

INTELLECTUAL PROPERTY AND TECHNOLOGY NEWS

Perspectives • Analysis • Visionary Ideas

AN INTERVIEW WITH

DAVID
KAPPOS

UNDER SECRETARY OF COMMERCE
FOR INTELLECTUAL PROPERTY AND
DIRECTOR OF THE USPTO

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EDITOR'S COLUMN FIXING A BROKEN SYSTEM



Brent K. Yamashita
Partner, Patent Litigation

I have practiced patent litigation for over a decade now. Like many others, I have come to realize the system is broken in many ways. In the litigation context, we deal with the perverse reality that it often makes economic sense for a defendant to settle a frivolous patent case by paying a portion of the cost it would incur in continuing with the lawsuit. Hence the prevalence of patent trolls. This aspect of patent litigation, more than any other, has spurred the need for legislative reform.

The emergence of false marking trolls in response to the *Bon Tools* decision (discussed in the Q1 2010 issue of *IPT News*) was seen by many observers as another instance of the patent laws going awry. Numerous parties currently are urging district courts, as well as the Federal Circuit and Congress, to nip that development in the bud.

A few years ago, I began performing patent prosecution in addition to litigation. This exposed me to other facets of the patent system in need of improvement. The most striking to me is the length of time it takes to obtain a first response from the Patent and Trademark Office after the application is filed, and the tremendous variability in that waiting period seemingly dependent upon the individual Examiner and the subject matter of the application (for instance, the wait is longer for software applications). The PTO has a notorious backlog. There are other problems that patent prosecutors would like the PTO to fix.

On this front, hope abounds. David Kappos, the new director of the PTO, has begun some serious reforms in the way the PTO conducts its business. We had the honor of hosting Director Kappos for a presentation at DLA Piper's Silicon Valley office.

He has an ambitious goal of changing the PTO in ways both large and small. In this issue, we provide you with some highlights of his presentation as well as an interview with him.

We all know the system, however defined, can be improved. It is refreshing to see the efforts being made by Director Kappos and many others (including some of our readers) in changing things for the better.

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DLA Piper
completed nearly
500 venture capital
transactions last
year, ranking 2nd
in the world.

By Mike Krenn

To speed growth, most emerging growth companies need to nail down two areas. The first is technology that differentiates them in the marketplace. The second is access to capital. DLA Piper has world-class solutions to help clients in both areas.

First, whether it's helping startups or spinouts, our Intellectual Property and Technology practice is on the cutting edge in helping companies identify, protect and then, most important, leverage their technology assets. One critical aspect most VCs look for in deciding whether to proceed with a deal is whether the company offers differentiating technology and whether there are barriers to entry in that space. DLA Piper's IPT group works adeptly to lock up broad-based patent coverage, whether it be solely in the US or globally. It is often the key factor in getting a deal financed.

Once the company is well positioned from an IP perspective, DLA Piper provides its emerging growth clients with another invaluable service: our Venture Pipeline program.

TAPPING INTO OUR VENTURE PIPELINE

Emerging growth clients need more than just advice to grow and build their businesses. They need capital, and, in particular, that first round of venture capital. That's why, almost ten years ago, DLA Piper launched its Venture Pipeline group.

Venture Pipeline's mission is straightforward and focused – helping DLA Piper's early-stage clients raise money. We network extensively with VCs across the country and have built a proprietary database with information on more than 500 venture funds. We advise hundreds of technology startups every year, actively engaging on matters such as market strategies, finance and management issues. We are knowledgeable across the technology spectrum, working with companies in clean tech, software, new media, communications, life sciences and beyond. We know what gets funded, and what doesn't.

Tightly integrated within our entrepreneurial global organization, Venture Pipeline is able to leverage a vast network, with extensive tools to help startup companies raise capital and develop global markets. The service is free of charge to DLA Piper clients.

"There are a lot of firms that say they can help you raise money,"

said Cliff Boro, CEO of Kidzui. "But there is nothing like the Venture Pipeline group. It's a no brainer. It's all they do. They counsel hundreds of companies every year. They have their own venture network, plus the network of an additional 1,500 DLA Piper lawyers. Their advice was dead-on solid, and their introductions were right on target. They helped us raise over \$8 million in capital for our software company. I recommend them unequivocally."

As a result of its success, the Venture Pipeline group has established deep relationships in the investment community. Says Jordan Glazer, the CEO of Eventful, "The Venture Pipeline group is absolutely unique among firms. When we went out to syndicate our B round, we brought them in. They worked with our Series A investor (a top tier VC with over \$4B under management), and together built a targeted VC list. We give our VC credit for working with them. And in the end, it was the introduction from our friends at Venture Pipeline that secured us our B round."

To learn more about Venture Pipeline, please visit www.dlaventurepipeline.com.

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The circumstances of every matter are unique. Prior results do not guarantee a similar outcome.

ようこそ

Does This Look Different to You?

To some of you, there will be nothing different about this edition of the newsletter. But some of our readers will find this newsletter quite different. Those in Japan will be reading this edition in their own language for the first time. It is part of our IPT group's worldwide effort to focus on how events in one area of the world impact clients in other areas. Presenting the most current information on important developments in the USPTO in a translated version to clients and potential clients in Japan is also part of our continuing effort to integrate our IPT practice worldwide.



John Allcock
Partner
Global Co-Chair and
US Chair, Intellectual
Property and Technology

IP strategy and protection can no longer be viewed solely through the lens of a single country. The patent systems in a number of countries (some of which have been the subject of articles in this newsletter over the last year) are changing and becoming more patent friendly and user friendly. It now takes only about a year to go to trial in the UK – that is a rocket docket. Remedies and other aspects of the law are becoming more patent holder friendly in Japan. Enforcement activity has increased in China. We have reported on current IP developments in Germany in a number of issues in the last year. The same types of change are occurring in other countries in Europe.

So it is fitting that this edition – which looks at changes in the patent office in the largest economy in the world – is, for the first time, available in the language of another world leader in industry and technology.

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BILSKI

At the time this edition went to press, the United States Supreme Court had not yet issued the *Bilski* decision. We will post our analysis of the case soon after the decision is rendered, at this URL: www.dlapiper.com/us-supreme-court-rules-on-bilski/

USPTO DIRECTOR DAVID KAPPOS SPEAKS AT DLA PIPER

By Andrew B. Schwaab

Speaking recently at a breakfast briefing in DLA Piper's Silicon Valley office, David Kappos, Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, addressed a group of approximately 80 IP lawyers to discuss patent reform and his ambitious agenda for improving the USPTO.



Director Kappos speaks to a group in our Silicon Valley office

Director Kappos began by explaining ways in which the USPTO is addressing the problem of examiner retention and hiring. Every month, he explained, approximately 30 examiners are lost through attrition and funding and USPTO incentives have been insufficient to replace them. Existing government restrictions also prevent the USPTO from hiring examiners who live outside the Washington, DC area. New initiatives to hire experienced practitioners, such as former patent examiners, have met with success, but the agency is still shrinking. Director Kappos indicated that efforts to expand the examining workforce nationwide are under way.

He next discussed a variety of new programs designed to reduce

the USPTO's growing backlog and pendency problem. More than 700,000 patent applications on file have not yet been reviewed by an examiner. The average pendency period before examiner review has risen to about 35 months. One of his first acts, he said, was to modify the reward or "count" system used by the USPTO to measure examiner performance. Many patent prosecutors believe the count system encouraged

examiners to prolong examination rather than identify allowable subject matter. Director Kappos said the new system emphasizes greater communication with innovators, especially early in the prosecution process.

He explained that the pre-first action interview program is

significantly increasing applicants' chances of early allowance. Under this program, applicants must participate in a mandatory interview prior to entering formal examination. During the interview, applicants and examiners discuss the invention and the patentability of the claims to provide greater focus for the first Office action. Overall, applicants using this program are about six times more likely to receive a Notice of Allowance as the first action on the merits.

Director Kappos then spoke about "project exchange," a new process allowing certain small-entity applicants who willingly abandon one application to expedite another, unexamined application. In the ensuing lively discussion,



Director David Kappos

audience members asked about nuances of the program and voiced many concerns. While noting and responding to these questions, the Director explained that applicants' use of this program is growing.

Director Kappos also indicated that applicants taking advantage of the Green Technology Pilot Program (see *IPT News*, Issue 5, Q1 2010) have reduced pendency by about 12 months. This program, limited to 3,000 applications, expedites the examination of certain green technology patent applications. The USPTO has already processed more than 1,000 requests, so he encouraged those interested in using this program to act quickly.

He also discussed the scope of the General Public License, lawsuits in the European Union and the effect of the ALI Principles of the Law of Software Contracts. Director Kappos appears to have made significant strides toward achieving his goals in improving the work of the USPTO. We look forward to reporting on his continued successes in future issues.

The event was co-sponsored by the San Francisco Intellectual Property Law Association.

Based in DLA Piper's Silicon Valley office, Andrew B. Schwaab focuses his practice on intellectual property counseling and patent prosecution. He is the president of the San Francisco Intellectual Property Law Association. Reach him at andrew.schwaab@dlapiper.com.



TM

By Heather Dunn

Colors, shapes, smells, configurations and packaging are all examples of non-traditional trademarks. As with traditional word trademarks and logos, owners of non-traditional marks can register them with the US Patent and Trademark Office and establish an exclusive right to use the marks. One familiar example is the “Purple Pill,” Nexium.

Non-traditional marks can be protectable forever, as long as they are used and cultivated. However, particularly in the pharmaceutical field, these

at a non-reputation-based disadvantage. That is, there is a competitive need to use the color pink for wound dressings.

Functionality is the most significant hurdle to overcome in establishing a protectable pharmaceutical mark: consumer safety and policy considerations not present in other fields often play a role. For example, a drug feature increasing patient safety and compliance may very well be functional.

The Trademark Trial and Appeal Board held that orange flavor was functional for an antidepressant

favoring therapeutic generic drug equivalents generally weigh against a company’s interest in pursuing an exclusive right to its unique or creative product configuration or feature.

“Acquired Distinctiveness” is Sometimes Required

The unanimous United States Supreme Court decision in *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205 (2000) held that product designs must always acquire “secondary meaning” to be protectable as exclusive marks. Consumers must come

It is not unusual for an acquired distinctiveness claim to fail primarily because product advertisements do not include “look for” elements highlighting the claimed mark. For example, widespread commercials suggesting “ask for the square green tablets” can shore up a distinctiveness case. The existence – and absence – of such advertising weigh heavily in assessing acquired distinctiveness. Thus, including high-profile “look for” advertising in an advertising plan is a sound strategy in developing a protectable mark.

Planning is Key

Non-traditional marks can be strong product differentiators, but they may not come easily. The pharmaceutical field faces heightened functionality and policy considerations; also, the time from product development to market can be long. Because the implementation and development of non-traditional marks also can be a long, costly process, it is important to first ask whether the prospective mark has potential for success as a source identifier for the product. To move forward intelligently with a non-traditional pharmaceutical mark, one must look to the state of the law and then implement a branding strategy custom tailored for the desired mark. A well-selected, non-traditional mark has potential to foster strong consumer recognition and loyalty. Proceeding with forethought and a careful plan will be key to establishing such a mark in the pharmaceutical field.

OBTAINING NON-TRADITIONAL TRADEMARKS IN THE PHARMACEUTICAL FIELD

valuable marketing tools can be difficult to develop and maintain. Some would-be marks are simply not protectable. Companies planning to adopt and develop a non-traditional mark should carefully assess its potential for success under the law of non-traditional trademarks.

Marks Must Be Non-Functional

Functional aspects of products or packaging are never protectable as marks. A feature is functional as a matter of law if it is “essential to the use or purpose of the device or when it affects the cost or quality of the device.” *TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 33 (2001). The color pink was deemed functional for surgical wound dressings because pink blends with some skin tones and falls within the scope of being “flesh colored.” *In re Ferris Corp.*, 59 U.S.P.Q.2d 1587 (TTAB 2000). Exclusive use of pink by one party would put competitors

because it improves taste, which in turn increases patient compliance. *In re N.V. Organon*, 79 U.S.P.Q.2d 1639 (TTAB 2006). In *Shire US Inc. v. Barr Laboratories Inc.*, 329 F.3d 348 (3d Cir. 2003), the Third Circuit found blue and orange color-coded round and oval Adderal pills used to treat ADHD were functional and, therefore, not protectable. Evidence showed ADHD patients tend to select proper pill dosage using clear visual cues, such as shapes and colors – features that increased patient safety and compliance.

Other public policy considerations come into play when a company offering a branded drug claims that a similarly styled generic infringes on the branded drug. In fact, this was the context of the Adderal case. That court found the record to show that general patient safety and compliance are positively impacted when generic drugs look like branded drugs. Further, federal policies

to associate the design with a particular product from a single source. The success of a secondary meaning or “acquired distinctiveness” claim depends on how long the claimant has exclusively used the claimed features and the strength of promotional expenditures as well as the nature of the advertising. Five years of exclusive use increases the chance a product feature will be found distinctive. With extraordinary sales and promotions, a mark could acquire distinctiveness sooner.

Distinctiveness is the second hurdle product configuration marks must overcome to establish protectable status. Non-functional product design marks are not automatically protectable and must ultimately be substantiated. Because a claim will generally fail without strong sales figures and advertising expenditures, it may take many years after a drug is introduced in clinical trials for it to acquire distinctiveness.

Heather Dunn, an associate in DLA Piper’s San Francisco office, focuses on domestic and international trademark prosecution and counseling, anti-counterfeiting programs, advertising and promotions, intellectual property and art law. Reach her at heather.dunn@dlapiper.com.

T. A. EDISON.
Electric-Lamp.

No. 223,898.

Patented Jan. 27, 1880.



AN INTERVIEW WITH

DAVID KAPPOS

UNDER SECRETARY OF COMMERCE
FOR INTELLECTUAL PROPERTY AND
DIRECTOR OF THE USPTO

After David Kappos spoke at DLA Piper's Silicon Valley office on March 1, 2010, Andrew Valentine (US Co-Chair of Patent Litigation and Managing Partner of our Silicon Valley office) had an opportunity to sit down one-on-one with him for an interesting Q&A session.



Witnesses

Charles Smith
Geo. T. Pinckney

Inventor

Thomas A. Edison

per Lemuel W. Ferrell

cut

IPT: Thank you for agreeing to be interviewed for DLA Piper's Intellectual Property and Technology News. You have been on the road a lot meeting with people in the high tech community. How has that been going?

Kappos: Very well. I try to meet people everywhere I go, which is all over the US. I meet with bar groups, independent inventors, companies, individuals. I enjoy listening to their perspectives, and the people I've met have already given me a lot of great ideas on how to help make the US a vehicle for innovation. I enjoy hearing from the US innovation community about what it is we need to do at the PTO in order to enable Americans to turn their innovations into jobs, put Americans to work, and create new products and services that make Americans healthier and bring wealth creation into the marketplace.

"Innovation is where the action is, and the only thing that protects innovation is patents. That makes patents the currency of our global innovation economy."

IPT: What has it been like joining the public sector after being at IBM so many years and running its IP department?

Kappos: In most ways, it has been very, very smooth. One of the deputies at the Agency had a great comment in a speech a while ago. She said that due to my long tenure in the system, when I started at the Agency it wasn't like I had to hit the ground running, it was like I was dropped out of the chopper shooting. [Laughing] I thought that was well put. I have been a member of the IP community for a long time, so the learning curve was not too steep.

IPT: One thing on a lot of people's minds is economic recovery. Do you view the PTO as having a role to play in that process?

Kappos: Absolutely. The PTO is the sleeping beauty of our economy. One of my jobs is to make that more apparent to policy makers, the public, the business sector and the world. The PTO is not just in the business of examining and granting patents and trademarks. The PTO is in the business of putting Americans to work. It really is our country's innovation agency.

"The PTO is the sleeping beauty of our economy. One of my jobs is to make that more apparent to policy makers, the public, the business sector and the world. . . . The PTO is in the business of putting Americans to work."

IPT: What do you view as the PTO's role in the global economy given the globalization of manufacturing and innovation?

Kappos: I view part of my mission as exerting PTO and US policy leadership over all aspects of the intellectual property system on a global basis. Innovation is where the action is, and the only thing that protects innovation is patents. That makes patents the currency of our global innovation economy.

IPT: Have you incorporated Internet tools in spreading your message?

Kappos: Yes. I have a blog.¹ It is a great way for me to communicate my thoughts on important issues. I believe I am the only appointed official at my level to blog.

IPT: You are testing out a new program relating to green technology and clean tech patents. Tell us about it.

Kappos: We have unveiled an exciting new initiative to drive innovation in the green technology sector, create new jobs, and increase US competitiveness in green technology. The initiative is a pilot program designed to reduce the average processing time of green technology patent applications. Through this program, existing applications for inventions that materially contribute to environmental quality, discovery or development of renewable energy resources, more efficient utilization and conservation of energy resources, or greenhouse gas emission reduction are eligible to be examined on an accelerated basis. The pilot is open to the first 3,000 applications for which a proper petition is filed. If successful, we hope to expand the

program down the road. [Note: On May 21, 2010, the USPTO announced the expansion of the program to include more types of green inventions.]

IPT: What do you wish in-house and law firm practitioners better understood about the PTO?

Kappos: Communication is key. I'm spending a lot of energy encouraging and setting up new systems and metrics to make it easy and desirable for examiners to engage with applicants whenever it is apparent that a conversation can add value. It is the PTO's job to help applicants find patentable subject matter if there is patentable subject matter, and to get valid and enforceable patents processed as quickly as we can. That involves outreach. Just as I encourage patent examiners to reach out to applicants, I encourage both in-house attorneys and law firm practitioners to reach out to their counterparts at the PTO any time a core issue relating to an application arises and have honest discussions about what matters.

IPT: So, on another subject...the President gets to pick out a piece of art from a Smithsonian gallery to hang on the wall in the Oval Office. Does the Director of the Patent and Trademark Office get any similar privilege?

Kappos: Yes. I get to pick out a patent model to display in my office.

IPT: Which patent model did you pick?

Kappos: [Smiling] The original patent model for Edison's light bulb.

1. The Director's blog is www.uspto.gov/blog/director/

WHAT YOU DON'T KNOW CAN HURT YOU:

THE NEW “DELIBERATE INDIFFERENCE” STANDARD FOR PATENT INDUCEMENT

By Aaron Fountain and David Alberti

The United States Court of Appeals for the Federal Circuit recently held that a defendant that did not actually know about a patent could nevertheless actively induce infringement of that patent.

Under 35 U.S.C. § 271(b), active inducement requires specific intent to cause infringement. Despite this high standard, in *SEB S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360 (Fed. Cir. 2010), the Federal Circuit held that “deliberate indifference” to the existence of a patent satisfies the knowledge component of specific intent.

Because this holding effectively lowers the culpability requirement, companies should consider taking steps to ensure unknown patents cannot give rise to a finding of specific intent. A freedom-to-operate study can be an effective tool in rebutting the specific intent requirement of an inducement claim.

THE RISING TIDE OF ACTIVE INDUCEMENT

In *SEB*, the defendant argued it could not be liable for active inducement because there was no evidence it actually knew of the asserted patent, reasoning that such knowledge is an absolute prerequisite to a liability finding under *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006) (*en banc*), which held that inducement requires specific intent to cause patent infringement and not just intent to cause the acts constituting

infringement. The Federal Circuit rejected this argument, reasoning that *DSU Medical* did not directly address the knowledge requirement and holding that “deliberate indifference” can provide requisite knowledge.

Notably, although the defendant had obtained a freedom-to-operate study from counsel before releasing the product to market, the defendant had purposefully refrained from informing counsel it had copied the patentee’s unmarked product. The defendant also failed to offer evidence that it “actually believed that a patent covering the accused product did not exist.” These factors contributed to the court’s determination the deliberate indifference standard was satisfied.

RECOGNIZING DANGEROUS WATERS

From a practical standpoint, the deliberate indifference test creates an obligation to *address* rather than *disregard* overt risks, meaning those risks must first be identified. Carefully assessing current or planned activities in a particular market is invaluable. Issues to consider include:

Is a New Product Designed to Compete with a Specific Existing Product?

This was precisely the issue in *SEB*; thus, companies developing new products to compete with a specific product or feature may wish to investigate the potential

patent protection for that product or feature.

Will a New Product Launch in a Crowded Market?

This is likely to be the next fight in the post-*SEB* world. *SEB* suggests that where existing market participants are familiar with the patent system, patent protections for existing products may be more likely. Accordingly, acquiring specific knowledge of existing market participants and their patent strategies (if any) may help identify unknown risks.

Has the Company Conducted a Competitive Analysis?

Competitive analyses conducted during project planning or design and development are useful to identify zones of uncertainty or the likelihood of overt risks. Similarly, a list of competing products analyzed can be an important guide to overall risk.

TAKING REFUGE UNDERWATER

SEB’s deliberate indifference standard creates a zone of uncertainty: how can you ameliorate risks within that zone? Freedom-to-operate or product clearance studies can be effective tools to show a company possesses good-faith intent to market a product without infringing another’s patent rights.

While the defendant in *SEB* obtained a freedom-to-operate study, it was fatally flawed

because crucial information was held back. Companies may avoid this problem by reference to the now-defunct affirmative duty of care standard from *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983). The law of willful infringement defined by *Underwater Devices* imposed an affirmative duty of due care on potential infringers, including an obligation to obtain competent legal advice from counsel. Reading *SEB* in view of *Underwater Devices* and its progeny reveals several principles that may assist in effectively rebutting *SEB*’s deliberate indifference standard.

Conduct a Freedom-to-Operate Study Beforehand

To be most effective, a study should be obtained prior to commencing the activity, so that results may be deployed by the company in setting its course. When knowledge of a patent is acquired after the potentially infringing activity has begun, an opinion letter from counsel will most effectively demonstrate good-faith intent.

Give Outside Counsel the Most Complete Information

Withholding information from counsel is the surest sign the resulting study will be unreliable – precisely the flaw in the freedom-to-operate study in *SEB*.



Good Faith Obligations Are International

United States patent laws are necessarily territorial. There are, however, no such boundaries on evidence. In *SEB*, the copied product was purchased in Hong Kong and had no markings indicating it was protected by a US patent. Although the accused infringer's liability was limited to its US activities, the company's intent was assessed globally. Competent freedom-to-operate studies must therefore evaluate a company's activities with a worldwide scope.

CONCLUSION

The deliberate indifference standard of *SEB* creates potential risk based on unknown patents. Many such risks may be identified by carefully assessing a company's specific knowledge about a particular market. Once a risk is identified, obtaining competent advice of counsel may be one effective tool in rebutting claims of active inducement in the wake of *SEB*.

An associate in DLA Piper's Austin office, Aaron Fountain focuses on patent litigation and counseling. He previously clerked for Federal Circuit Judge Arthur Gajarsa. Reach him at aaron.fountain@dlapiper.com.

A partner in DLA Piper's Silicon Valley office, David Alberti focuses on patent litigation, prosecution and counseling and has extensive experience in numerous federal courts and the United States International Trade Commission. Reach him at david.alberti@dlapiper.com.

WOMEN IN IP LAW CLE LUNCHEON: SILICON VALLEY, SEPTEMBER 29, 2010

Mark your calendars! DLA Piper's fourth annual Women in IP Law event is coming soon. The annual event, open to men and women, showcases women as leaders in the IP field and promotes skills, networking and mentoring among women in IP law and business.

IP COUNSEL CAFÉ

Andrew Valentine, Co-Chair of DLA Piper's US Patent Litigation practice and Managing Partner of the Silicon Valley office, recently gave a presentation on developments in the law of patent damages at the IP Counsel Café, a two-day event organized by a board of attorneys in Silicon Valley, sponsored by DLA Piper and attended by approximately 200 IP lawyers. The theme for the April event was "Future of IP and Entrepreneurship in Silicon Valley and Beyond," and featured keynote speaker Suzanne Michel, Deputy Director of the Federal Trade Commission.

CELEBRATING FUTURE WOMEN IN ENGINEERING

DLA Piper IPT Partner Christina Martini gave the keynote address at the program "Sweet Beginnings: Celebrating Future Women in Engineering," sponsored by the University of Illinois at Chicago College of Engineering and the Society of Women Engineers.

The April program targeted women who have been admitted to the University's College of Engineering, informing them about the many professional and personal opportunities an engineering degree could provide and advising them about navigating the academic environment in what has historically been a male-dominated field.

Christina, a U of I alumna with a Bachelors of Science in Industrial Engineering, discussed her own personal journey as an undergraduate student who worked as an engineer during college and decided to go to law school after attending a class lecture on safety engineering and accident reconstruction.

WHO OWNS THE NEWS?

The question of ownership of news reporting was one of the central issues in a lively media law event hosted by DLA Piper in its New York office, in partnership with the German American Chamber of Commerce and Friends of Bucerius Law School.

New York-based IPT Partner Andy Deutsch; DLA Piper client, Laura Malone, Associate General Counsel, Intellectual Property at The Associated Press; and Professor Dana Beldiman, board member for American Friends of Bucerius and partner with Carroll Burdick & McDonogh, were featured speakers at the event.



Professor Dana Beldiman, Professor Dr. Michael Göring, Laura Malone, Andrew Deutsch, Dr. Nina Smidt

The lively discussion covered many IP issues the news media faces, among them the hot news doctrine, copyright and unfair competition law and recent cases involving hot news misappropriation. *IP Law 360* featured the event in an April 13 news article, extensively quoting Andy Deutsch. "The news business is uniquely vulnerable to being destroyed by copying," Andy noted, adding that any entities that copy the news can undermine the story's originators because they don't incur the cost of collecting the story. Andy focuses his practice on non-patent intellectual property. One area in which he has been particularly active is in defining legal protection for published information.

DLA Piper will host another event with the German American Chamber of Commerce and Friends of Bucerius Law School on June 22 in its Silicon Valley office. This evening event will focus on the different approaches to patenting software in the US and Europe. For further information, contact licia.vaughn@dlapiper.com.

DAILY JOURNAL NAMES FOUR DLA PIPER PARTNERS TO TOP IP ATTORNEYS LIST

California's *Daily Journal* has named four DLA Piper partners to its Top IP Attorneys list.



Named to the list of 75 Leading IP Litigators is **John Allcock**, cited for his patent litigation practice. John is co-chair of DLA Piper's

global IPT practice and chair of the US IPT practice. Reach him at john.allcock@dlapiper.com.

Named to the *Daily Journal's* list of 25 Portfolio Managers, Prosecutors and License Specialists are:



Nancy Dix, for her trademark prosecution practice. Nancy is a partner based in San Diego and may be reached at

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Lisa Haile, for her patent prosecution practice. Lisa is co-chair of DLA Piper's Global Life Sciences Sector and is

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Gerald Sekimura, for his patent litigation and prosecution practice. Gerald is a partner based in San Francisco. Reach him

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CAN I SETTLE MY PATENT LITIGATION WITH A REVERSE PAYMENT WITHOUT VIOLATING ANTITRUST LAWS?

By Paolo Morante,
Stuart E. Pollack
and Jarod M. Bona

Agreements between competitors to stifle competition are *per se* illegal; yet increasingly, brand-name pharmaceutical companies have settled patent lawsuits against generic companies by paying them to defer market entry. At first blush, it would seem these “reverse-payment settlements” should lead to antitrust liability for the settling competitors; indeed, the Federal Trade Commission thinks so. But most federal appellate courts have upheld such agreements – provided certain requirements are satisfied.

In most lawsuits, plaintiffs do not pay defendants to settle. In the pharmaceutical industry, however, the dynamic is different thanks to the Hatch-Waxman Act, which

encourages generic drug manufacturers to file Abbreviated New Drug Applications (ANDAs). The Act grants manufacturers of generics standing to mount validity and noninfringement challenges against patents for branded generic counterparts and gives the first generic filer a 180-day exclusivity period during which other ANDA applications on the same drug will not be granted. This process has little risk for the generic company – some litigation costs, but typically no exposure to damages because no sales have taken place yet; in contrast, the branded patent holder's litigation risk is substantial: loss of its patent monopoly. This makes it financially rational for the branded manufacturer to strike a financial deal with the first-to-file generic, thus



mitigating litigation risk and, via the Hatch-Waxman exclusivity period, staving off all generic entry for a time.

Consumers and government agencies challenging reverse-payment settlements had some early success in the Sixth Circuit. *In re Cardizem* held that a reverse-payment settlement delaying generic entry was a *per se* violation of the antitrust laws. *In re Cardizem*, 332 F.3d 896, 908-09 (6th Cir. 2003). In that case, the generic company agreed it would not market non-infringing versions of the generic and promised not to relinquish its 180-day exclusivity period, thereby helping prevent any other generic from entering the market.

But other circuits have subsequently rejected *per se* condemnation of these settlements. For example, in *Valley Drug Co. v. Geneva Pharm., Inc.*, 344 F.3d 1294, 1312 (11th Cir. 2003), the Eleventh Circuit noted there was no evidence the patent litigation was a sham or the patent itself was invalid. Absent those elements, the court stressed, “there is a presumption that the patent is a valid one.” The Second Circuit adopted a similar approach in *In re Tamoxifen Citrate*, 466 F.3d 187, 206 (2d Cir. 2006), and has continued to apply that approach in *In re Ciprofloxacin Hydrochloride*, No. 05-cv-2851, 2010 WL 1710683 (2d Cir. Apr. 29, 2010). Interestingly, however, the *In re Ciprofloxacin* panel has invited the plaintiffs to file a petition for en banc review. *Id.*

Consolidating this trend, the Federal Circuit has rejected the *per se* approach and endorsed a rule-of-reason test for reverse-payment settlements. See *In re Ciprofloxacin Hydrochloride*, 544 F.3d 1323, 1332 (Fed. Cir. 2008). The core issue for the Federal Circuit was whether there were any anticompetitive effects outside the patent’s exclusionary zone. The court also concurred with the Second and Eleventh Circuits that unless there is evidence of fraud before the PTO or sham litigation, the court need not consider patent validity as part of the antitrust analysis.

While these cases are probably not the last judicial word on the issue, they make clear that the focus for litigants considering a reverse-payment settlement is whether the settlement exceeds the scope of the patent right. The only circuit court opinion to uphold antitrust liability, *In re Cardizem*, involved a settlement with terms exceeding the scope of patent protection by including promises about non-infringing generic products.

Settling parties, therefore, should examine contemplated agreements carefully to make sure the scope of the underlying patent’s protection is not exceeded. In addition, including pro-competitive provisions

in settlements may mitigate antitrust exposure because they are weighed against anticompetitive effects in a rule-of-reason analysis. For example, an agreement may permit the generic company to enter the market before the patent expires. Similarly, pro-competitive effects may result if the settling generic forfeits all or part of its 180-day exclusivity period, allowing other generic companies to enter the market.

Unfortunately, the decision to participate in a reverse-payment settlement is complicated by a disagreement among the DOJ and FTC on the proper enforcement approach. Any such settlement must be filed with both agencies no later than ten days after execution for their review and possible challenge.

The DOJ believes the agreements should be analyzed under the rule-of-reason, with a presumption of illegality, placing the burden on the settling parties to show the agreement does not harm competition substantially. The FTC, by contrast, considers reverse-payment settlements *per se* unlawful and has called for a complete end to them. Notably, the FTC can reach beyond federal antitrust law (the Sherman Act), relying instead on the unfair competition prong of Section 5 of the FTC Act to challenge these arrangements. No court has yet ruled on the legality of reverse-payment settlements under Section 5 alone, but such a ruling could dictate whether reverse payments remain viable.

The legal landscape concerning reverse-payment settlements remains uncertain and subject to sudden change. Parties considering reverse-payment settlements should remain alert to late-breaking developments and tread carefully.

An expanded version of this article appears in the June 2010 issue of BNA’s *Pharmaceutical Law & Industry Report*. Please read it here: www.dlapiper.com/files/upload/BNA_Report_Jun10.pdf

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DC FEDERAL JUDGES HONOR DLA PIPER FOR PRO BONO SERVICE

DC Circuit Court of Appeals Chief Judge David Sentelle and District of Columbia Chief Judge Royce Lamberth honored pro bono efforts of 30 law firms in the seventh annual Forty at Fifty Judicial Pro Bono Recognition breakfast. The pro bono honor, given in late April, recognizes area firms in which at least 40 percent of lawyers have given at least 50 hours of individual pro bono service. DLA Piper and three other firms received special recognition because 40 percent of its partners met the challenge. DLA Piper was honored similarly last year.

HELPING THE VOLUNTARY CARBON STANDARD ASSOCIATION

In Washington, DC, DLA Piper’s Trademark, Copyright and Media practice recently added another major client to its large ongoing pro bono portfolio. Partner and US Chair of the practice Ann Ford and associate Ryan Compton are assisting the Voluntary Carbon Standard Association (VCSA) with trademark and copyright matters. The VCSA is developing voluntary standards and programs for credible carbon offsets (learn more at www.v-c-s.org). Ann and Ryan also have been working with the VCSA to purchase rights to related trademarks in the European Community and to formalize consolidation of ownership of various publications and standards.

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