

Intellectual Property Insights

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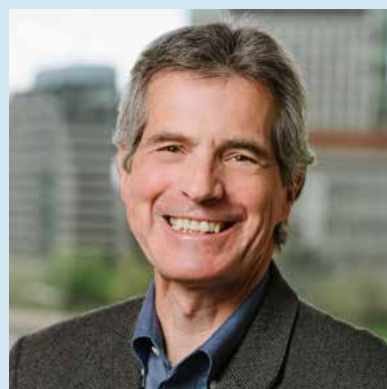
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MASSACHUSETTS LAWYERS WEEKLY: The U.S. Supreme Court's decision in *Alice Corp. v. CLS Bank International* changed the parameters for patentable subject matter.

That decision, coupled with the creation of post-grant review proceedings at the U.S. Patent and Trademark Office under the America Invents Act, signaled a significant shift in patent law that many view as disfavoring patent owners. Do you believe that the pendulum is swinging back?

JENNIFER FUREY, GOULSTON & STORRS: I believe there are signs that the pendulum is swinging back. In some of the statistics I saw, it was reported that in the nine months following the *Alice* decision 90 percent of motions to dismiss under Section 101 of the Patent Act were granted, 71 percent of Section 101 motions were granted in 2015, and only 56 percent of Section 101 motions were granted in 2016.

Now, this could mean that plaintiffs are selecting stronger patents to litigate, but it also could mean a shift in the reluctance of the courts, at least at that early motion-to-dismiss stage, to dismiss cases relying on *Alice*.

KEN ZWICKER, BOSTON UNIVERSITY: I had a follow-up question to the question itself. I noticed that the question said the creation of post-grant review in combination with *Alice* has created this major shift. I was curious as to the combination of the two. For me, *Alice* is the big issue. Is it that if we didn't have post-grant review we wouldn't have this problem? I don't think so. We would just be having it in a different venue.

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— Jennifer Furey, Goulston & Storrs

ANDREW O'CONNOR, GOULSTON & STORRS: It's an interesting observation. ... It might just be a venue issue as you're noting and that we would be fighting the same fight — just at the Patent Office. But before *Alice* the number of people who actually proceeded in a case on a claim that the patent was ineligible were few and far between. They were greatly disfavored.

NICK BOIVIN, IPSEN: The other [part of] this question is that there are two different ways to challenge patents that were created in 2013.

One of them is inter partes review, [which is] applicable to all patents, no matter when they were filed or no matter whether they're under the pre-2013 system of granting patents or post-2013.

The post-grant review patent challenge that's mentioned in this question only applies to patents that are first filed after 2013. So we're going to live in a world where we have both of these opportunities to challenge patents on different grounds within the Patent Office.

We've always had a Patent Office tasked with applying the law and deciding when an invention has met the requirements for receiving a patent. Now, Congress has given the Patent Office the power to invalidate patents or to cancel claims.

LAWYERS WEEKLY: The Supreme Court's recent decision in *SCA Hygiene Products v. First Quality Baby Products* eliminated the equitable defense of laches in patent cases brought within the six-year statute of limitations. Do you think that will trigger an increase in patent infringement claims?

O'CONNOR: Even prior to this decision, laches defenses very rarely would prevail. It's a very difficult defense to prevail on. But the Supreme Court left open other defenses in equity.

Under laches, you would have to prove there was notice that there might be an infringement, and then you sat on your rights and that caused harm. But with the other equitable defenses that are still viable it almost encourages patent assertion entities to stay quiet and not to put entities that they think might be infringing on notice for fear that they might lose the right to

bring their other equitable defenses. It will be interesting to see if there's a decline in cease and desist demands or threats of infringement while patent assertion entities wait for the opportune moment to then pounce upon a party they think is infringing their patent.

FUREY: Or wait until there's more information about the market and the stakes before investing in expensive patent litigation.

ZWICKER: I think you're going to find a lot of people who previously thought they had lost their opportunity to file suit are now going to think that door just swung wide open.

The other thing I see as a factor here is that it's expensive to file suit, and a lot of patent owners are unable to afford it. They see somebody infringing their patent, but they know if they file suit they're going to get buried under legal paperwork ... and they can't afford it. ... Well, if you end up waiting until the infringing product actually becomes a multibillion-dollar drug, then litigation firms are going to be banging at your door.

So there's going to be a lot more of what we refer to in the ecological world as "sit-and-wait predators." They're going to just sit back and wait until they think the time is right and the money is right and then they'll strike.

ALEX EWING, LIQUIGLIDE: And why wouldn't you, if you're a patent assertion entity, let the market mature? There's no money in going early, you know.

BOIVIN: I think there are a couple of things that mitigate that sit-and-wait approach. One is the public nature of patents. In *SCA Hygiene Products* or the

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situation where a patent owner received a notice that said, "Hey, we have this patent, you have this product and you should consider a license," the patent owner went and sought to fix the asserted deficiency at the Patent Office by re-examination of the patent, which is a very long process at the Patent Office. They had the claims affirmed and then they asserted the patent. ... I think in a situation [where] the patent owner goes back to the Patent Office to try and remedy a deficiency, that's a very public process where you can kind of see that coming.

The [other] factor is that anybody can bring these challenges. It's not just the two parties at issue. It's not just someone that wants to engage in commercial conduct or is already engaging in it and maybe another party that's intentionally not asserting their patents. It's everybody else considering going into that business who is not a commercial entity right now but saying, "I wish these two entities would figure out whether this patent is valid and whether it covers this commercial behavior, because I would like to engage in that commercial behavior in light of investors."

I think those are factors that may mitigate the negative effect of someone considering entering the market being afraid of a patent being asserted later.

LAWYERS WEEKLY: How do you develop a global patent strategy that satisfies commercial goals while staying within a budget? As a follow-up question, how do you select the jurisdictions where you file?

EWING: As a head of IP strategy and general counsel I'm constantly being asked why we spend so much money on patents. ... In my company we have over 160 applications pending around the world, we have seven issued patents in the U.S., seven other issued patents globally. We are building a global patent empire, which everybody really likes the idea of, and investors really like the sound of, but it's expensive.

So how do we then really target? Where does it make sense to put our resources? ... This is an issue that really big companies think about and small startup companies think about. Even at the Fortune 50 level, heads of IP strategy have to justify their patent budgets. It's just the way the world works.



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We started to look at ... dividing the world into tiers. ... Anytime we think we have an innovation that moves the needle that we don’t want to keep as a trade secret, that we think is a platform-level innovation, we file that in the U.S.

The U.S. Chamber of Commerce scores countries ... on the strength of their patent system, ... and we sort of create a rating for each country’s patent system and look at it that way. We have a first tier of Europe, Japan, Australia, and then ... we have emerging markets like China and India, and smaller markets where IP is respected, like Korea. ... And then below that we just try to think strategically.

ZWICKER: In the university setting, we make it as simple as possible. ... If we’re going with a technology that is yet unlicensed but we feel there is a potential, you ask the very basic questions: “Where could it be made?” and “Where could it be used?”

BOIVIN: The decision of where to file a patent application is very business specific, content specific and industry specific, and you will likely make different decisions based on different technologies even within the same business and where the business wants to go. You certainly look at where you are going to sell the product and where you are going to make it. ... Not all inventions are created the same. If you have a foundational technology that really permeates your competitive advantages of business, you’re likely to be more aggressive and seek a broader patent protection. If it’s an improvement that may affect a subset of your business plan, you may be less widespread in where you seek patent coverage.

There are also differences in countries in terms of what inventions are patentable where and how broad and enforceable those patents may be once you obtain them. The cost to get patents is also a factor when you multiply by a large number of patent applications. Obtaining a patent in Europe can be a budget-breaker because you need to file translations in all of these different countries. That’s a significant hit to your budget, and you have to do it within a limited period of time.

LAWYERS WEEKLY: When do you elect to use the Patent Prosecution Highway, which speeds up the examination process for corresponding applications filed in participating intellectual property offices?

EWING: It’s like hitting the accelerator on anything: If you can connect the dots to revenue, then that’s when you do it. You want to hit the accelerator when you see that there’s a commercial partner and you can create value with that particular patent.

There are certain situations where I wish we could use the PPH in Japan because it takes forever to get a patent in Japan. ... It’s really hard to move forward quickly. ... Contrast that with a country like Australia: [If] you get a patent in the U.S., you can get a patent in Australia.

ZWICKER: I’ve never really explored the Patent Prosecution Highway in great depth because ... with respect to other countries there is kind of a wait and see [approach], unless you’ve got a technology that is already out there and on the market and you need an issued patent right away.



It depends on the field. [If it’s] pharmaceuticals, you know that’s not going to hit the market for 10 years. It’s got to go through the FDA. Yes, we want good, strong issued claims. Do we need them today? No.

BOIVIN: I think if you have an invention that has some urgency about the need for rights, ... if you would like to get a valuation that includes a patent rather than one that is just based on a patent application, which is often valued at nothing or close to nothing, the PPH is a nice tool.

Once you get allowed claims in the U.S., ... you can then fast track the patent application for the same claims in another country, provided that those claims are patentable in that country.

LAWYERS WEEKLY: Has the enactment of the Defend Trade Secrets Act impacted your noncompete policies and enforcement efforts?

O’CONNOR: The Defend Trade Secrets Act [created] the first federal private right of action for misappropriation of trade secrets. Now [you can] avail yourself of federal court for claims that were often confined to state court, unless there was diversity or pendent jurisdiction. [But] one of the nuances of the statute is that when courts are granting injunctive relief, the injunction cannot conflict with state law. That is very interesting because you have

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states like California, for example, that forbid noncompetes in employment agreements. And so if you’re looking for an injunction that is going to prevent the head of your R&D team from going to a competitor, then the court is now wrestling with a very serious issue of how to frame an injunction that will have the result of preventing that former employee from going to his new employment.

The other thing it does is that it eliminates this concept of the inevitable disclosure doctrine, which is something that plaintiffs would often rely on that says, “Look, this person has in his head all of our R&D. I don’t necessarily think he’s going to disclose it because he intends to, it’s just inevitable in his new job he’s going to disclose all of this information.” ... On paper the statute no longer recognizes that doctrine.

I encourage clients to constantly monitor information that they consider to be trade secrets to see what employees are doing with it. And if there are any employees who might be leaving or you suspect might be leaving, monitor that ... and be very, very careful about what they’re looking at.

FUREY: Another important counseling point after the Defend Trade Secret Act is the language that should now be included in separation agreements, noncompete agreements and the like. The act requires that in order to avail yourself of exemplary damages and attorneys’ fees you need to have whistleblower immunity language in your agreements.

We advise our clients to use the language in the statute in their agreements, because the courts have not yet interpreted the sufficiency of the notice required for whistleblower immunity provisions. So the safest bet is to use the language right from the statute in your various agreements, so that if you are litigating under the act you can avail yourself of exemplary damages and attorneys’ fees.

ZWICKER: How is the Defend Trade Secrets Act viewed in respect to all of the individual state acts? Is it preemptive or is there forum shopping now?

O’CONNOR: It expressly does not preempt state law. Here in Massachusetts

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you can bring a claim under the Massachusetts Trade Secrets Act and the Federal Defend Trade Secrets Act.

LAWYERS WEEKLY: Let's discuss the "on-sale bar" in light of the Federal Circuit's recent decision in *Helsinn Healthcare v. Teva Pharmaceuticals*. How does this decision affect when a commercial transaction can lead to forfeiture of future patent rights?

BOIVIN: There's been a provision in U.S. patent law for over 100 years that if you sell a product that exemplifies your invention, that creates a clock. ... It used to be a two-year clock, and then in 1939 it became a one-year clock.

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But you have limited time to then seek patent protection. Because what Congress didn't want is for people to profit from their invention, and then once they realized that there was a real commercial opportunity to then start a 20-year patent exclusivity period after that. So they want to incentivize early patenting.

Up to 2013, there was language in U.S. patent law that said that if you put your invention that was ready for patenting on sale before seeking patent protection for it in this country, you triggered a one-year period where you had to file your patent application. ... In 2013, Congress changed the U.S. patent statute to read that patent forfeiture would occur when you put your invention "on sale, or otherwise [made it] available to the public." ... The internal training materials for patent examiners at the Patent Office have interpreted that phrase to mean that in order for a sale ... to lead to forfeiture of patent rights more than a year after that sale, that sale had to be available to the public.

[Now] we have a decision from Federal Circuit ... where a company entered a contract to commercialize its drug. ... That contract was disclosed in a required government filing. ... And the court said that — even though that disclosure was not a disclosure of the invention — it was one of these non-public commercial sales that everybody else seems to agree that before 2013 could have started the clock running on forfeiting patents, and because the words "on sale" are still the same in the post-2013 patent law and pre-2013 patent law, we're going to interpret them the same. ... So, now you're in a world where you need to look at the contracts that you've already put in place for any patent you've filed after 2013 and ask yourself: "If you entered a commercial contract and your invention was ready for patenting, did you file your patent within a year of when those two criteria were met?"



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FUREY: The takeaway is clearly that the moment that there's any sort of offer for sale or sale, the clock is ticking and companies need to mark their calendars accordingly. ... The only nuance of the case was what the Federal Circuit didn't say. They relied heavily on the fact that there was a press release and an SEC filing and viewed the sales as public because of those two factors. The court did not opine any broader than the facts at hand. So there is still hope that a truly private agreement between two companies that is never publicly disclosed would not trigger the on-sale bar.

ZWICKER: If I could ask a flippant question without meaning for it to be flippant: If you've got a product or a process that you are thinking about selling or offering for sale, what are you doing *not* filing a patent application on it? Why would you even think about offering something for sale if you don't have an application on file yet?

EWING: It has a lot to do with money, frankly. Let's treat it as a hypothetical. As a venture-backed startup company, we try to be very disciplined about filing. I really try to hold people off from filing until we see clear commercial traction. ... We're a young company. We're a material science company, [and] we're always learning more about how our product works. We're always tweaking designs.



Designs are changing, concepts are changing, and just because we have something that's patentable doesn't mean that there's ultimately going to be commercial traction. And we can end up filing a lot of patent applications, investing a lot of time and money where there's no return for it.

ZWICKER: I always harken back to the philosophy of patent protection and it's a trade: You'll get this exclusive right granted by the government, but in exchange you've got to fully disclose your invention. ... If you don't want to do that and you want to go off and just try to sell it on your own and keep it as a trade secret or do whatever, that's fine. But this is the trade for getting a 20-year monopoly for you.

FUREY: One thing I would just add to that [is the] point that IP is important and therefore expensive to protect and enforce, and that underlines the importance of clarity in this area.

You can read [the *Helsinn* opinion] five times and you're still left with the question of, "Where are we?" On the exact facts on which the holding is based we have clarity. But we don't have clarity beyond those facts. And it's important for businesses both looking backwards on the agreements that have already been executed and acted upon and looking forward to have that clarity. That's what we don't have right now.

EWING: As in-house, we live with kind of the commercial roadmap in one hand and our draft patent application in the other. We try to time them up as best we can. This just throws a lot of uncertainty onto that.

It's tough when the court creates a lot of uncertainty without a lot of explanation. They've disrupted a lot of what people thought was precedent, without frankly a very good explanation. And it just reminds me [that] we don't often have judges who have had real world jobs. ... I sometimes wonder if they understand how the world works, the uncertainty that they create, and what that could do for people on the ground. **MLW**