff LLP* (N.D. Ill. No. 12 C 1446)—and again, after intervention by the PTO—the plaintiffs similarly amended their complaints to disclaim any allegation of infringement based on submission of copies of copyrighted articles to the PTO, or on retention of file copies of the works submitted to the PTO. Instead, the amended complaints focus on the defendant law firms' unauthorized copying of articles from plaintiffs' journals, including the allegation that the firms charged their clients for the copying and thereby directly profited from its infringement. In *Winstead*, Judge Barbara Lynn of the Northern District of Texas issued a written decision granting summary judgment for the defendants on December 3. The *McDonnell Boehnen* case, brought in the Northern District of Illinois, is currently still in the discovery stage.

A fourth case, *John Wiley & Sons, Inc. and American Institute of Physics v. Hovey Williams LLP* (D. Kan. No. 5:12-cv-4041), was voluntarily dismissed after the defendant took a license from the Copyright Clearance Center.

THE FAIR USE DEFENSE

The defendants in these cases invoked the fair use doctrine set forth in the U.S. Copyright Act. The Copyright Act provides that copyright infringement occurs when a person copies or distributes a copyrighted work without authorization. The Act also provides, however, that certain uses of copyrighted material are "fair use" and thus do not constitute infringement. The Act lists several examples of fair use, including "criticism, comment, news reporting, teaching[,] or research," and then goes on to set forth four nonexclusive factors for determining whether a particular use of copyrighted material is fair use:

1. The purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
2. The nature of the copyrighted work;
3. The amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
4. The effect of the use upon the potential market for or value of the copyrighted work.

Because a finding that a use is "fair" depends upon an after-the-fact judicial balancing of these and other factors, the Supreme Court has insisted that a fair-use analysis may not "be simplified with bright-line rules, for the statute, like the doctrine it recognizes, calls for case-by-case analysis." *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577 (1993).

THE DEFENDANTS' AND THE PTO'S ARGUMENTS

The defendants in each of these cases argued that the copying of the articles was integral to the process of prosecuting patent applications, which includes a duty to disclose "prior art" that bears on the patentability of the claimed inventions, and thus constituted fair use under these factors. The defendants asserted primarily that copying the articles in conjunction with patent applications was a "transformative" use that did not compete with the plaintiffs' purposes in publishing the articles, and that use of the articles in the process of preparing patent applications did not harm the market for the plaintiffs' publications.

The PTO itself intervened on the side of the defendants in each case and asserted counterclaims for declaratory judgment of noninfringement, viewing the legal theories asserted by the plaintiffs as a threat to the effective working of the patent application system. In its pleadings and briefs, the PTO has pointed out that Section 102 of the Patent Act specifies that a patent should not issue if the invention was "described in a printed publication" more than a year prior to the date of the application, and that in determining whether an invention is novel and not obvious to a person of ordinary skill in the art, patent examiners routinely consult "non-patent literature" ("NPL"), including scientific and technical articles in the relevant field. The PTO's regulations thus require patent applicants to disclose "all information material to patentability" and encourage applicants to file information disclosure

statements that include copies of publications that reflect the state of prior art. In this context, the PTO notes, the copyrighted publications are submitted solely for their ideas and factual content rather than for any expressive content.

As a consequence of these requirements, the PTO has supported the unfettered ability of patent applicants (and their law firms) to collect, review, and submit published articles necessary and incidental to the filing and prosecution of patent applications, as well as the conduct of other PTO proceedings concerning the scope or validity of any issued patent. The PTO has endorsed the defendants' reliance on the fair use doctrine, asserting its view that fair use protects the copying and distribution of scholarly articles evidencing prior art, including not only copies of articles actually submitted to the PTO but also copies of articles considered but ultimately rejected for submission. The PTO has said that it is unaware of any lawsuit challenging the copying and submission of NPL as infringing activity, prior to these suits.

THE COURTS' RATIONALES

The *Schwegman* court, echoing the arguments of the PTO, was heavily influenced by the PTO's imposition of a duty of candor and good faith on patent applicants. The duty of candor, as enshrined in the PTO's regulations, "includes a duty to disclose to the Office all information known to [the applicant] to be material to patentability"—i.e., information evidencing prior art that might render the invention obvious and not novel. Failure to meet that duty could lead to a finding of fraud on the PTO and could jeopardize the patent's scope, validity, and enforceability.

The *Schwegman* court gave the most weight to the first and fourth fair use factors. As to the purpose and character of the defendant's use, the court found that "a reasonable jury could only conclude that Schwegman's purpose in downloading and making internal copies of the Articles was to ultimately comply with the legal requirement to provide prior art to the USPTO and to represent its clients' interests in obtaining patents in Europe and Japan." The court concluded that the purpose of Schwegman's use of the articles—to review and provide the PTO with information relevant to the patentability of the firm's clients' inventions—was intrinsically different from the plaintiffs' purpose in publishing the articles—to inform the

scientific community and the public of advancements in scientific research and discovery. Nor was there any evidence that the mode of expression of the articles—i.e., their actual copyrighted content—had any relationship to Schwegman's use of the articles, as opposed to the facts the articles conveyed about particular scientific developments, which are not copyrightable.

The court specifically found that reproduction of an original without any change can still qualify as fair use when the use's purpose and character differs from the object of the original, such as photocopying for use in a classroom, or for submission as evidence in judicial proceedings. Indeed, the court noted that the copying of the articles for patent prosecution purposes gave them "an evidentiary character."

The court distinguished the Second Circuit's 1994 decision in *American Geophysical Union v. Texaco Inc.*, which held that a Texaco scientist's wholesale copying of scientific journal articles relevant to his area of research, as part of a systematic process of encouraging employees to copy articles so as to multiply available copies while avoiding payment, constituted copyright infringement. The *Schwegman* court found no evidence that the law firm was maintaining "mini-research libraries" so that it could avoid paying for separate licenses for each of its lawyers.

For related reasons, the court also found that the fourth fair use factor, the effect of the use on the potential market for the copied articles, favored a finding of fair use. The court found that a patent lawyer's use of a scientific article without paying a license fee would not diminish the incentive for authors to write such articles in the first place, nor reduce demand for the original work by its target audience. Again, the court distinguished the Second Circuit's decision in *Texaco*, where the defendant's copying of articles to create a convenient research library impacted a traditional and likely market for the plaintiff's journal articles. And the court reiterated established case law that the fact that an accused infringer did not pay for its use of the copyrighted work does not demonstrate market harm, or else the fourth factor would favor the copyright holder in every case.

Based on this analysis, the *Schwegman* court found that the defendant law firm's copying, storing, and transmittal of the

copyrighted articles, in conjunction with its patent prosecution activities, constituted fair use. Plaintiffs filed a notice of appeal in October 2013.

The court in the *Winstead* case, applying the same four-factor analysis, reached similar conclusions. The court focused primarily on the first factor, the purpose and character of the use. The Court adopted the PTO's hearsay analogy, finding that the defendants' copying and submission of the articles was "not about the truth of the matter asserted therein," but rather "to establish the state of the industry at a particular point in time," and thus was transformative. Related to this, the court found that defendants' copying of NPL served a public benefit, as it "contributes to an efficient patent system, in that it helps the USPTO establish a context for specific patent applications within their industry."

The court also found that the defendants' use was not commercial in nature. Even though the law firm made profits from its broader activity of prosecuting patent applications on behalf of paying clients, "the connection between commercial gain and the infringement is too remote to weigh heavily against a fair use defense." As in *Schwegman*, the *Winstead* court distinguished *American Geophysical Union v. Texaco*, finding that the law firm did not maintain a library of copyrighted articles or save them to individual lawyers' hard drives, but rather maintained them solely in client files. The court also gave short shrift to plaintiffs' contention that the law firm charged 18 cents per page for photocopying rather than 10 cents charged by commercial copiers whose primary business is copying.

The court quickly disposed of the remaining fair use factors, finding that the nature of the copyrighted work was primarily factual, and thus subject to less copyright protection, and finding it immaterial that the defendants copied and submitted the articles in their entirety, rather than in part. The court observed that "[t]he threat of liability encourages patent attorneys to be both generous in what articles they deem relevant and favorable towards submissions of full articles in lieu of excerpts that may or may not convey the full scope of the material information." Finally, the court found that defendants'

use had no adverse impact on the market for the copyrighted articles, as the firm did not distribute copies beyond the attorneys and their staff actively pursuing specific patent applications. As in *Schwegman*, the *Winstead* court held that a plaintiff cannot show adverse market effect merely by pointing to the potential licensing fees that the defendant did not pay.

GUIDANCE

To date, other publishers have not followed suit in bringing similar infringement claims against patent applicants or their law firms, and the initial decisions in these cases should discourage more suits based on this theory. Nevertheless, companies and law firms might wish to take steps consistent with the courts' treatment of these claims to forestall similar claims of copyright infringement based on copying of scholarly articles.

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China's New Trademark Law

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JONES DAY

China's new Trademark Law has been issued and will become effective on May 1, 2014. Important changes in the areas of anti-piracy, prosecution, enforcement, well-known mark determination and usage, opposition and cancellation have been made. Foreign companies and their counsel should be aware of these changes so that rights and interests are not prejudiced and opportunities are not missed.

The significant changes include:

- Strengthened protection against piracy;
- Shortened trademark prosecution times;
- Availability of sound marks and multiple class trademark applications;
- Strengthened well-known mark protection;
- Narrowed legal standing for oppositions and invalidation;
- A mark proceeding to registration if the opposition fails at the first level of adjudication at the Trademark Office; and
- Increased fines, compensation, and statutory damage against infringement.

Anti-Piracy

Article 7 of the new Trademark Law was added for attacking trademark piracy. Article 7 provides, "[the] application for registration and use of a trademark shall be based on the principle of good faith." This new Article 7 was copied from Article 4 of China's Civil Code and hence was already existing law.

Further, the existing Trademark Law already has provisions against piracy or bad-faith trademark registration. Specifically, Article 32

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provides, "The trademark application shall neither infringe upon another party's prior existing rights, nor be an improper means to register a trademark that is already in use by another party and enjoys substantial influence."

Article 19 of the new Trademark Law adds provisions prohibiting trademark agents from assisting clients engaging in trademark piracy: "The trademark agency knows or has already known that, where the client applies for a trademark that falls into Article 15 and Article 32 hereof, the trademark agency shall not accept the entrustment...."

As mentioned above, Article 32 prohibits trademark piracy or bad faith trademark registration. Article 19 should to some extent discourage trademark agents from advising clients to pirate third parties' well-known marks.

In the last few years, although there have been a handful of cases where the Chinese Trademark Office and the Chinese Trademark Review and Adjudication Board examiners refused the registration of pirated marks, many rightful owners failed in opposition and cancellation proceedings usually because the rightful owners had not submitted evidence meeting the high evidentiary standards required by the examiners.

It remains to be seen whether the new articles will indeed result in examiners vigorously attacking piracy. The changes in the opposition and cancellation procedures (in particular, applications proceeding to registration upon oppositions failing at the first review by the Chinese Trademark Office) will be counterproductive to anti-piracy unless examiners have the political will to refuse registration of pirate applications.

Prosecution

Sound marks are now registrable, but additional items related to the Chinese government (including the Chinese national anthem, the logo and theme song of the People's Liberation Army, and the names and logos of Chinese Central Government agencies) have become unregistrable.

The new Trademark Law allows a trademark application to cover more than one class of goods and services.

Currently, the timeline for most trademark cases – notably, oppositions, cancellations, and reviews and appeals before the Chinese Trademark Office and the Chinese Trademark Review and Adjudication Board – can be a lengthy one. The new Trademark Law sets out specific time limits for the completion of cases. This should improve the length of the various trademark prosecution proceedings.

Assignment

The assignment provision in the Implementing Regulation to the existing Trademark Law has been moved to the new Trademark Law.

Assignment of China-registered marks or pending applications requires approval by the Chinese Trademark Office. The assignor and assignee must enter into an assignment agreement and jointly file an application for approving the assignment with the Trademark Office. The filing of the application is not merely an act of recordation; it is a genuine approval process. After an assignment of a mark has been approved, the assignment will be gazetted. The assignee will then enjoy the exclusive right to use the mark from the date of gazetting.

The Trademark Office can reject an assignment on one of the following two grounds: (i) not all of the assignor's identical or similar marks covering identical or similar goods or services are being assigned simultaneously; or (ii) "such assignment may cause mistaken recognition or confusion or have other negative effects."

The risk associated with the first ground may be averted by conducting due diligence and appropriate searches.

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The second ground involves undefined terms that can be subjectively interpreted by the Trademark Office. In this regard, it is noteworthy that a document titled "Opinion Concerning the Question of the Use of Trademarks by Chinese-Foreign Joint Ventures and the Assignment of Trademarks to Foreign Parties," issued on February 2, 1993, stipulates that the assignment of geographical indications to non-PRC entities is considered as something that would have a "negative effect." In the Opinion, the Trademark Office states that the "joint use of trademarks in joint ventures with foreign businesses and the assignment of marks (to foreigners) should be studied in earnest and handled with great care." This discretion of the Chinese Trademark Office allows it to refuse approving assignment of important marks owned by Chinese parties to foreign parties.

In the decade-long dispute between Danone and Wahaha, Wahaha signed a contract transferring its Wahaha mark, which was appraised at 100 million RMB, to the joint venture invested in by Wahaha and a Singapore company (which in turn was owned by Danone and a Hong Kong company). However, the Chinese Trademark Office refused to approve the trademark assignment on the grounds that the mark was a well-known mark of a Chinese state-owned enterprise. The assignment of the mark was consequently ineffective even though the parties signed the transfer contract.

Given this discretion of the Chinese Trademark Office, it is important that acquisitions be strategically planned to avoid risks posed by the discretion. This change should be noted by foreign companies and their counsel, particularly those engaging in mergers and acquisitions in China.

Well-Known Mark

In the past 10 years, there have been misuses of the well-known mark system in China. For example, some companies have commenced fake litigation or cases to acquire well-known mark determination. The Chinese courts and trademark authorities were usually reluctant to make a determination on whether a mark should be accorded well-known mark status. As a result, the Chinese courts and trademark authorities tended not to make a determination if possible, deciding the cases on other grounds, for example.

Now, however, Article 14 of the new Trademark Law provides that well-known mark determination should be made as needed. In an attempt to counter misuses of well-known marks, the new Trademark Law prohibits any use of well-known mark designations on products, packaging, or containers, or in advertisements or other commercial activities.

It remains to be seen whether the new Trademark Law will actually result in the Chinese trademark authorities and courts making determinations of well-known mark status in cases where such determination is needed.

Standing In Opposition And Invalidation Proceedings

Aside from registrability issues, the new Trademark Law no longer allows parties that are not prior right holders or interested parties to file oppositions or invalidations.

Oftentimes there is a need for third parties to file oppositions or invalidations. For example, to prevent retaliation, a party may wish to have oppositions or invalidations filed in the name of an unrelated third party in order to keep its identity confidential. Once the new Trademark Law comes into effect, that option will no longer be available.

Opposition

An important change to the Trademark Law is that if an opposition fails at the Trademark Office level, which is the first level of review for an opposition, the mark would immediately proceed to registration. This is a drastic change from the current Trademark Law, where the opponent in such a situation may appeal to the Trademark Review and Adjudication Board and apply for judicial review at two levels of court.

Unless the Chinese Trademark Office examiners are willing to take up the fight against pirates, this change will fuel piracy as the registration of a pirated mark would embolden the pirates to hold legitimate right holders for ransom.

A key strategic point for foreign companies and their counsel to note is that this change elevates the importance of the evidence for supporting oppositions. It is very important that sufficient use, fame and other evidence for supporting oppositions is produced for oppositions.

From the perspective of the World Trade Organization document "Agreement on Trade-Related Aspects of Intellectual Property Rights," to which China is a party, it is unclear whether the removal of the appeal and judicial review rights under the new Trademark Law is a violation of Article 41 of that Agreement:

... 4. Parties to a proceeding shall have an opportunity for review by a judicial authority of final administrative decisions and, subject to jurisdictional provisions in a Member's law concerning the importance of a case, of at least the legal aspects of initial judicial decisions on the merits of a case....

Infringement

The new Trademark Law has in general increased the fines against infringers:

Article 60 ... Where the infringement is confirmed, the administrative department for industry and commerce shall order the infringer to cease such infringement, confiscate and destroy the infringing goods and tools used in producing such goods or forging logos of the registered trademark.

In the event of illegal business revenue of over RMB 50,000, a fine up to five times of the revenue may be imposed; in the event of no illegal business revenue or illegal business revenue of less than RMB 50,000, a fine up to RMB 250,000 may be imposed; in the event of trademark infringement of more than two times within five years or other serious circumstances, a heavier punishment shall be given. Where a seller with no knowledge of its infringing goods can prove the legality of acquiring such goods and point out the provider, the administrative department for industry and commerce shall order the seller to cease selling its goods....

Normally, compensation to right holders is calculated based on the loss suffered by the right holders or (if the loss suffered is hard to determine) the gain reaped by the infringers. If such loss and gain are hard to determine, compensation may be calculated based on a multiple of the license fees. For seriously malicious infringers, compensation may be one to three times the compensation calculated under the above methods. The statutory damage against infringers increased to RMB 3 million.

The increased fines, compensation and statutory damage should still lack deterrence value against infringement in light of the cost of enforcement and the huge profit from infringement. It is said that it is less risky and more profitable to engage in intellectual property infringement than to traffic narcotics.

Conclusion

It is expected that the implementing regulation to the new Trademark Law will be issued soon to provide details on the implementation of the provisions of the new Trademark Law.

In the meantime, infringement and piracy continue to be rampant in China. Whether the new Trademark Law – with its increased fines and statutory damages and the incorporation of the good faith principle from the Civil Code – will be useful for fighting piracy will depend on whether the trademark authorities in China have the political will to seize the opportunity to fight piracy and infringement.

Nevertheless, the important message to foreign companies and their counsel is that bolstering their trademark portfolios is critical. If foreign companies' trademark portfolios are strong, then foreign companies would not need to be at the mercy of pirates and the narrowed standing for oppositions and invalidations, and they can effectively fight infringement.

The new Trademark Law ostensibly provides opportunities to obtain well-known mark status determination. Obtaining well-known mark status is another very useful tool to fight piracy and infringement, and foreign companies should consider seizing opportunities in this regard.

You were just sued for patent infringement — now what?

By Ashok Ramani, Esq.
Keker & Van Nest

A process server has just delivered an unwelcome surprise: a bundle of papers that include a complaint for patent infringement. If you run a business or are in-house counsel, this scenario is more likely to happen than you may expect.

The U.S. Patent and Trademark Office continues to issue patents at an ever-increasing rate, patent licensing agents and brokers have refined several techniques for monetizing patent portfolios, and segments of the investing community have leapt into the patent pool, hoping to net high return rates on strategically acquired patent portfolios. As a result, patent litigation is not just for a narrow band of companies. If you have not yet been sued, be thankful — but do not expect it to last. This article is intended to help you prepare for the eventual day.

You should answer three basic questions when you are sued for patent infringement:

- Who sued me?
- Where was I sued?
- What countermeasures should I take?

You can answer these questions yourself. Doing so will make you a much more informed client should you, as usually



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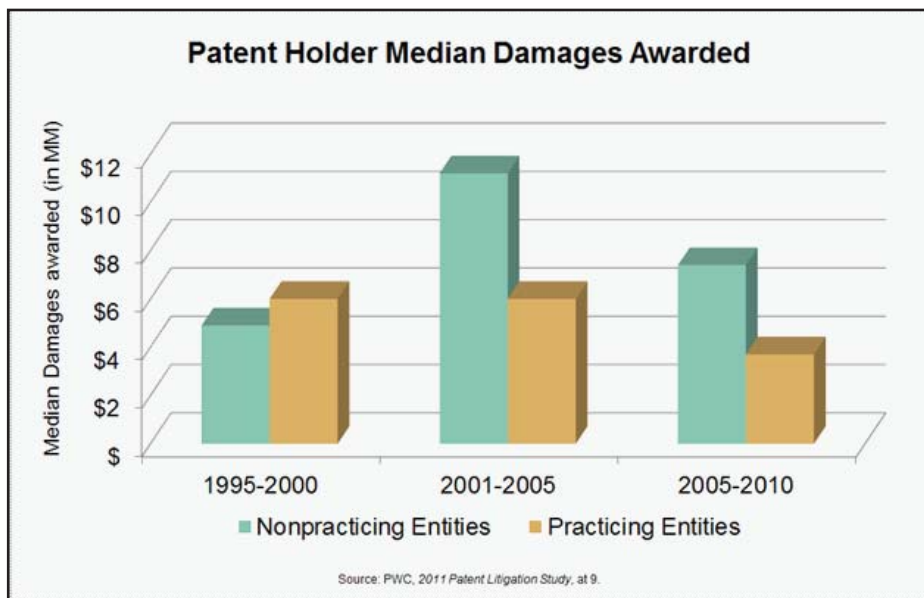


Figure 1

happens in patent litigation, retain outside counsel.

WHO SUED ME?

Patentees can, roughly speaking, be divided into two groups: competitors and non-practicing entities, or NPEs.

A competitor patentee is one who practices the patents at issue. Note that although it will often be the case, for purposes of this article, “competitors” need not directly compete against your business. They simply must practice the invention that their patent covers.

An NPE does not practice the asserted patent or patents. There are several flavors of NPEs: individual inventors, universities, companies, purchasers and aggregators. Companies that purchase and then assert patents that they do not practice have been described by some people as “patent trolls” — a controversial term. This article will not enter that thicket but instead will note that there are several types of NPEs who could not be referred to as “trolls.”

Competitor suits tend to be more worrisome than NPE suits. A patent suit by a competitor may have an immediate effect on business, in

that customers and vendors may be worried about potential business disruption from the lawsuit, not to mention the negative effect that a well-drafted complaint that alleges business copying can have on goodwill.

Competitor suits are also more likely to implicate your key technologies because, particularly with a competitor patentee who is your business competitor, the patents may cover important technology in your field. Also, competitor suits are usually well funded and not litigated on the cheap. The so-called smartphone patent wars, in which multinational smartphone manufacturers have made headlines with major lawsuits against one another the world over, with varying degrees of success, illustrate all of these points.

NPE suits, although perhaps of less immediate concern, are threatening and require attention. Although NPE suits usually have no immediate effect on business and are unlikely to implicate your most important technologies, a 2011 PricewaterhouseCoopers study showed that over the past decade, NPE suits have secured significantly larger median damages awards than competitor suits. (See Figure 1)

Dividing NPEs into companies, universities and nonprofit groups and individual inventors, the same study showed that although universities and nonprofit groups have the highest win rate, company NPEs have been awarded the largest damages. (See Figure 2)

Thus, both competitor and NPE suits must be taken seriously, but for the different reasons described above.

WHERE WAS I SUED?

A patentee may sue you in two forums in the United States: federal district court and the U.S. International Trade Commission. Although most lawsuits are still filed in district court, the ITC is drawing a larger percentage of patent filings.

A patentee may sue an alleged infringer where the alleged infringer “resides” or where the alleged infringer “has committed acts of infringement and has a regular and established place of business.” 28 U.S.C. § 1400(b). This venue statute is broad, and it subjects many companies that do business nationwide to suit in any federal judicial district.

Nonetheless, patent suits have been concentrated in a relatively small number of jurisdictions, including, at various times, the Eastern District of Texas, the District of Delaware, the Middle District of Florida and the Western District of Wisconsin. A defendant sued in those districts who has no operations or other tangible connection there may seek permissive transfer under 28 U.S.C. § 1404(a). The U.S. Court of Appeals for the Federal Circuit, which is the appellate court for all patent cases nationwide, has in the past few years signaled to the trial courts that those transfer motions are to be evaluated carefully on the merits.

It used to be that a patentee could sue several defendants in the same lawsuit, thereby consolidating matters before one judge (and, defense attorneys would argue, limiting the likelihood of transfer to any specific jurisdiction). The recently enacted America Invents Act has greatly narrowed the circumstances under which defendants may be joined in a single lawsuit. More commonly now, a patentee will sue several defendants on the same day, and as a result the cases will be consolidated before a single judge. Judges are often consolidating the cases for pretrial purposes — whether this will affect transfer motions remains to be seen.

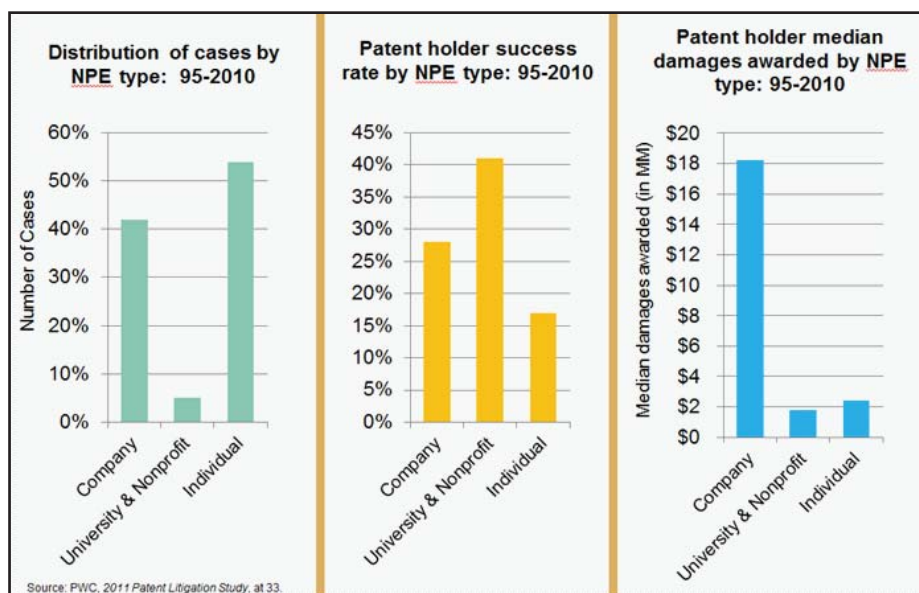


Figure 2

A patentee suing in federal district court may seek monetary damages as well as injunctive relief, both preliminarily and after trial. The U.S. Supreme Court in *eBay Inc. v. MercExchange*, 547 U.S. 388 (2006), tightened the requirements for securing injunctive relief. As a result, competitors are far more likely to receive an injunction, and it is the rare NPE that would secure one.

The ITC is an administrative agency located in Washington. Its mandate, as its name suggests, is to protect domestic industries from unfair foreign-trade practices. One such unfair trade practice is patent infringement. The ITC is empowered to investigate sale for importation, importation and sale after importation of goods that infringe a U.S. patent.

The ITC, unlike federal district court, offers neither a jury nor monetary damages. The cases (called “investigations”) are tried before an administrative law judge who issues a final determination that a party may ask the full commission to review. Should the ITC find a valid patent infringed, the possible remedies include an injunction precluding importation of the offending good or goods into the United States.

If you are sued in federal district court, your case probably will be tried before a jury and reach trial in just more than two years. (That duration will vary substantially according to the jurisdiction and judge.) If you are sued in the ITC, your case will probably be tried before the administrative law judge in a year or less, and you will receive a ruling usually within 18 months after filing.

WHAT COUNTERMEASURES SHOULD I TAKE?

There are several countermeasures that you should consider:

Venue transfer: As mentioned above, if you are sued in a federal district court that has no real connection to your business or to the plaintiff, you should think about moving to transfer venue.

Counterclaim: If you are facing a competitor, you should consider mining your own patent portfolio to see whether you can assert any meaningful patents in response.

Re-examination: You should consider re-examination, which is a procedure before the U.S. Patent and Trademark Office in which a patent’s validity can be challenged. The America Invents Act overhauled the patent-re-examination system. Although an in-depth description of those changes is beyond the scope of this article, re-examination remains an important defensive measure.

Indemnification: If you are using a licensed technology or component purchased from another company, evaluate your contracts for potential indemnity claims. The clock often runs quickly.

If you answer those three questions, you will be in a better position than most businesses or in-house counsel to handle patent litigation. Good luck! **WJ**

The Natural Law of Patents

SALES OF BILLION-DOLLAR PATENT PORTFOLIOS SEEM TO make headlines every other day. The patent market got a jolt last spring, however, when the U.S. Supreme Court decided a case that posed a fundamental question: What, exactly, is patentable? (*Mayo Collaborative Servs. v. Prometheus Labs.,*

Inc., 132 S.Ct. 1289 (2012).)

In *Prometheus*, the Court concluded that a patent's recitation of routine, conventional activity—such as administering a drug and then determining the level of the drug in the patient—did not rise to the level of an “inventive concept” that made the claim, as a whole, patent-eligible. (132 S.Ct. at 1294.) The justices specifically held that a process for determining drug dosages could not be patented because it failed to add sufficiently innovative steps to the underlying natural laws governing the relationship between the drug and its toxicity and effectiveness. The decision indicates that patent monopolies may not extend to many aspects of medicine and emerging biotechnology research. But whether the holding will similarly limit patentability in other technical fields remains to be seen.

Writing for a unanimous court, Justice Stephen Breyer began by noting a rule that has been on the books for more than 150 years: Laws of nature, natural phenomena, and abstract ideas are not patentable. (132 S.Ct. at 1293.) A corollary to this maxim is that when a patent claim focuses on a natural law, to survive legal scrutiny it must include enough other elements that the claim “amounts to significantly more than a patent upon the natural law itself.” (132 S.Ct. at 1294 (quoting *Parker v. Flook*, 437 U.S. 584, 594 (1978).)

The justices clearly were sensitive to

the impact patents can have on emerging research, noting that “monopolization of those tools through the grant of a patent might tend to impede innovation more than it would tend to promote it.” (132 S.Ct. at 1293.)

Counsel for patent holders seeking to minimize the impact of *Prometheus* can find solace in the Court's approval of *Diamond v. Diehr* (450 U.S. 175 (1981)), which involved a patent on a method for molding rubber. The central aspect of the claim in *Diehr* was a mathematical formula that was well known and therefore not patentable. The patent was upheld even though the claims added only conventional aspects of any rubber-curing process to the known formula. (See 450 U.S. at 187.) In hewing to the line drawn in *Diehr*, the *Prometheus* court seems to have approved a relatively low bar for litigants seeking to prove sufficient innovation to justify patent rights.

Yet the *Prometheus* court also relied on *Parker v. Flook* (cited above), involving a claim over an algorithm for calculating “alarm limits” in a catalytic converter. In that case, the Court found that adding to the algorithm elements of measuring parameters and then adjusting the catalytic converter to new values did *not* contribute enough beyond the algorithm itself to allow a patent monopoly over the process. (437 U.S. at 585–87.)

The recognition of these somewhat

blurry lines in future cases presents opportunities for creative lawyering—particularly in patents for e-commerce and business methods, which often stray close to efforts to patent abstract ideas. Biotech innovations involving emerging discoveries in the natural world will also be affected.

Presaging *Prometheus*, for example, in 2010 the Court invalidated a patent on a formula for hedging financial instruments. (*Bilski v. Kappos*, 130 S.Ct. 3218 (2010).) And two months after *Prometheus*, the Court called into question an Internet advertising patent for little more than collecting ad revenue as part of distributing copyrighted content. (*WildTangent, Inc. v. Ultramercial, LLC*, 132 S.Ct. 2431 (2012).)

On the other hand, the Federal Circuit recently set a high bar for invalidating claims based upon patent eligibility, requiring that it be “manifestly evident that a claim is directed to a patent ineligible abstract idea.” (*CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, 685 F.3d 1341, 1352 (Fed. Cir. 2012).) The case is now set for en banc review.

In breathing life into the old saw that one cannot patent nature itself, the Supreme Court may have prompted patent litigators to reshape strategy. They must now be wary that patent claims occupying virtually any use of a law of nature and that impede future research in the field could prove invalid. The real impact of *Prometheus*—and perhaps the fate of all those billion-dollar patent portfolios—is up to the lower courts and inventive lawyers who will test its reach in future cases. ☺

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LATHAM & WATKINS LLP

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Cross Border Acquisitions Through Inversion Transactions

Corporate and Tax Issues

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Background

- U.S. tax system -- Relatively high corporate tax rates, worldwide taxation of profits and controlled foreign corporation (“CFC”) regime all make cash repatriation and redeployment a challenge
- Many countries (such as UK, Ireland and Netherlands) – lower rates and territorial system allow for more flexible repatriation of overseas profits and cash redeployment
- Shifting location of holding company as part of a business combination can therefore prove advantageous

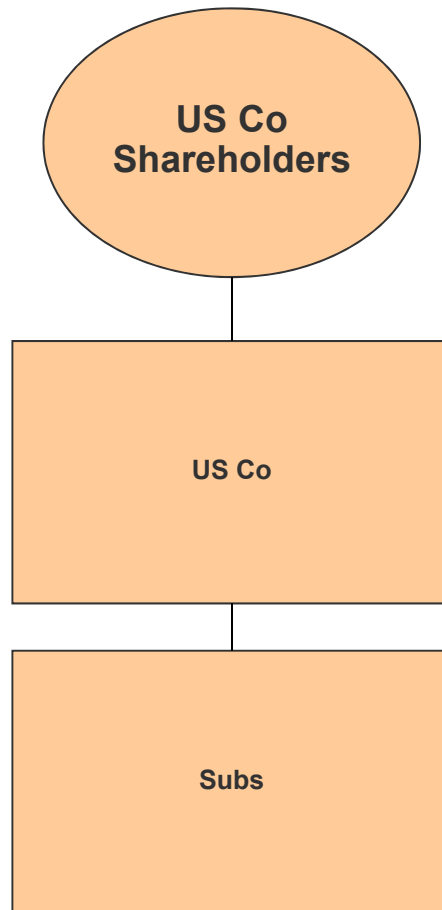
Background

- A significant number of US companies have engaged in business combinations which have resulted in a change of their domicile to a foreign jurisdiction in connection with their acquisition of a foreign company.

What is a “Cross-Border” Inversion?

- Common Elements
 - Combination with a significant company outside the US
 - Tax efficient platform for global business, future growth and financings
 - Compelling business rationale for the combination that is attractive to the capital markets
- Common Structures
 - Merger or principally share-for-share exchange
 - Creation of a holding company formed outside the US to own the combined business
 - New holding company is usually “tax-resident” in a jurisdiction outside the US

Basic Structure and Goals



- Structure: US Co is a publicly-traded corporation, with US and non-US affiliates around the world
- Goal: US Co seeks reincorporation or otherwise enters into a structure by which the publicly-traded parent company will be outside of the US, in a favorable jurisdiction such as Ireland, UK, Netherlands, Switzerland, etc.

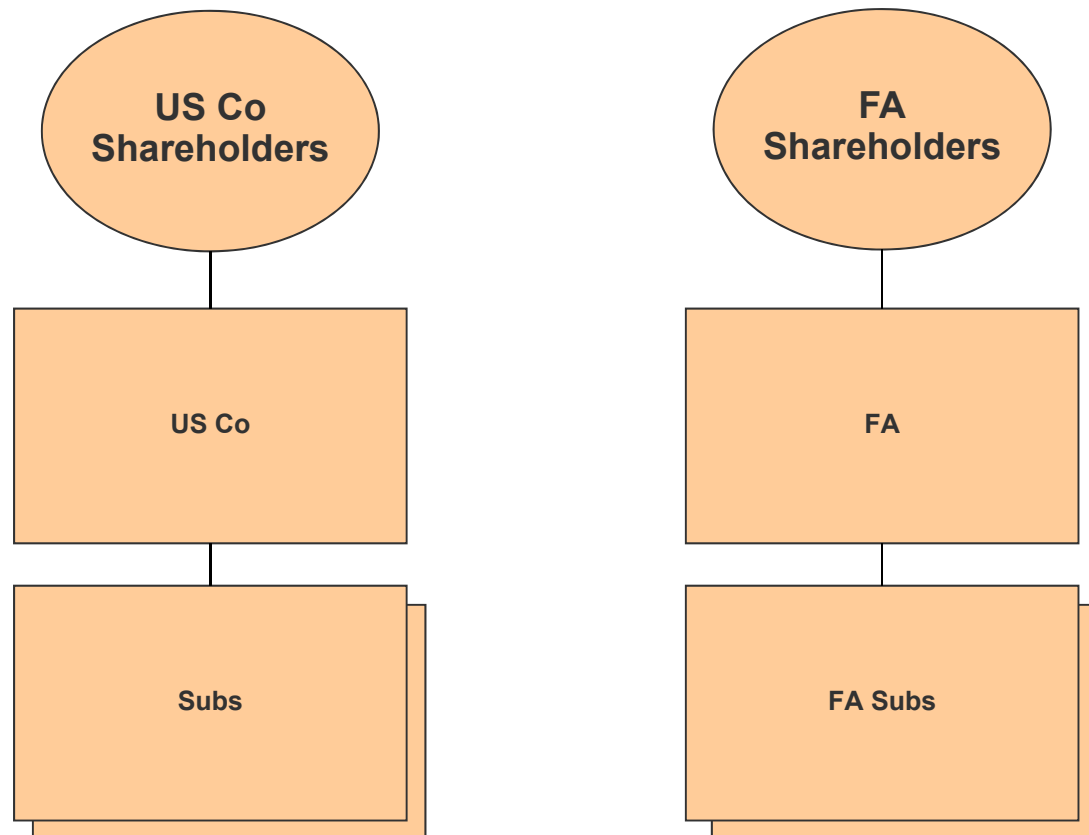
Two Alternatives to Achieve Goal

- US Co must reincorporate in a jurisdiction where it has “Substantial Business Activities”. That would mean group assets, employees and sales (to customers) of at least 25% of worldwide total; or
- **US Co must combine with an existing (and unrelated) foreign business in a transaction where US Co shareholders get back less than 80% of combined equity**

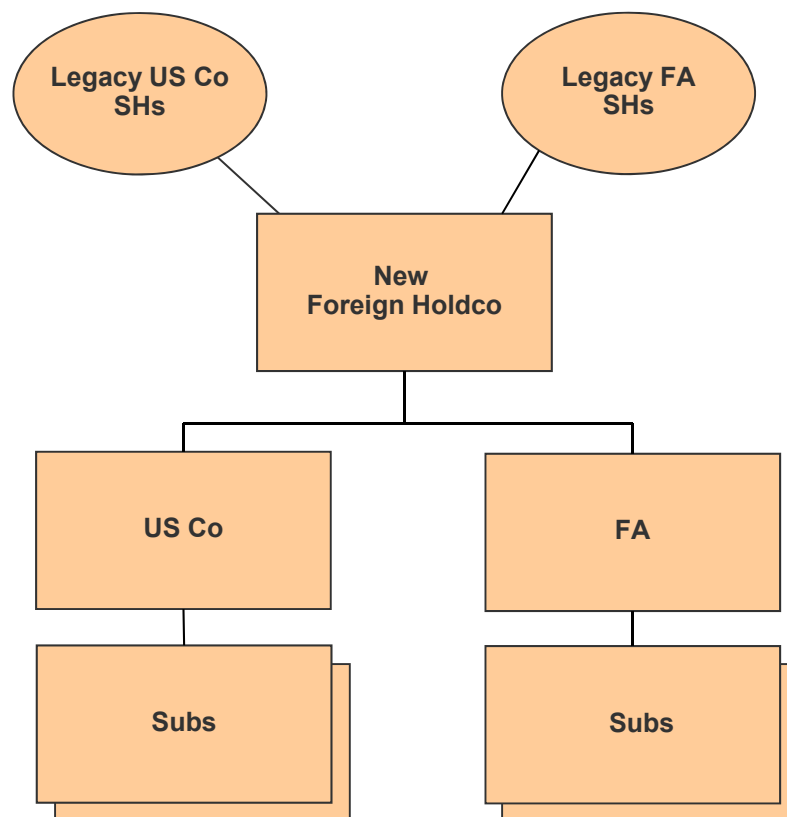
Given the high threshold of Alternative 1, very few companies can meet the Substantial Business Activities test

Deal Driven Inversion (Before)

US Co and Foreign Acquirer (FA) seek to combine under FA or a new foreign holding company (UK, Ireland, Netherlands or Switzerland might be selected as jurisdiction for Holdco)



Deal Driven Inversion (After)



- Key Issue: Level of legacy US Co shareholders' ownership in Foreign Holdco after the deal

Inversion Tax Considerations

Inversion Issue (US Internal Revenue Code Section 7874)

- If legacy US Co shareholders own 80 percent or more of Foreign Holdco (including options' FMV), the transaction does not work and Foreign Holdco is treated as a US corporation for purposes of the Internal Revenue Code
- If legacy US Co shareholders own 60 percent but less than 80 percent of Foreign Holdco, the transaction generally works and Foreign Holdco is respected as a foreign corporation under the Internal Revenue Code – however:
 - Restrictions apply to US tax attributes such as net operating losses and foreign tax credits
 - A 15 percent excise tax applies to certain executive compensation of the US senior management

Thus, exchange ratio is key

Inversion Tax Considerations

Some Issues for Analysis/Diligence:

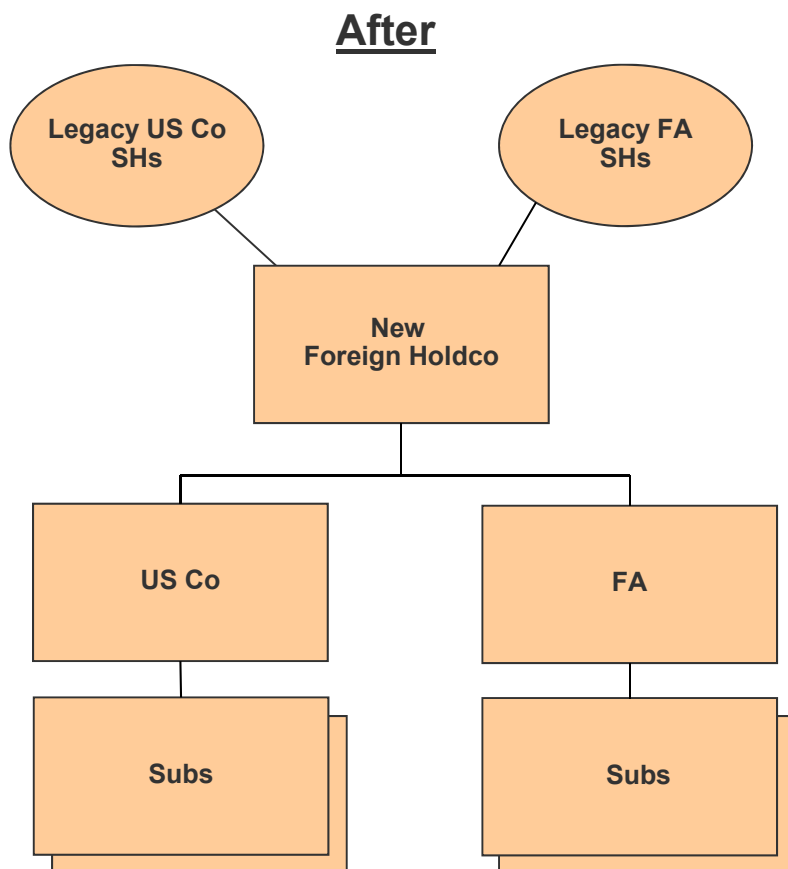
For US Co:

- Potential prior “dieting” transactions which allow US company to be <60% of combination
- Convertibles, stock equivalents and options
- Cross ownership in FA, or Foreign Holdco
- Others?

For FA:

- Potential prior “stuffing transactions” to allow FA to be >40% of combination
- Convertibles, stock equivalents and options
- Cross ownership in US Co, or Foreign Holdco
- Serial acquisitions of other USTs
- Others?

Long Term Tax Benefits



- Tax efficient leverage
- “Out from Under” Planning
- Future Growth
- Other strategies based on specific facts and circumstances
- Certain countries may have special benefits for particular industries