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Session B: Patents II (Litigation)

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MR. KELLY: My name is Adam Kelly. I am a Partner at the Chicago office of Loeb & Loeb here in town. It's my distinct pleasure to be moderating. I'll apologize in advance for the number of topics that we will cover, any bad jokes that you might hear, and my Hoosier accent.

I'll begin by introducing our panel.

Alex Menchaca is a Partner at McAndrews, Held & Malloy. He has been there since 1988. Is that right?

MR. MENCHACA: Yes. Well, as a lawyer since 1989, but I was there prior to that as a law clerk.

MR. KELLY: What's a fun fact about yourself?

MR. MENCHACA: Oh boy, that's putting me on the spot. When I was younger, I liked to cut my own hair and I used clippers with a guard on it. But one day I forgot to put the guard on it. As I was cutting my hair, I thought *Boy, the hair's coming out real easy this time*. It turned out I ended up with a reverse Mohawk. [Laughter] I went to the beauty parlor to see if they could do anything to fix it. The woman paraded me around the whole place so everybody could get a good laugh, and then she shaved all my hair off. That's a fun fact.

MR. KELLY: Judge Theodore ("Ted") Essex is currently Counsel at Hogan Lovells in Washington, D.C. Prior to that he was an International Trade Commission (ITC) judge for a number of years. Prior to that he spent twenty years in the military and served as a judge advocate in the Air Force. Is that right?

JUDGE ESSEX: That is right.

MR. KELLY: Ted, a fun fact about you?

JUDGE ESSEX: I don't know how fun it is, but I got an email during the last session. My seventeen-year-old son announced that he and his sister were dumped at my house by my ex-wife. So I have two teenagers in my house right now with no supervision. [Laughter]

MR. KELLY: If you need to leave early, we'll all understand.

Next on our panel is Reggie Hill, who is a Partner at Jenner & Block. He has been there since 2002. Prior to that he had his own firm for a few years. Before that he worked at AT&T Bell Laboratories and Motorola.

What's a fun fact about you, Reggie?

MR. HILL: That's real difficult. I think Alex stole my fun fact. [Laughter] I shaved off all my hair. Let's see. I actually had a little bit of advance notice that Adam was going to ask me this question, so I've been working on this for a minute.

I finished high school in 1984. I was an All American and I was the center on our basketball team. Not many people actually know that. [Pause] Now that's a complete fabrication. [Laughter] But, since lying is en vogue these days, I thought I would give it a shot.

I don't have a bunch of opinions. I work as a practitioner. I was thinking about this yesterday. Mostly I advocate for my clients as opposed to having particular opinions about things. I've been married for thirty-one years and my wife has beaten every opinion I've ever had out of me. So I don't have an opinion. That's a real fun fact about me.

MR. KELLY: I have a feeling you're not alone in that because I don't think I have any opinions either for a similar reason. [Laughter]

Next on our panel is Professor David Schwartz from Northwestern Law School. Prior to being at Northwestern Law School he had stints at Chicago-Kent and here at John Marshall. Prior to entering academia he was a patent attorney at Wallenstein Wagner and Jenner & Block.

What's a fun fact about yourself?

PROF. SCHWARTZ: I read patent articles and blogs for fun at night. It drives my wife crazy. [Laughter]

MR. MENCHACA: I'm going to tell your wives you're using them for laughs.

MR. KELLY: Next is Themis Anagnos, who is the Director of Patents and Licenses at Continental Automotive for the Americas.

What's a fun fact, Themis, about you, other than you and I being at the Supreme Court?

MR. ANAGNOS: Just a couple of weeks ago, which was a lot of fun, Adam.

In-house we give presentations that are usually Patents 1.01 for the engineers. I try to start them with something funny. One of the things I say to start a presentation is, "You've probably heard the expression that necessity is the mother of invention; however, the father is unknown." They usually laugh. [Laughter]

MR. KELLY: Lastly, David Haas is the Managing Director at Stout. He has been there since 2012. Prior to that he was at FTI Consulting/Charles River.

What's a fun fact about yourself, Dave?

MR. HAAS: Before I got into this business, I was an engineer at McDonnell Douglas Corporation working on F15 fighters. In our strength engineering department one of our responsibilities was canopy testing. Part of that was we had a chicken cannon that would fire frozen chickens at canopies at about 600 miles per hour. So that was always a little bit of a messy affair.

MR. KELLY: One fun fact about me? I like to golf, but I'm not going to give a golf fun fact. Actually I'm a divisional athlete. I played on the Indiana University Bass Fishing Team. I never caught a fish in competition. [Laughter]

We are going to talk about a variety of topics. The first one is just to naturally pick up on the baton that was passed from the prior panel on 101.

Ken Adamo mentioned that Judge Prost made a comment at the Eastern District of Texas Bench Bar Conference Bar Association meeting in Texas a few weeks ago. I am going to put in a plug. She will be in Chicago next Friday for the Intellectual Property Law Association of Chicago (IPLAC) Symposium. If you show up for that, you can ask Judge Prost herself because she will be taking questions from the audience.

MR. MENCHACA: I have a question. Who is the president of IPLAC?

MR. KELLY: Adam Kelly.

Themis, I want to start with you, since you are in-house and you were here and heard the discussion of 101 and the controversy of where we are with the post-*Alice*¹ bar. What is your impression as in-house counsel? What are your thoughts on where we are today?

MR. ANAGNOS: Being in-house, and just understanding both from the prosecution side and on the litigation side and the practical aspects of it, I think the last panel really covered it.

¹ *Alice Corp. v. CLS Bank Int'l.*, 134 S. Ct. at 2354, 110 USPQ2d at 1980 (2014).

In short, I look at *Alice* as a really fairly low bar, the two-step process,² the good thing about *Alice*. Ultimately what has happened and what we ultimately need, is a filter for really, really, really bad patents. If you can't figure out what the invention is, if you can't find out the two things that I learned in Professor Menchaca's class — you write a claim that says what it is and how it works — if that's not in there, then you don't have an invention. I think that is a good filter in litigation. From the prosecution perspective, if you've got an invention and you can answer those questions, then you can get over the *Alice* bar.

Although claims could sometimes be better written, the ultimate impact has been very good for us internally.

MR. KELLY: The argument has been made that the current interpretation of the 101 statute will lead to investors not wanting to invest in companies that innovate or divisions that innovate. Have you experienced with Continental or others in your industry that there's chilled willingness to invest?

MR. ANAGNOS: I don't think it's a matter of patents are good or bad. If you've got a good invention, then you have something to work with.

How many people here write patents for a living? If you've got good disclosure, you've got a good invention, and you can provide that support, you can get better claims and better patents. If you have a really thin disclosure, if there's little or almost no invention, you do the best you can. Maybe that's the problem. Maybe it's a problem of the quality and how thin the invention disclosure is.

MR. KELLY: David?

PROF. SCHWARTZ: One thing, following up on what you said, Themis, and also what Hans Sauer said on the last panel, is interesting. Hans said that for most of the patents that seem to fail in court on 101 there is some defect, something wrong with the claims. Maybe it's obviousness, maybe it's an anticipation claim — just something feels wrong. Section 101 is a useful and quick, cheap way to resolve that.

I'm somebody who does a lot of empirical work. I'm interested whether other panelists share that view, whether it's a 101 problem really or it's some other problem. When we look at the patents that have been knocked out by the courts, we find that they also failed on another condition of patentability.

MR. ANAGNOS: My personal opinion — Bill Kline and Catherine Klima are here from my group and you can also talk to them about it — is generally, if you have thin disclosure, if you really don't have much of an invention, you are going to find 102, 103, and 112 problems. You're going to find them all.

It seems like when we have troll cases asserted against us, they are really bad patents. We have one in particular — and I've been dealing with this for four years — in which the point of novelty is constant frequency. Kevin asked me, "How old is that?" I answered, "When the first light was created, the poles in the frequency were at constant frequency, so certainly it is really old."

² The *Alice* ruling spelled out *Mayo*'s determination of patent eligibility as a two-part test: (1) determine whether the claims are directed to a patent-ineligible concept; and (2) determine whether the claim's elements, considered both individually and as an ordered combination, transform the nature of the claims into a patent-eligible application. See United States Patent and Trademark Office, [2014 Interim Guidance on Patent Subject Matter Eligibility](#).

I think you are going to find you have lots of defenses. The problem is which one and how soon and how much money you are going to have to spend to finally get that patent invalidated.

Really the way the system worked, you had to get to summary judgment, and you were going to spend \$1 or \$2 million to get to that point on a really bad patent. What does that mean? There's settlement value on a patent that really adds no value and provides no benefit to society.

MR. MENCHACA: This is the patent litigation panel. To follow on to the previous panelists, who kind of said anything crazy that came to their minds, I'm going to say crazy things now.

In litigation, when you file your complaint you have to do a Rule 11 investigation before you assert infringement. If you don't do a Rule 11 investigation, then you can be subjected to some punishments and sanctions. Themis was saying that 101 might be a way to get rid of bad patents very quickly.

But perhaps another way of getting rid of bad patents is to have a greater burden on practitioners to file applications only on something that has more than the minimal patentability. Now that's a crazy thing, because we all make our money from filing patent applications and our clients like to do that, but one avenue to address the issue is by having a heightened duty in the Patent Office when examine the kinds of applications that patent practitioners are submitting.

MR. KELLY: I want to stay on the theme of the bad patent, meaning there's some defect in it or there's something wrong with the patent or activities associated with the patent that resulted in invalidity. Let's talk about the issue of on-sale bar.

When we all got together and rehearsed this last night, you mentioned that you wanted to talk about on-sale bar in the [Helsinn Healthcare v. Teva](#) case.³ What are the thoughts you wanted to share?

MR. MENCHACA: The *Helsinn* case is currently before the Supreme Court. Oral argument is scheduled for December 4th on the issue of how the phrase "on-sale" in the new [America Invents Act](#) (AIA) Section 102⁴ is going to be understood by the Court.⁵

³ [Helsinn Healthcare S.A. v. Teva Pharms. USA, Inc.](#), 855 F.3d 1356 (Fed. Cir. 2017), *petition for cert. granted*, No. 17-1229, [2018 WL 1142984](#) (June 25, 2018).

⁴ AIA 35 U.S.C. 102(a)(1) provides a "catch-all" provision, which defines a new additional category of potential prior art not provided for in pre-AIA 35 U.S.C. 102. Specifically, a claimed invention is not entitled to a patent if it was "otherwise available to the public" before its effective filing date. [AIA 35 U.S.C. 102\(a\)](#) provides that:

[a] person shall be entitled to a patent unless—

(1) the claimed invention was patented, described in a printed publication, or in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention; or

(2) the claimed invention was described in a patent issued under [section 151](#), or in an application for patent published or deemed published under [section 122\(b\)](#), in which the patent or application, as the case may be, names another inventor and was effectively filed before the effective filing date of the claimed invention.

We have had the phrase “on-sale” in the statute at least since 1952, before that even, so we’ve got 100 years of case law telling us what “on-sale” means.

What can “on-sale” include? It can include secretly using your method in your facility and then commercializing the product of your method. Are you entitled to apply for a patent after you have done that? Not if you have been doing it for more than a year.

When the AIA was passed, there were commentators who asked, “Now what does this allow us to do? It allows us to practice our methods in secret for as many years as we like, and then, when we see the industry catching up to us in technology, we file our patent application, because the phraseology in the new statute, AIA 102, says ‘patented, described in a printed publication, or in public use, on sale, or otherwise available to the public.’” Commentators suggested that by using the phrase “otherwise available to the public” that Congress intended the phrase “on-sale” to mean that the invention must be made publicly available. So now there is a potential sea change in the way we understand the phrase “on-sale.”

Of course, there are two sides to the argument. Some will say, “Looking at the other phrases in Section 102 of AIA, it indicates that it has to be public because they all have some sort of public touchstone to them — patented, publication, things like that.” But other people say, “The phrase ‘otherwise available to the public’ would be redundant then. Why would you have to say ‘otherwise available to the public’ if you’re already referring to things that are publicly available?”

So there are two sides to the argument about whether AIA Section 102 changes what we understand to be the meaning of “on-sale.” Now the *Helsinn* case is before the Supreme Court.

MR. KELLY: If the example is a company is practicing a process in secret, that is clearly not on-sale. Is it only when they sell products later in time that the on-sale bar would be triggered, or is the on-sale bar triggered when they are actually practicing the process in secret?

MR. MENCHACA: That’s a good question.

MR. KELLY: Please explain that.

MR. MENCHACA: Let’s look at a deeper example. If I am an inventor, I have my technology — let’s say my technology is making golf balls.

MR. KELLY: I like this example.

MR. MENCHACA: Two things happen. First, I figure out a way to use DuPont’s Surlyn® in my golf balls and I have a secret process for making the golf balls. Second, I sell the golf balls to whomever will buy them. They’re fantastic because they are better than the balata rubber golf balls that we used to have in the past — before I golfed, if you’d call it golfing. So I have this new process that I

See United States Patent and Trademark Office, [2152 Detailed Discussion of AIA 35 U.S.C. 102\(a\) and \(b\)](#) [R-11.2013].

⁵ [Oral Argument Transcript](#) (Dec. 4, 2018). See also Ronald Mann, [Argument analysis: Justices debate revised language in patent-priority statute](#), SCOTUSblog (Dec. 4, 2018, 7:50 PM).

invented and am practicing in secret and I am also selling the golf balls to the public, to a third person. The golf balls are what's called "non-informing public use." But the process is secret use because it's secret use to you. It's not prior art; it's just secret use. But, because I have been commercializing it by selling my golf balls, it is prior art to me, so it prevents me from getting a patent.

That's an example of what may or may not be allowable as commercial activity under the new statute. There are a lot of commentators who suggest that the concept of using a process in secret for many years and then filing a patent application later is going to be permissible.

And guess what? Whenever there is a case in front of the Supreme Court, both sides go to the Solicitor's Office and the U.S. Solicitor then listens to both sides. The parties try to sell their arguments to the Solicitor — "take my side," "take my side." Usually, when the Solicitor decides to weigh in on an issue — and usually it does on these patent law type issues — the Supreme Court tends to follow the Solicitor's Office's opinion because it's a non-interested third party and their job is to protect the United States.

In *Helsinn* the Solicitor is on the side that the phrase "on-sale" in the AIA statute has now a new meaning; it will permit people to practice the process in secret and, so long as the details of the invention are not publicly available, they will be able to get a patent later on.⁶

MR. KELLY: Just analogizing, given where we are on patent-ineligible subject matter in *Bilski*,⁷ *Mayo*,⁸ *Myriad*,⁹ and *Alice*, I don't have warm fuzzies about waiting for this *Helsinn* case to come out on on-sale bar and what the Supreme Court is going to do with it.

MR. MENCHACA: I will tell you what I think the Supreme Court is going to do with it. The Court has not affirmed a Federal Circuit case recently. They have reversed pretty much up and down the line.

MR. KELLY: Other than *Cuozzo*.¹⁰

MR. MENCHACA: Twenty years ago, in the *Pfaff* case,¹¹ they affirmed their ultimate decision, but they changed the whole test for on-sale bar, so they didn't really go with the Federal Circuit. Do I think the Federal Circuit got it right? I do think the Federal Circuit got it right because the public policy of the patent law is to promote early disclosures, and how are you going to promote early disclosure by letting someone do something in secret? I don't think so.

But what do I think the Supreme Court is going to do if the trend is the trend? I think they are going to reverse.

MR. KELLY: Anybody else following this case?

⁶ [Brief for the United States as Amicus Curiae Supporting Petitioner](#), *Helsinn Healthcare S.A., Petitioner, v. Teva Pharms. USA, Inc. et al.*, No. 17-1229.A (Sup. Ct. August 2018).

⁷ *Bilski v. Kappos*, 561 U. S. 593 (2010).

⁸ *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, USPQ2d 1969 (2012).

⁹ *Association for Molecular Pathology v. Myriad Genetics, Inc.*, 132 S.Ct. 1794 (2013).

¹⁰ *Cuozzo Speed Techs., LLC v. Lee*, 136 S.Ct. 2131 (2016).

¹¹ *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55 (1998).

AUDIENCE: Maybe I am wrong, but I have always understood the cases that you have been discussing as being not based exactly on the statute but on the policy of the statute. They talk about 102(b), but that was not the real basis of the decision. That was by analogy, if you will — at least the early cases; I don't know about *Helsinn* in particular. I would be somewhat surprised if the Supreme Court doesn't go in the other direction on that issue. But I guess we'll just have to wait and see.

MR. MENCHACA: A lot of the old cases said things about what I was saying. Then, in 1952, Congress tried to put words to some of the good feelings of some of the old cases into the Patent Act. One of those was Section 102(b), which they turned into the on-sale bar, which included some of the old cases. So I think it is statutory, in my view anyway.

MR. KELLY: Yes?

AUDIENCE [Hans Sauer, BIO]: I have heard that there are two aspects to *Helsinn*. What you said is absolutely right, that the Supreme Court will probably have to think about what the overall intent of this AIA provision is. I have also heard it said that Congress removed all geographic restrictions on prior art. The secret patent-barring activities that you talked about used to be patent-barring only if they occurred in the United States and only against the applicant who himself had engaged in that secret activity. That now will clearly change.

So the question is: Would Congress have wanted to keep secret prior art but make it global, or would Congress have wanted prior art to be global but only if it is publicly available? For many, the prospect of expanded, worldwide secret prior art is worrisome. We understand why people might be saying, "Did Congress really want to do away with [*Metallizing Engineering*](#)¹²?" We are somewhat of troubled by that.

But, at the same time, Congress clearly removed all geographic restrictions and it looks like prior art is going to be something that is more universally applicable against everyone. In other words, if your secret activities are prior art against *you* when you apply for patent, they would have to be prior art against other patent applicants as well, even if they couldn't have known what you were doing in the secrecy of your factory.

I think there are lots of moving parts and I've heard many people be very perplexed about this case. That is helpful and healthy because it makes people go back and query their own assumptions about what the AIA was supposed to do. Now, suddenly, we have this great diversity of opinion of what the AIA was supposed to accomplish after we all thought we had agreement.

MR. KELLY: What makes that even more complicated is now we have fake news. [Laughter] We are not even sure what's real, right?

David?

PROF. SCHWARTZ: I'm just thinking there's a bunch of different tools that the Justices can use to figure out what the resolution of a case is. I have been

¹² *Metallizing Eng'g Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516, 1946 U.S. App. LEXIS 3885, 68 U.S.P.Q. (BNA) 54 (2d Cir. Conn. Jan. 10, 1946).

involved in patents for a long time. I'm fully on-board with the idea that of course "on-sale" has to include secret sales. That's the way the system is set up.

But there are some newer Justices who might rely on the text of the statute more than on the purpose of the law or how the larger system operates. If you look at the text in isolation, the word "otherwise" coupled with other amendments that were made from the old 1952 Act could lead at least some of the Justices to feel that the law was changed.

MR. KELLY: Just that one word "otherwise" opens up a whole other door of rationale.

MR. MENCHACA: There are a lot of other people who are saying, "If Congress wanted to change the statute, they should have used a phrase other than 'on-sale,' which we have been using for a hundred years and know what it means. They should have just changed the language altogether." That's another thought.

MR. KELLY: I'm going to move on to a different topic, the other end of the lifespan of a patent. We have been talking about how we can invalidate a patent. I now want to go all the way to another important topic, which is normally at the end of a panel discussion, which is damages.

There have been a couple of developments in the damages law recently. I want to focus on the lost profits calculation in [WesternGeco](#).¹³ David, what do you want to share with us about the lost profit issue there?

MR. HAAS: Just a little bit of background. The patent owner sought lost profits on sales of some of its products a certain portion of which were made overseas from components that were sold in the United States to be incorporated into finished goods overseas. The Supreme Court vacated and remanded for a new trial. Essentially, they said that the patent owner in this case is allowed to seek lost profits damages for the sales that are made overseas based on the components that were sold in the United States because the act of infringement was the sale of the components by the U.S. entity.

I am not sure — it's a little bit unclear from the opinion — but the Supreme Court decision did talk about the main objective being to put the patent owner in the position it would have been in if the infringement had not taken place. That certainly fits into the lost profits realm.

It is silent on the question of reasonable royalty and whether there would be royalties due from foreign sales. I didn't see anything that would necessarily suggest that is the case. From at least my interpretation of the Supreme Court's ruling, it appears that they focused mostly on the question of whether the act of infringement in the United States, which was selling the components that were then incorporated into finished goods, harmed the patent owner; and, if the patent owner had the wherewithal and had the manufacturing and marketing capacity to have captured those sales overseas, this appears to be a part of a remedy that

¹³ *WesternGeco LLC v. Ion Geophysical Corp.*, 837 F.3d 1358 (Fed. Cir. 2016) (Wallach, J. dissenting), *cert. granted sub nom.*, *WesternGeco LLC v. ION Geophysical Corp.*, 138 S.Ct. 734 (2018), and *rev'd sub nom.*, *WesternGeco LLC v. ION Geophysical Corp.*, No. 16-1011, 2018 WL 3073503 (Sup. Ct. June 22, 2018), 2018 U.S. LEXIS 3842 (overruling prior law limiting patent damages to U.S. sales).

would be available to patent owners, which is a very favorable ruling for patent owners in the United States.

MR. KELLY: Based on your experience in damages law, even though this particular decision addressed lost profits, what do you think the future holds for calculations of reasonable royalties applying the rationale of this case?

MR. HAAS: It's really hard to say. I did not see enough in the decision indicating that it necessarily would require royalty payments. There are opportunities for the patent owner to seek a reasonable royalty on the sales of the components at the point of sale, at least to the foreign entity that is putting the parts together and selling them.

I defer to others in terms of their interpretations, but it seems to me that the ruling was written primarily as a method of demonstrating, or trying to demonstrate, the harm to the patent owner as a result of the activity. If the patent owner would have captured those foreign sales but for the infringement, that would seem to be an available remedy. I am not sure if it necessarily carries over to royalties at that end-product pricing level.

MR. KELLY: We'll have to see the shakeout in district court opinions working its way up.

MR. HAAS: I would imagine.

MR. KELLY: On the theme of overseas, I want to call on Judge Essex. Can you talk a little bit about the world IP issues and potential conflicts? We discussed a couple of cases, including [Unwired Planet v. Huawei](#),¹⁴ that deal with standard-essential patents. What did you want to share with the attendees today about what's going on in the world view with those cases?

JUDGE ESSEX: I think we are headed towards a massive collision.

In the court of first instance, Mr. Justice Colin Birss, a British judge, decided that there is only one fair, reasonable, and nondiscriminatory (FRAND) rate, and he could do it, and that would apply worldwide, and the Chinese wouldn't object because Britain has always treated them so damn well. [Laughter] So he set the global FRAND rate.¹⁵

MR. KELLY: They gave them back Hong Kong.

JUDGE ESSEX: That's right. I mean who could not think that was great? [Laughter]

Anyway, Mr. Justice Birss decision forbid the Chinese to do things in their territory within their jurisdiction in their courts.

At the same time, the United States has had a couple cases, including [Huawei v. Samsung](#)¹⁶ in California. The Chinese judges are not going to be very fond of that.

¹⁴ *Unwired Planet Int'l v. Huawei Techs.*, [2018] EWCA Civ 2344 (23 Oct. 2018).

¹⁵ *Unwired Planet Int'l v. Huawei, Techs.*, [2017] EWHC 711 (Pat) (5 Apr. 2017) (Birss, J).

¹⁶ *Hawaii Techs. Co., Ltd. v. Samsung Elecs. Co., Inc.*, Case No. 3:16-cv-02787-WHO, WL 1784065 (N.D. Cal., Apr. 13, 2018) (granting Samsung's anti-suit injunction application against Huawei, which enjoins Huawei from enforcing the injunction orders issued by the Shenzhen Intermediate People's Court in January 2018).

I think that we are going to get to a point where the officials in China are going to say, for instance, “We can set a worldwide rate and we can do it for England and we can do it for America,” and the Americans will say, “We’ll do it for China.” I think you are going to have a tremendous conflict with these things. And it’s not just China; I know the Koreans are very protective of their own law and so forth.

Quite honestly, I always tell people if I were going to write about standard-setting organizations and standard-essential patents, I’d start out by saying, “Standard-essential patents aren’t, standard-setting organizations really don’t, and the courts when they interpret this really are getting it wrong.” That would be my title, and I’d work on addressing the problems from there.

In my experience at the ITC, we have had about a dozen cases that involved patents that were alleged to use a standard. That’s the more proper term. There was one case where both parties agreed the patent fell into that category. That was [Apple/Samsung](#),¹⁷ and the U.S. Trade Representative took care of that. In the other cases, the ITC, after taking evidence from all the parties involved, has never found that a patent that was asserted as essential to a standard was in fact valid and essential to the standard. I think that is probably more the case than it’s not.

MR. KELLY: Why is that? Why have they not found it is both not valid and essential to the standard?

JUDGE ESSEX: I don’t know why in each case they were found not valid. But what happens is companies assert patents as reading on a standard and want to protect them because in most standard-setting organizations I’m aware of if a patentee does not declare a patent and it later reads on a standard, the patentee is denied enforcement of that patent. So if you’ve got a patent and you think it might be included in a standard, then go ahead and declare it because nobody tests it and it doesn’t do any harm to do that.

It can also be an advantage if you come to another company to negotiate and your heart is not pure. You might look say, “I’ve got 2000 patents of which 300 are standard-essential, so you better talk to me.” That can be a negotiating ploy. You’d never do anything like that, would you?

MR. KELLY: Not me.

JUDGE ESSEX: Other attorneys would, but not my friend.

It can be that you protect yourself and you can make your portfolio look a little bit more frightening to people to whom you might want to license. I think that’s probably why. Others may have additional reasons, but those are the ones that are obvious to me.

And yet, again, no one goes in and tests to see if they are really getting standard-essential patents, whether all these things have been declared part of the standard.

You don’t like the trolls very much. If I were a troll and I have a patent for which I can say, “Look, it’s also standard-essential,” I’m a scarier troll. It doesn’t

¹⁷ *In the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers* (Inv. No. 337-TA-794) Int’l Trade Comm’n (Aug. 31, 2016).

cost me anything. You just fill out the form. If you go to the European Telecommunications Standards Institute (ETSI) [website](#), you can download that form and do it. So you can make yourself scarier.

These things are happening. But I think because they have not set this regime up well, where everyone knows the consequences and how they are organized and have to settle between these standards, we are going to have an international conflict between jurisdictions, and I think rightly so.

MR. KELLY: Explain that. Do we have treaties in place where one foreign jurisdiction will recognize the decision of another jurisdiction with respect to setting these rates?

JUDGE ESSEX: If there are, I'm unaware of them. Mr. Justice Birss in England said: "There is only one FRAND rate, I will set it, and I'll set it for England and Wales and China and everywhere else." He told the parties that they didn't have to accept that, but if they didn't, they could not get a judgment in England.

There is no system to say what is in the fact the correct FRAND rate. To be perfectly blunt about it, a number of the standard-setting organizations have gone out of their way to make sure you don't have a system to do that.

One of the people who wrote the ETSI agreements told me that early in their history they had mandatory arbitration; so if you and I couldn't agree, we had to go to an arbitrator. They took that out. Their members made them take that out. I do not know why.

MR. ANAGNOS: The patent holders are in charge of the standard-setting organization, so the very ones that are submitting the technology are the ones that are the patent holders. Of course they want to have as much leverage as they possibly can to get as much as they can for their patents.

JUDGE ESSEX: That would make sense. But they have already promised to be fair, reasonable, and nondiscriminatory, so obviously you're wrong. They are good patents. You're mistaken.

MR. ANAGNOS: And their promise is worth?

JUDGE ESSEX: I don't know. I've never dealt with them.

MR. KELLY: I have a hypothetical here, so put your judge hat on. You are sitting on the bench and a ruling comes down from Germany that sets a rate. One party puts that rate in front of you and says, "You need to follow this rate." How do you handle that?

JUDGE ESSEX: Well, you would have to be a district court judge. I don't do damages at the ITC; I just keep things out of the country. [Laughter]

MR. KELLY: Well, a similar Article III judge.

JUDGE ESSEX: I cannot imagine any of the district court judges that I am aware of worth their salt would not say, "That's very nice that this German person thinks this. Now let's take evidence and I will set the rate because this is my courtroom, it's my jurisdiction, and if you mention that guy again, you'll be out."

So I would say if an American judge would say, "Oh, okay," the appeal would say, "We are entitled to this rate because Germany set it and your judge says Germany is the authority here." I can't see it happening.

We are all jealous little guys. If you take away my little jurisdiction here, then I don't have anything. So I am not going to let you do that if I can avoid it. I don't even like it when the court of appeals does that.

AUDIENCE [Jenna Hibbs, Hibbs Law LLC]: What about earlier this morning when they were talking about how those rates are often set by consent, so there was agreement of the parties?

JUDGE ESSEX: That happens and that has worked. I know Judge Robart and Judge Holborn very well. What happened in those cases is the parties came to them and said, "Here it all is, Judge. Take it."

In front of Judge Robart, didn't one of the parties try to take it back and there was an appeal?

AUDIENCE [Nicholas Groombridge, Paul, Weiss, Rifkind, Wharton & Garrison LLP]: There was an appeal.

JUDGE ESSEX: But they gave the judge the authority to basically do it all. The judges like that a lot, by the way. They were real tickled.

In that case it would be very simple if the parties are willing to waive a jury trial — that's the first thing, because if you get rid of the jury, then the judge can wheel and deal — and just let the judge make the decision. That's one of the reasons why I don't look at those two cases as very precedential, because without having a conflict and without having a jury it's kind of glorified arbitration. But if the parties do waive a jury trial, that is a solution, and everybody, theoretically, will walk away somewhat happy.

MR. KELLY: Any other comments or questions?

AUDIENCE [Annsley Ward, Bristows/IPKAT]: I want to make a clarification about the *Unwired Planet* case. First of all, Mr. Justice Birss, the judge at first instance, found there to be a single global FRAND rate. The "single" point was overturned on appeal.

JUDGE ESSEX: But they said it didn't matter.

AUDIENCE [Ms. Ward]: On these facts it didn't matter. But the Court of Appeal was very specific that in normal negotiating commercial practice there is rarely only going to be *one* rate that is FRAND; the Court of Appeal said there will be a range. I just want to make that clear.

They also said that only on the facts of this case — these specific cases, these specific parties, and the circumstances around it — would a global rate be appropriate. They kept coming back to the refrain throughout their judgment of "on these facts," — "on these facts and evidence before us it is appropriate that the terms of the licence be global, but that may not be the case for every other case that comes before the court."

So I don't want to give an impression that the English court is now always going to be or has improperly put themselves forward as the sole arbiter of FRAND disputes. They are only ever going to decide a global FRAND rate if it is appropriate on the evidence advanced by the parties and the circumstances of the case.

JUDGE ESSEX: I appreciate that. I'm familiar with them because I am a solicitor as well. They did say what you say they did. But the next set the facts are going to be relatively the same because England will be a subset, there will be a

British patent and a Chinese patent, and I can't see them saying, "Well, we were right then but we're changing it this time."

So I believe it's more alarming than you seem to feel. Now, time will tell which one of us is correct. But I think the fact that they stuck with saying Mr. Justice Birss could do everything he did, that they didn't set out where they wouldn't allow it the next time, means that the next judge can do it. At least that's my interpretation.

AUDIENCE [Ms. Ward]: That might be, but I think there are reasons for the Court of Appeal not going further and setting boundaries of what can and cannot be done. This was the first case of its kind to get to the Court of Appeal. There is another appeal coming up to the Court of Appeal where jurisdictional issues will be considered. That case, [*Conversant v. Huawei/ZTE*](#),¹⁸ is going to be heard in December. My personal view is that the Court of Appeal was being very careful not to create bright lines or a straitjacket that may inappropriately impact other cases with different facts. That is why the flavor throughout the Court of Appeal's judgment was "This case is being assessed like this on its facts and the other cases will be for another day and another assessment on which we won't be passing comment." So we'll see what happens as more cases go through the courts.

MR. KELLY: I think this would be a great conversation between you two at the cocktail hour.

Reggie has been really quiet. I'm not going to let that happen anymore. We are going to switch subjects. I know you wanted to chat about the interactions between the district courts and the Patent Trial and Appeal Board (PTAB). One case we discussed is the [*Click-To-Call Technologies \(CTC\) v. Ingenio*](#) case.¹⁹ What did you want to share about that interaction between the district courts and the PTAB?

MR. HILL: I did want to talk about some of those topics. In all fairness, I do have a lot to say, but I don't necessarily have to say it all and prolong this.

How many people practice in the PTAB in these AIA reviews and inter partes reviews (IPRs) and so on?

[Show of hands]

I see a few hands. Good.

I do some of that, usually in corollary with district court litigation, which is, I think, the way that most people end up in that practice. I've been noticing a few things that I thought were noteworthy to talk about if you practice in those particular areas.

Adam's right. One was the *Click-to-Call* case, which was basically about the time-bar with respect to bringing IPRs.

I should start by saying, if you're not familiar with this practice, basically you have one year from the time that you are sued in district court to file a peti-

¹⁸ *Conversant Wireless Licensing S.A.R. L. v. Huawei Techs. Co. Ltd, Huawei Techs. (UK) and ZTE Corp.*, [2018] EWHC 1216 (Ch) (Carr, J.) (holding that Conversant should be entitled to ask the UK court to set terms for a global FRAND license, rather than a license that was limited to the United Kingdom).

¹⁹ 899 F.3d 1321 (Fed. Cir. Aug. 16, 2018) (en banc).

tion for an IPR review. Initially, the PTAB in construing the statute had determined that if, for example, a lawsuit had been brought and it had been dismissed without prejudice at some point, they treated that dismissal without prejudice as if the complaint had never been filed. They had a number of decisions following that interpretation.

When this issue reached the Federal Circuit in this *Click-to-Call* case, the Federal Circuit took a strict construction that was the opposite of the way that the PTAB had in the case. They said that a dismissal without prejudice did not negate the fact that the plain language of the statute said one year from the filing of the complaint; therefore, there is no significance to a dismissal without prejudice at some point down the road. This means that those of us who practice both in the district courts and at the PTAB need to be aware in a lot of instances of this particular change because it has an effect, obviously, on when you can bring a case.

It also has an effect on how you settle cases, whether you settle a case or resolve it without prejudice, because in settling a case you now may be giving up your opportunity to challenge that case in the PTAB. For example, if the patent is asserted against different products or something of that nature going forward, then you may be estopped from bringing an IPR action because there was this earlier lawsuit. That was one of the issues that I have come across — I don't know whether other people have come across that in their practice — that practitioners should be aware of.

MR. KELLY: It happened to me in [*Trading Technologies v. CQG*](#).²⁰ CQG had filed a declaratory judgment action of noninfringement and invalidity in Colorado. Two days later, Trading Technologies sued CQG in the Northern District of Illinois Eastern Division. CQG voluntarily dismissed the case in Colorado and then the suit was filed here. So, fast-forward, they filed an IPR — or tried to — and the PTAB denied it because it was time-barred. At the time it was the only decision that had been decided that way. Of course, it's not precedent, you can't follow it, but we got stung by it. So I know the issue well.

MR. HILL: I think it's an interesting issue. It's also subject to some gamesmanship. I don't know that there was gamesmanship in your case because you withdrew the action.

MR. KELLY: No, on neither side.

MR. HILL: But you can have a situation where someone brings a lawsuit. I know a number of my clients are reticent to pursue some type of IPR review unless there is an actual litigation going on. Therefore, the dismissal of a lawsuit might provide some impetus just to drop the issue. But, in fact, if you do that you may be waiving some rights or waiving your ability to go forward in the future.

I thought it was interesting that the statute is just based on the assertion of the patent and has nothing to do with the products that are at issue in the litigation. So you need to look closely if a patent is asserted against you and you have a position with regard to one set of products but there are other products that you are contemplating down the road.

²⁰ Civil Action No. 05-CV-4811 (N.D. Ill. Apr. 20, 2015).

MR. KELLY: Based on your understanding of this issue, the claims that you assert in the action — I'll just make up a hypothetical — you assert certain claims A and B in an action; it is dismissed voluntarily; then you try to have a second action with different claims. Does the fact that there are different claims impact the one-year estoppel or time bar, or do you even know?

MR. HILL: You'll have to pay me more if you're going to ask me questions like that. [Laughter]

The statute itself doesn't talk about claims. I think that's one of the issues. Given the strict interpretation the Federal Circuit took, at least in this particular instance, I think you act at your peril if you think you've got some means of getting around this based upon claims.

MR. KELLY: I'm curious. Has anybody in the audience also dealt with this one-year time-bar issue for filing IPRs?

[No response]

No one? Alright, we'll move on to a new topic then.

MR. HILL: That was totally uninteresting.

AUDIENCE [Gene Quinn, IPWatchdog]: It is very interesting because this is a topic that comes up. There is another topic associated with the "anchor petitioners."

MR. KELLY: "Real party in interest" I think is the issue you're talking about.

AUDIENCE [Mr. Quinn]: What I have been told has happened — it's hard because the PTAB make it difficult to find their cases. The best depository of documents is Unifiedpatents.com, but it has limited searchability — is there have been cases where a party has not been able to file because they did not come in within the one year and they were refused. Then the patent owner sued another party and that party did file within the one year, but the party that was previously barred then came in and said, "The PTAB let that previously barred party join." Then the first party will settle and leave and the second party who is barred stays. So the anchor becomes the one party who was there that was not barred, and then the party who was barred continues all through the case.

That can't be with the statute of limitation. So I think this is going to become a big issue.

MR. KELLY: You can quote me on this. You should call that "the PTAB do-si-do." [Laughter] That's exactly what it is.

MR. HILL: It's interesting. I've used the do-si-do before in my practice. [Laughter]

MR. KELLY: Who hasn't do-si-do'ed in here?

MR. HILL: I think that is actually called out specifically in the statute. The only exception to the one-year bar is that it does not apply to those situations when a party petitions to join a currently pending IPR proceeding. The statutory provision allows that.²¹

AUDIENCE [Mr. Quinn]: I don't know. Certainly joinder is.

²¹ 35 U.S.C. 315(b).

MR. HILL: Joinder is the only way you get it. There has to be an existing case for you to join to be able to get joinder.

AUDIENCE [Mr. Quinn]: Correct. But I think there are open questions. This probably needs some discussion over a cocktail.

MR. HILL: There is a policy issue. Experientially, my experience with it, at least early on, is that they did tend to allow those types of joinders in the PTAB.

But there are a lot of things that are changing in the PTAB that people should also be aware of, including their discretion to take certain cases, including the “real party in interest” issue, which is related, but only tangentially related.

There has been a recent [SiriusXM](#) case²² where a parent company was not joined as a petitioner and they thought they should have been joined as a petitioner. It effectively made the petition time-barred at some point because they couldn't go back and correct the initial error.

There have also been some cases with respect to RPX and inter partes review and the real party in interest. If any of you or your clients are a party in an RPX, you really need to go back and take a very close look at those cases in which there has been a change in the totality of the circumstances that are looked at. The troubling thing for me about it in some ways is the predictability — or the unpredictability — of it, because a lot of it is still at the discretion of the PTAB and we don't exactly know where they are going to come out on some of these issues.

Those are some percolating issues that deal with PTAB and district court litigation about which practitioners should be concerned.

Also, recently there was a repeat petition that was denied because the trial was imminent, and they used their discretion not to institute the IPR.²³ This is a new tactic, to actually look at the case schedule of the district court litigation.

So there are a few things going on there that people should be aware of and changes in the PTAB.

MR. KELLY: I'm going to switch subjects again. Professor Schwartz, you use the term “patent privateer” in association with the research and analysis that you are doing. What is a patent privateer and what are you finding?

PROF. SCHWARTZ: Let me say that a privateer outside the patent context, in the historical context, was when the Crown would allow other ships, like pirates, like mercenaries, to attack ships and they had to give a percentage of the money back to the Crown. It was like a private navy that the king didn't control but that did benefit the Crown and did give money back to the Crown.

When we look at it in the patent context, a patent privateer — this term was coined by Tom Ewing, a consultant in San Francisco — it's where an operating company, a manufacturing company, takes some of its patents and it assigns them to a nonpracticing entity (NPE) but it has some sort of a backend arrange-

²² [Sirius XM Radio Inc. v. Fraunhofer-Gesellschaft Zur Förderung der angewandten e.V.](#), No. 1:2017cv00184 - Document 171 (D. Del. 2018).

²³ [NHK Spring Co. Ltd. v. Intri-Plex Techs. Inc.](#), Case No. 3:2017cv04685 (N.D. Cal. Filed Aug. 14, 2017).

ment where it gets a percentage of the recovery. That is what I have been doing some research on.

There are two theories here. One theory is it is manufacturers that are using the patent system to impose costs on their rivals by bringing frivolous lawsuits and they are doing it through this intermediary. There is a different theory, which is that these privateers are neutral profit-maximizing businesses that are trying to acquire valuable assets and give some exit value to innovators. There is no real research on which of those two stories is more correct, so I and some co-authors decided to try to do a little empirical investigation into this.²⁴

MR. KELLY: How do you do that? How do you even identify these companies and then try to figure out what their rationale is?

PROF. SCHWARTZ: That's the difficulty. Partially, but probably, the main reason there hasn't been any research into this is because these backend deals are for the most part all confidential.

We scoured the public press for as many examples as we could find that were reported through litigation records or otherwise as being these kinds of privateer relationships. We found about twenty-five companies, which we concede is not the full universe of companies, nor do we know how representative they are, but they are all that we can find.

Then we gathered all the litigation records, all the assignment records, all of the demographic information about patents that are publicly available, including the number of claims, how big the patent family is, how many prior art references they cited, and other tools that economists use. One of those that I think is noteworthy is how many words are in the first claim of the patent. I think, on average, the shorter the claim the broader the scope — that's at least the thinking.

Then we compared these privateer patents to other litigated patents and to unlitigated patents. We found that the privateer patents don't look a lot better than average litigated patents, but they look like litigated patents, which in general have more claims and bigger families and cite more prior art and are cited more often than unlitigated patents.

MR. KELLY: You say "look like," meaning they appear to have robust claims, disclosure, thorough examination?

PROF. SCHWARTZ: No. I wish we could get into that level of detail. We have looked at the objective metrics that economists look at: the number of claims, the number of citations of prior art, the number of words in the first claim — things like that. On those metrics they look like litigated patents.

The last thing that I would add is that we do find that they litigate later on average than other litigated patents. That could be because the assignment process takes time, or it could be because people are waiting for damages to accrue before asserting the patent.

MR. HAAS: What would be the benefits to an operating company of going that route as opposed to just filing suits itself?

²⁴ See Jay P. Kesan, Anne Layne-Farrar & David L. Schwartz, [Understanding Patent 'Privateering': A Quantitative Assessment](#), J. EMPIRICAL L. STUD. (forthcoming 2018).

PROF. SCHWARTZ: It could be that there are no counterclaims. It could be that there is some plausible deniability that they control the NPE. There could be some reputational damage from asserting claims, especially if they were asserting them against smaller people in the supply chain.

MR. HILL: I had one instance where a supplier to one of my clients was effectively controlling the patent and was suing the client. They were using this operating company to hide the fact that the supplier was actually suing its customer.

MR. KELLY: That is dirty. [Laughter]

AUDIENCE [Mr. Quinn]: That's what AT&T did.

MR. KELLY: Rockstar Consortium, which was created by Ericsson, Apple, Microsoft, RIM, and Sony, bought 4,000 Nortel networks patents.

AUDIENCE [Mr. Quinn]: That was transparent, though. What AT&T had done to start with was they did that very same thing at the very beginning of the patent troll era. They were siphoning off their patents and giving them to trolls. They said, "Oh, we don't sue," but they were giving them to others to go and sue.

JUDGE ESSEX: I think also if you do that, then the company that is suing doesn't have much that is discoverable, and you can get some asymmetric warfare going.

MR. KELLY: Absolutely you can.

JUDGE ESSEX: That's one of the advantages that I've heard about.

MR. KELLY: We are at the end of our time. Are there any comments or questions from the audience?

AUDIENCE [Mr. Sauer]: When the privateers were caught, were they hung as pirates or were they treated as prisoners of war?

PROF. SCHWARTZ: I have no idea.

JUDGE ESSEX: England was famous for that. Basically, if the privateers were caught, they were on their own. Her Majesty said, "I don't know these people. I never heard of them."

AUDIENCE [Mr. Sauer]: So they were killed?

JUDGE ESSEX: Well, that depends on the benevolence of the people who caught them.

MR. KELLY: Let's give a hand to our panel.