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THE IMPACT OF MONETIZATION OF PATENT RIGHTS ON PATENT PROSECUTION

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Background

Under existing practice, the procurement of intellectual property, and in particular, patents, is a complex process involving a number of strategic decisions reflecting desired scope and territorial reach. Adding to the complexity is the need to ensure that the patent properly describes and supports the invention at the time of filing, and that the key elements of the invention are protected while accounting for the technology then in existence in order to arrive at a final product: protectable property. However, as intellectual property has increasingly played a prominent role in commerce, the patent itself is increasingly being used as a form of equity as opposed to merely being a mechanism for countersuit. Such change is driven by economics and the reality that patents are increasingly being viewed as assets as opposed to bargaining chips vis-a-vie competitors.[2]

While some industries have embraced this change, most notably the pharmaceutical and agricultural industries, other industries have resisted the change and still utilize patents largely for defensive purposes. For these industries, their defensive strategy is predicated on patents only being held by practicing entities (i.e., competitors) against whom a countersuit is viable when a patent is asserted. However, this strategy breaks down where the patent holder cannot be threatened with a countersuit as there is no mechanism by which a practicing entity can respond to the patent holder save through settlement or lawsuit. For purposes of definition in this paper, such a patent holder is referred to as a non-practicing entity (NPE) since it is not in competition with the practicing entity. These industries often refer to NPEs as patent trolls and accuse NPEs of inhibiting innovation as opposed to furthering the purpose of the patent system

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[2] E.g. Associated Press, *Moody's cuts Pfizer rating, citing Lipitor* patent, Forbes.com (March 12, 2009) discussing Pfizer's credit rating being downgraded due to expiration of patent in 2011) ; M&A Insights: Spotlight on Intellectual Property Rights Survey (2008) (52% of survey respondents believe IP will become more important to overall M&A activity in the next five years).

in promoting innovation.[3] Such charges ignore the reality of the purpose of the patent system, which is to reward inventors,[4] and also appears to devalue their own patent portfolio thereby decreasing the overall value of their company by devaluing their own assets. Whatever the merits of such charges and countercharges, during the acquisition stage, there are special considerations which need to be accounted for when acquiring a patent being used as an asset or for use by an NPE which affect the way a practitioner will behave during prosecution in order to ensure that the most value equity is produced. These considerations will be highlighted below and contrasted with regular prosecution practice in order to help understand the significance that monetization has during the acquisition phase of patents.

Patent Preparation Stage

During the initial preparation stage, the distinctions caused by how a patent is to be used and by whom are not apparent. In essence, at the time of invention, all inventors and clients are NPEs since, at best, a prototype has been built as a proof of concept. Indeed, unless some exception applies such as 35 U.S.C. §102(b), it is not possible to patent items being practiced in a competitive and public environment. Thus, from the perspective of the patent practitioner, there is little distinction between applications being prepared for practicing entities and for NPEs, as there are no real competitors for the invention itself. Instead, in both cases, the emphasis is on acquiring the maximum value for the inventor through broad descriptions and claims, while maintaining sufficient description to allow clarifying claim amendments in response to prior art.

However, there are circumstances where a company may recognize that an invention is of particular interest from a licensing standpoint. Where there is a possibility of assertion either by a practicing entity or an NPE, particular care should be taken to ensure damaging admissions are removed from the specification and multiple embodiments and variations on the invention are added. Courts often cite to statements in the specification as evidence of disclaimed coverage or note that a claim term is necessarily narrowed if only a single example

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[3] Testimony of Mallun Yen, Vice President, WW Intellectual Property, Cisco Systems Inc. at*The Evolving IP Marketplace* (December 5, 2008) (available at http://www.ftc.gov/bc/workshops/ipmarketplace/dec5/081205transcript.pdf) (last accessed March 13, 2009).

[4] *To Promote the Progress…of Useful Arts: Investing in Invention*, Presentation of Peter N. Detkin, Founder & Vice Chairman, Intellectual Ventures, Inc. at *The Evolving IP Marketplace* (December 5, 2008) (available at http://www.ftc.gov/bc/workshops/ipmarketplace/dec5/docs/pdetkin.pdf) (last accessed March 13, 2009).

is consistently used.[5] Thus, particular care needs to be given to the specification (as opposed to the claims) since, once filed, the potential value resulting from the patent as an asset for an NPE will be entirely driven by what has been described at this stage.

Patent Prosecution Stage

After filing, there is usually sufficient pendency to allow a change in circumstances which may affect how an invention is used by the filing entity. Specifically, under the current workloads, a first office action is not expected for an average of 25.6 months from filing, and the average pendency is 32.2 months.[6] During this time, the commercial significance of an invention may be realized. Besides cases where the inventor is an individual inventor or a University who filed the application in hopes of licensing, even where the inventor was a practicing entity at the time of the invention, a change in company focus, the competitive landscape or bankruptcy can force a change in how the patent application is perceived. Indeed, where it is later determined that the patent is relevant to a standard, the practicing entity will also attempt to monetize the patent application through inclusion in the standard. It is at this time that, for purposes of valuation or otherwise realizing an underused company asset, inventors or companies may approach an NPE to determine the value of the invention as an asset, or will attempt to license and assert the patent on its own such as through participation in a standard.[7]

Of special interest in this situation is less the scope of the pending claims, as filed, as these will likely be amended. Instead, the value is the original scope of the specification and whether the specification supports variations that extend well beyond the actual intended use of the device when invented. Where the specification is sufficiently broad to cover a range of

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[5] E.g., Netcraft Corp. v. eBay, 549 F.3d 1394; 89 USPQ2d 1234 (Fed. Cir. 2008) (specification's consistent single use of "providing a communications link" limited feature in claim); Mangosoft, Inc. v. Oracle Corp., 525 F.3d 1327; 86 USPQ2d 1939 (Fed. Cir. 2008) (statements in specification limited scope of "local"); SafeTCare Manufacturing Inc. v. Tele-Made Inc., 497 F.3d 1262; 83 USPQ2d 1618 (Fed. Cir. 2007) (background of the invention disclaimed scope).

[6] UNITED STATES PATENT AND TRADEMARK OFFICE PERFORMANCE AND ACCOUNTABILITY REPORT FISCAL YEAR 2008, p. 4 (Nov. 2008) available at http://www.uspto.gov/web/offices/com/annual/2008/2008annualreport.pdf (last visited March 13, 2009).

[7] Indeed, it is arguable that such a use is almost required to the extent that public companies are required to efficiently utilize company assets under Sarbanes Oxley, 17 U.S.C. §7241. *See* James G. McEwen, David S. Bloch, and Richard M. Gray, INTELLECTUAL PROPERTY IN GOVERNMENT CONTRACTS, p. 5, n. 17 (Oxford University Press)(2009).

devices, the application becomes especially valuable as it can be used to cover a variety of targets selected by the NPE. The target may be a product by a practicing entity or a standard used by practicing entities. Once the target or targets are identified, the existing claim set is scrubbed to use language consistent with that used by the target in order to allow for easier claim comparison. Moreover, non-essential words are changed and non-essential limitations are removed in order to ensure that the claim reads clearly on the target. Such non-essential words and limitations may well have been needed to describe the original prototype at the time of filing, but often obscure or prevent coverage of the desired target.

A well-written specification will allow such changes directly. However, where the specification is not well written, the patent practitioner needs to be creative in interpreting the existing disclosure and recognize that, while obvious support is preferred, under U.S. law, there is no *in haec verba* requirement for support in the original specification.[8] Thus, with a proper explanation to an examiner as to how a specification necessarily supports a new word in a claim, the patent practitioner can revise the claims to read on a target while still remaining within the literal scope of the filed specification. This amendment process is generally not needed for applications prosecuted by a practicing entity, in which case the claims on filing already read on the invention as practiced by the practicing entity and no adjustment is required except as needed to overcome the prior art.

An additional step is to recognize that the target may have multiple related targets, each of which may be separately licensable. For instance, for an apparatus having multiple subsystems, each subsystem might be separately licensable and the manufacturer might be separately licensable from a user or distributor. As such, as the NPE begins to define the related targets, the claims will be revised to reflect each target. Looking back to the example of the apparatus having multiple subsystems, a claim would be drafted solely to each subsystem as well as a claim to the system. Further, where software is involved, a claim might be drafted to the software performing the operations of the subsystem or the apparatus controller. Moreover, a claim might be drafted to the use of the subsystem, and possibly to the method of assembly in order to capture use by an end user and/or manufacturing and testing of the

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[8] Purdue Pharma L.P. v. Faulding Inc., 230 F.3d 1320; 56 USPQ2d 1481 (Fed. Cir. 2000); Lockwood v. American Airlines, Inc., 107 F.3d 1565; 41 USPQ2d 1961 (Fed. Cir. 1997); In re Hayes Microcomputer Prods., Inc. Patent Litigation, 982 F2d 1527; 25 USPQ2d 1241 (Fed. Cir. 1992); In re Oda, 443 F.2d 1200, 170 USPQ 268 (CCPA 1971); Manual of Patent Examining Procedure § 2163.02 (8th Ed. Rev. 7)(July 2008); Robert L. Harmon, PATENTS AND THE FEDERAL CIRCUIT §5.4(c) (8th Ed.)(BNA 2007).

subsystem by the subsystem manufacturer. The emphasis in each claim is less on ensuring all patentable features are included, but on ensuring at least one patentable feature is included while ensuring that the claim reads on its assigned target. This requirement to claim multiple targets tends to lead to an explosion in the number of claims in the typical application which is well in excess of the number of claims normally associated with applications being pursued by practicing entities.[9]

Also, where an NPE gets involved, the prosecution will likely be affected by litigation factors beyond mere claim scope. Specifically, since the claims are likely going to be contested, the patent prosecutor will be charged with inequitable conduct, deposed, and called as a witness during trial. This inevitability is due to the reflexive use of inequitable conduct as a defense by defendants, and due to the inconsistency with which courts have interpreted which behavior is sufficiently culpable to warrant rendering the resulting patent unenforceable.[10] For instance, the duty of disclosure requires applicants and patent prosecutors to continually disclose material prior art. The failure to disclose prior art can lead to unenforceability, but only if the resulting patent is enforced. However, the over disclosure of such information is regularly cited as an irritant to the examiner, and the United States Patent and Trademark Office has recently attempted to reduce the number of submissions in order to reduce the examiner's workload.[11] Moreover, any failure to disclose needs to be contemporaneously documented in

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[9] An alternative strategy is to divide the claims into applications organized by a desired target, as will be discussed below.

[10] E.g. Praxair, Inc. v. ATMI, Inc., 543 F.3d 1306; 88 USPQ2d 1705 (Fed. Cir. 2008) (inequitable conduct found where applicants made arguments about prior art which was very well known which could not have been made had the examiner been aware of the prior art, despite its being very well known); Aventis Pharma S.A. v. Amphastar Pharms, Inc., 525 F.3d 1334; 87 USPQ2d 1110 (Fed. Cir. 2008) (statements in declaration found to be highly material and thus grounds for inequitable conduct despite lack of evidence as to actual intent to deceive); Nilssen v. Osram Sylvania, Inc., 504 F.3d 1223, 84 USPQ2d 1811 (Fed. Cir. 2007) (family of patents held unenforceable due to the filing of a misleading declaration for improperly claiming small entity status when paying maintenance fees, for falsely claiming priority, for failing to report litigation in related cases, and for failing to submit relevant prior art).

[11] *Changes To Information Disclosure Statement Requirements and Other Related Matters*, 71 Fed. Reg. 38808 (July 10, 2006).

order to provide a reason for nondisclosure. This evidence is needed to provide evidence of a reason for nondisclosure that negates whether there was an intent to deceive the examiner.[12]

Where the invention is made by a practicing entity and the risk of enforcement is low, these are largely academic concerns. However, as the invention owned by an NPE is likely to be enforced, it is important in United States practice to be even more forthcoming in submitting prior art as compared to regular prosecution. While practicing entities are often more tempted to skimp on prosecution and information disclosure during prosecution in order to reduce costs, this is not an option for NPEs due to the reflexive use of inequitable conduct defense. Thus, as compared to regular prosecution and while such additional material is generally not helpful to the examiner for purposes of evaluating the claims, prosecuting patent applications for an NPE will require an extra level of diligence in ensuring that anything of potential materiality is disclosed.

Lastly, given the complexity of prosecution and the likelihood of being called to testify, NPEs take (or should take) greater care in who handles the case. Since the prosecuting attorney will be called for deposition or testimony, the chosen attorney needs to be an experienced attorney who is presentable and articulate. This is in contrast to regular prosecution for practicing entities, where cost alone may drive the choice of attorney since there is a low likelihood that such a person would ever be called to testify. While such a choice may drive up the cost of prosecution, the cost of choosing the wrong prosecuting attorney will be higher during any subsequent enforcement proceeding.

Continuation/Divisional Stage

Under United States practice, it is not unusual to have continuations and divisional applications. However, where NPEs are involved, there is an additional incentive to ensure multiple continuation or divisional applications are filed. First, instead of including all claims for all targets in a single application, it can be more convenient to have separate claim sets in separate applications corresponding to different targets. An example would be to use the parent application for a distributor or manufacturer of an assembled system, and a divisional or continuation application for a supplier of a subsystem used in the assembled system. Such a strategy results in large families of co-pending applications. A downside to such a strategy is

[12] Praxair, Inc., 543 F.3d 1306; 88 USPQ2d 1705 (intent inferred where material prior art not disclosed despite fact material prior art was duplicative since counsel failed to contest materiality of prior art at trial on grounds that it was duplicative).

that the use of continuations greatly complicates the need for information disclosure since courts have held that even where examiners are aware of related applications, the mere failure to repeat arguments from related cases can be grounds for inequitable conduct.[13] Thus, the use of large families of co-pending applications has risks complicating practice when prosecuting applications for an NPE.

Another distinction is that, for a practicing entity, when an application is in condition for allowance as a patent, the application is allowed to issue since the desired coverage has been achieved. However, for an NPE, there is a continuing search for targets and there is also the recognition that, despite all efforts, it may become apparent that the claims in an issued patent are incorrectly worded and will not read on an existing target. While a reissue application (and to a lesser extent reexamination) can remedy this situation, the easiest solution is to merely file a new continuation application.[14] As such, even where only one application is being prosecuted with all the desired claims and is ready for issue, it is usually required that at least one continuation application is filed and kept pending. The NPE can then use this pending application to add or revise to ensure that any defects in the existing claims of issued patents can be remedied easily and quickly, and new targets can be acquired.

Conclusion

While there are many commonalities between preparing and prosecuting patents for practicing entities and NPEs, the emphasis of the NPE on acquiring new targets for licensing and enforcement presents special problems during prosecution of a patent application. As outlined above, these differences occur mainly during the actual prosecution stage. Specifically, as compared to where a patent application is directed to a known product as is the case with a practicing entity, the desired coverage for an NPE is in a state of continuing flux. Thus, while

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[13] McKesson Information Solutions v. Bridge Medical, Inc., 487 F.3d 897; 82 USPQ2d 1865 (Fed. Cir. 2007).

[14] The problem with reissue applications and reexamination is their complexity in filing. For instance, both reexamination and reissue require the showing of an error affecting patentability under 35 U.S.C. §§251, 302, and 311. There are limits on the types of amendments that can be made during reissue and reexamination due to 35 U.S.C. §§251 and 305. Procedurally, at the time of filing, reissue applications also require a new declaration and consent from the patent owner, which can be problematic where the inventor is no longer with the patent holder. 37 CFR 1.172. In contrast, such problems are avoided by a continuation application, which merely requires a copy of the original declaration unless there is a change in inventorship. 37 CFR 1.63(d).

deceptively similar in many ways, the monetization of patent rights and the use and assertion of patents as an asset does have a very real effect on prosecution strategy.