INTELLECTUAL PROPERTY

WHEN SEARCH-ENGINE GIANT GOOGLE PURCHASED SMARTPHONE-MAKER MOTOROLA Mobility, and its patent portfolio for $12.5 billion this summer, it made for a high-profile example of patent acquisition—a booming and controversial business. Companies and brokers that specialize in selling and purchasing large numbers of patents that pertain to a particular technology are changing the intellectual property legal strategies for many companies.

Meanwhile, the allure of the Eastern District of Texas, once the darling venue for patent cases, appears to be waning as the time to trial grows, patent-case friendly judges retire, and the standard for establishing venue rises. But new locations are emerging, and our panel of experts discusses these issues as well as what is patentable, taking out NPEs, and shakedowns. They are Dr. Dariush Adli of Adli Law Group; Henry C. Bunsow and Denise M. DeMory of Dewey & LeBoeuf; Neel Chatterjee of Orrick, Herrington & Sutcliffe; Michael Rounds of Watson Rounds; and Mark Flanagan of WilmerHale. The roundtable was moderated by *California Lawyer* and reported by Krishanna DeRita of Barkley Court Reporters.

EXECUTIVE SUMMARY

MODERATOR: What is the future of patent litigation in the Eastern District of Texas and how is it impacted by the Court of Appeals for the Federal Circuit transfer cases and the retirement of key judges?

BUNSOW: The venue has become excessively popular, so the judges have very heavy dockets. Starting about three years ago, the denials of transfer taken to the Court of Appeals for the Federal Circuit have been overruled to the point that the district judges now fairly routinely transfer cases unless there's a very strong basis for venue. Also, the mere number of cases has resulted in the time to trial increasing dramatically. Given Texas's favorable economic conditions, the jury pools have become more sophisticated and less deferential to government actions, such as issuance of patents. But most dramatically are the decisions by judges Ward and Everingham in Marshall to leave the bench.

Marshall is still the division with the most cases. Judges Ward and Everingham have traditionally handled more patent cases than any other judge. At last count, the Marshall docket had in excess of 200 cases that have to go somewhere. The only two judges in that district who seem to enjoy patent cases are judges Davis and Folsom, and it's unrealistic to think that they could each absorb an additional 100 patent cases. The halcyon days of getting a case intact to trial within 14 to 18 months as a plaintiff are probably over in the Eastern District.

ROUNDS: Unless a plaintiff has a brick and mortar business in the Eastern District it is going to be very difficult for a case to remain there. Patent cases that have defendants from foreign jurisdictions are going to be transferred. Plaintiffs may not get a transfer order for two years and towards the end of a case, so you're potentially looking at another two-or three-year delay.

CHATTERJEE: I don't agree that the Eastern District is dead. Cases with one plaintiff and a handful of defendants are much more vulnerable to transferring to other venues, but the Federal Circuit's unpublished opinion in *In re Google, Inc.* (412 Fed. Appx. 295 (Fed. Cir. 2011)) is interesting. In *Google*, the plaintiff is essentially a non-practicing entity. They moved to Texas, hired college students to do various projects, and used that as a vehicle to establish venue. They sued an army of defendants claiming there's no single forum that's convenient for all of them. That case is now routinely cited when non-practicing entities (NPEs) sue a large number of defendants and can claim that it is as good a forum as any. It's under some pressure, but there's no case law yet taking away what *Google* did, and Texas courts are relying upon it.

Another deterrent are judges issuing court orders where dozens of defendants have to submit the settlement agreements and amounts to the court and the other side early in the case. It raises the specter of whether there's a legitimate dispute or it's a shakedown. There's no other court in the country investigating that, and it isn't necessarily the kind of accountability everybody wants.

FLANAGAN: The two design-arounds we've seen from the plaintiffs bar are: trying to establish a presence in the Eastern District;

and in a suit with large group of defendants, including some who have a local presence. There's also the national issue of whether under Rule 20 [of the Federal Rules of Civil Procedure] it is proper to join a group of defendants in one case simply because they all allegedly infringe the same patent, notwithstanding the fact that all of their products are completely different.

Lately we've seen motions to dismiss or sever based on misjoinder in the Northern District of Illinois. Judges sometimes dismiss all but one of the defendants on the grounds that they are not properly joined. It's unclear if a few in a group of 30 defendants having a presence in the Eastern District will suffice to keep the case there.

ROUNDS: As I read the Federal Circuit cases, the presence has to be meaningful—a building and employees. You actually have to be doing business there in some meaningful way.

FLANAGAN: But the question will still come back to whether the people who they are employing in the Eastern District are relevant to the lawsuits.

CHATTERJEE: That's not the way *Google* went, and Judge Davis said, "I'm not going to go behind the motivations for employing people locally." The unpublished Federal Circuit decision said that's okay. But the Rule 20 issues associated with that motion are still very much in flux.

ADLI: Our local counsel in the Eastern District still advises us that only cases that have no connection at all with Texas are being transferred out. Some presence, even cosmetic, may suffice. In the early 2000's we used to conduct mock jury trials, but that was stopped by Judge Ward years ago.

Bifurcation is another issue on our watch list. A few months ago Judge Davis decided in the *Parallel Networks, LLC v. Abercrombie & Fitch* (2011 WL 3609292 (E.D.Tex.)), which had something like 120 defendants, to bifurcate the Markman proceeding (see *Markman & Positek., Inc. v. Westview Instruments, Inc.* (517 U.S. 370 (1996)). He only wanted to deal with three issues that would be dispositive for many of the defendants. It remains to be seen if this is the start of a trend in multi-defendant cases.

In terms of venue, we have done studies comparing the Eastern District and other districts to the Central District of California. It ranks pretty well for plaintiffs. In terms of summary judgment grants, it's kind of in the middle, but it has a higher than national average record on preliminary injunction grants. We now recommend it over some of the other plaintiff jurisdictions.

DEMORY: I've seen Judge Davis bifurcate cases so that certain issues

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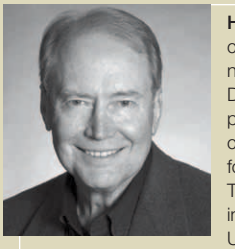

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go forward. In another case he was going to decide a collateral estoppel issue before all else. He has used techniques such as the settlement agreement disclosure, or even requiring people to disclose the amount of their expected legal fees, to try and bring about some resolution. Judge Folsom said he is going to retire as well.

ROUNDS: With respect to the volume of cases, a lot of them are patent mismarking and not necessarily patent infringement cases. Also, there still is hope out there amongst the plaintiff patent bar that the cases will stick.

BUNSOW: A lot of lawyers in Texas like contingency fee litigation, and it's traditionally been a very active practice in the Eastern District. Prior to patent cases, there were a lot of ERISA cases. The plaintiff lawyers there have realized that patent cases, particularly in comparison to other types of civil litigation, command higher damage awards. I've seen situations where the complaint is served with a letter saying, "We'll settle for $50,000." Multiply that by 30 and it's a pretty good recovery for a typical personal injury lawyer.

The main problem through 2014 is the lack of judges in Marshall. Literally three of the four judges who handled the bulk of the patent cases are going to be gone by the end of next year.

But other venues are coming up. Chicago has implemented the Northern District of Illinois's patent local rules that purport to get cases to trial very quickly. Delaware still needs more judges; they are shipping cases to Philadelphia, for example, because of the backlog and the time to trial is still at least two years. The Oracle versus Google case in the Northern District of California is going to trial pretty quickly. In the Central District we have two active cases waiting trial dates and it's very judge specific. Judge Otero will give you a trial date in 12 to 14 months, other judges not so. Broad statistics unfortunately don't tell the whole story. L.A. is a very large venue with a lot of judges and if you get the right one, you will be happy. If you don't, you are in the cattle call with everybody else—there's no predictability.

> ***"Is the purpose [of IP revenue] to reinvest in your company and create new technologies and jobs, or buy another horse for your ranch in Kentucky?"***
>
> —NEEL CHATTERJEE

MODERATOR: What is the scope of patentable matter under subject 101 of the Patent Act (35 U.S.C. §101), and how will the recent ruling in *Association for Molecular Pathology v. United States Patent and Trademark Office* (2011 WL 3211513 (Fed. Cir. 2011)) impact your practice?

CHATTERJEE: The Supreme Court is taking a new Section 101 case, *Prometheus Labs., Inc., v. May Collaborative Servs.* (628 F.3d 1347 (Fed. Cir. 2010)), which could impact the *Association for Molecular Pathology* decision. In *Cybersource Corp. v. Retail Decisions, Inc.* (2011 WL3584472 (Fed. Cir. 2011)) there's a lot of pressure on what constitutes patentable subject matter in software cases. However, *Research Corp. Techs., Inc. v. Microsoft Corp.* (627 F.3d 859 (Fed. Cir. 2010)), which is a software case, came out in favor of finding patentable subject matter under the *Bilski* test (see *Bilski v. Kappos* (130 S.Ct. 3218 (2010)). Six years ago it was extremely rare for people to make Section 101 challenges on software and networking-based patents. Now over 50 percent of the time people raise some sort of a *Bilski* challenge or a divided infringement challenge.

ADLI: There is a lot more skepticism about what is patentable subject matter. Although each time the question goes up to the Supreme Court, at least for business method challenges, it comes back reaffirming the basic principle that other than abstract ideas, most anything is patentable. But the significant point for patent prosecutors is the diversity of claims. In the *Association for Molecular Pathology* case, the claims at issue were method claims: the therapeutic method—the screening of the patient—and product claims, the gene itself. To me, the surprising aspect in this case was the amicus brief filed by the federal government. It said that if the genes are in the natural state in the body and unaltered, they should not be patentable subject matter. That was a change. If they are engineered or altered, they would be patentable. The court did not address that question directly, but seemed to side with the government saying that there has to be some alteration of the gene.

FLANAGAN: To a large extent it's a drafting issue. When they prosecuted the patent, did they include claims that get them safely beyond the danger zone for Section 101? It's still a pretty low bar.

BUNSOW: The issue is whether there are demonstrable inventive contributions and every case turns on its own facts. The typical biotech case is clearly different than software cases and hardware cases, but fundamentally if you are looking for a general rule, there must be a showing of some fundamental inventive contribution. And that contribution does not have to be very much.

DEMORY: It is atypical to have five opinions from the Supreme Court on this. There are a lot of patents that were issued between 1998 and 2005 that are going to be subject to Section 101 challenges based on this case. The 101 challenge will probably impact some claims in the patent and probably not others. It's going to be a unique case where the 101 challenge is going to be successful across the entire case.

ADLI: This is largely a 101 usefulness issue. It also implicates an

issue of claim drafting. We, as prosecutors, should be able to draft claims that survive a 101 challenge. With European patents, which are examined under somewhat different standards than those in the U.S., we find that the bar is a lot higher.

DEMORY: In the software space the standard has been lowered on obviousness in the last ten years. You can hit all the related claims with an obviousness challenge. We're seeing a lot of success.

MODERATOR: What are the risks and benefits of a patent enforcement program? Are legitimate companies making a business out it?

ADLI: Many companies—IBM in 1990 and before that Texas Instruments in 1985—realized that pursuing an active IP portfolio management policy can reap huge benefits for their bottom line, often making the difference between survival and bankruptcy. Texas Instruments provides a vivid example. Back in 1985 it was on the verge of bankruptcy, but before filing their attorney suggested they try licensing some of their patents in their IP portfolio. They looked at their patents, filed a couple of lawsuits and a year later signed a $1.5 billion licensing deal with several large Japanese companies. It was a success story from then on. Today, Texas Instruments makes about a billion dollars a year in revenues from its licensing program compared to $20 million 25 years ago.

IBM in 1990 is the same story. It is the number one patent owner with roughly 4,000 new patents obtained each year. The second runner up registered about half that number. They started their own licensing program and within a few years went from $30 million to $1.5 billion, which they now reinvest in research and development.

Companies all over the U.S. have started focusing on IP portfolio management and are reaping huge benefits. The total revenue U.S. companies have earned from licensing revenues has jumped from $100 billion 25 years ago to $400 billion today. It's expected to grow to $500 billion by next year. That growth is mainly due to patent portfolio management.

FLANAGAN: I found it interesting that one of the roundtable questions was whether "legitimate" companies are making a business out of patent enforcement. Presumably that means companies that actually manufacture things as opposed to simply owning patents. Some people might quibble with that definition. In any case, it is true that we are seeing more manufacturing companies taking a look at how to monetize their patent portfolio in ways other than cross licensing and giving themselves freedom of action within their space. It does seem to me that the willingness to embark upon a patent enforcement program with the goal of making money may be in inverse proportion to how well the company is doing in its core business. Every company is looking for new sources of revenue. A manufacturing company with a robust IP portfolio looking to get money for them has to decide whether it is willing to defend itself against the slings and arrows that will be thrown at it. Other companies have patents as well and your products may be vulnerable, too.

ROUNDS: Google is a legitimate company, and if you believe the press, they paid $9 billion for the Motorola portfolio. Seeing that business model in a number of examples, you can conclude that to play ball in the big leagues, you need a strong patent enforcement program and to be serious about it. The Google example is the best demonstrator.

FLANAGAN: I don't know what Google's motivations were in buying Motorola Mobility and its cache of patents, but there's a lot of defensive action going on. Companies don't want to be bare from an IP perspective. There's a real possibility that a competitor who has a more robust patent portfolio will sue them. That dynamic has created a market for patents.

CHATTERJEE: I don't think anyone who owns a patent would say they are not a legitimate company. Their business model may differ. It's about generating revenue for a particular purpose and that's where the moral play begins. Is the purpose to reinvest in your company and create new technologies and jobs, or buy another horse for your ranch in Kentucky? That is really the dividing line on what people consider to be legitimate.

ROUNDS: Also, the portfolios are massive. They can assert 500 to 1,000 patents relevant to a licensee. That tidal wave is difficult to confront if you are representing the licensee.

CHATTERJEE: But Nortel and Alcatel did the same thing. They would have presentations in the late 1990s and early 2000s and say, "Here is our big stack of patents and the profit and loss statement that's attributable to the CTO. Here is your company's portfolio size, and that means you need to pay us something."

BUNSOW: But the reality is that it didn't save Nortel or Lucent. The assertion model is not the panacea to drive the profitability of a company and save it. In the last couple of years a lot of patent acquisition companies have been established with the Nortel portfolio acquisition being the high watermark. But what it really shows is a developing feeding frenzy for the acquisition of patents, and often in large number. It's very hard to analyze large portfolios and make informed decisions about their worth in quick negotiations.

There's a developing industry of patent brokers who seek companies willing to sell patent portfolios in particular technology areas. For example, they go to the suitors that were not successful in the Nortel acquisition and offer them 500 patents in the networking field, a thousand patents in the WIFI area. There is a whole new industry developing for the acquisition and sale of patents in a manner that brings no risk whatsoever to the company selling those patents.

ADLI: There were around 17,000 existing Motorola patents and another 6,000 that are pending. Google is paying $9.5 billion, which comes to about $300,000 per patent. The value of a patent works both ways. One way to defend yourself is to reach into your patent portfolio and countersue, which can lead to a settlement pretty quickly.

DEMORY: The shareholders can pressure a company to sell its patent portfolio, but it's a onetime transaction. What does that mean for you? If it's a business you are not in, then it's not a major consideration. But what is the impact of patent aggregation in certain technology areas? What impact is that going to have on both our business and the competition? Google purchased the Motorola aggregation. Apple has aggregated a huge amount of patents in a short amount of time. How is that going to impact business and litigation?

FLANAGAN: It's a bit of an arms race with this acquisition of patents, but as in the U.S.-Soviet days many people are acquiring them for the purpose of never having to shoot them. The phenomenon of well-heeled companies taking patents off the market except for defensive purposes could have some effect on the quantity of patent litigation.

There is a company whose goal it is to buy patents simply to ensure they are not asserted against this company's customers. It's a huge task to make a dent that has any real effect on companies, but it goes to show how people are thinking and the desire on the part of the manufacturing companies to mitigate their risk.

ROUNDS: The risk of a patent enforcement program from the NPE side is the cost of your investment to acquire the patents, and that's probably not a very significant risk. And if it's a good patent, there are a lot of potential infringers.

CHATTERJEE: We've seen the creation of an entirely new business ecosystem that's trying to efficiently take out NPEs. But every patent is written with different words, so you can't easily do a keyword search and determine the patents you need to worry about. There's a real question in my mind whether these collateral markets actually have the value they propose.

BUNSOW: It's the largest growth area right now. For at least the next couple of years, you're going to see more purchases of patents in specific areas. Today offensive cases are being brought by companies in Northern California that five years ago people would have bet their lives would never be suing each other.

FLANAGAN: The acquisition of these portfolios from manufacturing companies doesn't do anything to solve their NPE problem because the NPEs, by definition, are impervious to being countersued.

BUNSOW: One theory is that you are keeping the patents away from the NPE by keeping them yourself. Time will tell whether that's a successful strategy. Nobody really knows how many patents are out there in any given technology area.

ADLI: When you take patents out of circulation, you may inadvertently create a market around them, driving up their value. Spurring development around them means more patents are then available to NPEs, and so on.

CHATTERJEE: In the late '90s, a lot of Internet companies were willing to fight everything on principle to avoid getting hit with more suits. Then the dotcom bubble burst and people had a change of heart. Today we have a synthesis of those perspectives in which some people will continue to fight and others look at it as claims management.

FLANAGAN: The question is whether taking a hard stand deters other lawsuits.

BUNSOW: There is no doubt that companies with a reputation for meritoriously defending cases to the end have created a deterrent against going after them.

ROUNDS: I don't think there's any easy money in a patent case. At least not the ones I'm handling. Every single patent case is judged on the strength of the patent that's being asserted. The shakedown description in my view is somewhat of a misnomer.

CHATTERJEE: I disagree with Mike [Rounds] on this, particularly with respect to the Eastern District where you can have 200 defendants. On cases where I've been retained, the conversation is never about merit. Ninety-five percent of the time the plaintiff talks about settlement and how to meet your shareholder obligation by entering nuisance value settlements.

FLANAGAN: Shakedown is in the eye of the beholder and any plaintiff in a settlement discussion is going to want to talk about dollars as opposed to whether there's infringement of the defendant's products.

DEMORY: There's a lot of that activity in Texas. Cases with more than 30 defendants or multiple cases with numerous defendants, and there's a settlement demand before the complaint is filed that is usually low. It's hard to say those are not shakedowns because you're starting from the perspective of "I can't answer the complaint and do a reasonable investigation for the dollars that have been demanded before the complaint is served." With the drop-off in the Eastern District, it's going to be less of a concern going forward, but over the past couple of years I've seen a number of cases that can fairly be called a shakedown.

ROUNDS: At some point the number is so miniscule that answering the complaints doesn't make any sense. I think those cases are more the exception. It's always a good indication that there's probably not a lot of merit to the case if you ask for some claim charts and don't receive any.

CHATTERJEE: In the vast majority of NPE cases I've handled, they won't provide the claim charts.

DEMORY: Whether the defendants get together and take it through Markman or not, you've got 30 or 60 companies trying to work together and it can be both ridiculously expensive and difficult. They exploit the low settlement demand and the difficult logistics of so many defendants. ■