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**“Do the Due”: Due Diligence  
Practices Geared Toward  
Potential Offensive Use (Part 2)**

**John M. Fleming**

***Inside Counsel***

**November 24, 2014**

## Inside Counsel

# “Do the Due”: Due diligence practices geared toward potential offensive use

Simply put: never acquire a patent like an ostrich with its head in the sand

By [John M. Fleming](#)

November 24, 2014

When a patent or patent portfolio offering becomes available for acquisition or, similarly, when a company is looking to acquire another entity that has intellectual property assets, some form of due diligence regarding the assets normally occurs. In many instances, the cost of acquisition of the entity with the IP assets is based upon the value of those assets. Companies may have physical resources and personnel, but their IP can often be the reason for the acquisition. In such circumstances, many companies looking toward acquisition for offensive use are not taking the necessary steps to verify the enforceability, and more importantly even, the outright ownership of the IP assets.

When looking to acquire a patent or patent portfolio for eventual offensive use, due diligence is needed and a proper due diligence is essential. Although it may sound completely counterintuitive, the main goal of the diligence project should be to invalidate the patent, to find the patent unenforceable, and/or to identify some other issue with the patent. The reason is actually quite simple. When Company A sues Company B on such a patent, Company A undoubtedly will face a similar response from Company B. A defending entity will argue non-infringement and invalidity, but it also will argue unenforceability and lack of standing. As part of the acquisition, the acquiring entity needs to know all issues, problems, irregularities and discrepancies associated with a patent. Possibly aside from non-infringement affirmative defenses, an acquiring company should address any possible defense that a defendant may proffer.

Conducting a validity analysis on a patent assists in negotiation. Determining whether the best prior art references were put before the U.S. Patent & Trademark Office (USPTO) for examination purposes and whether there are other prior art references more on point to the invention provides insight into the purported strength of the patent against an invalidity defense. An on point art reference dated after the filing date of the patent may not be a prior art reference, but it may provide information on other prior art references that existed. Often some of the best locations for prior art references are found in issued, pending or abandoned child applications. A continuation application that was subsequently abandoned may provide additional art references that were never before the examiner who examined the patent to be acquired. Those new prior art references may similarly affect the patentability of the patent to be acquired.

In similar contexts, the prosecution of foreign counterpart applications to the patent to be acquired can be fruitful sources of prior art references. Although the USPTO seems to take quite some time to issue patents, it often examines cases earlier than other foreign jurisdictions. A foreign counterpart to a U.S. application may not even be filed until a year after the U.S. application. In many cases, the U.S. application is examined and proceeds to issuance before the foreign counterpart is even examined. In such cases, a foreign patent office cites prior art references for rejection that were never presented before the U.S. examiner. Yet, validity analysis is but one piece of a proper diligence on an asset.

Not all mistakes associated with a patent are noticed by the USPTO during prosecution. Many mistakes are correctable with a small or sizeable fee. Yet, other mistakes are not correctable or have dramatic effects on term or enforceability. Take a claim of priority as one example. Under U.S. practice, an applicant can continuously claim new continuation after new continuation, resulting in a long priority chain. It is not uncommon to find a patent to be acquired that claims priority to three or more U.S. patents in a long chain. Yet, one of those earlier patents may be deemed a prior art reference to the patent to be acquired. A mistake in a priority claim in an intermediate patent in the chain effectively destroys the claim of priority thereafter in the chain. As such, an earlier version of the same disclosure by the same inventors could end up being a prior art reference for invalidity purposes. In other occurrences, statutory requirements may have been missed and the mistake simply may not have been caught by the patent office.

Imagine a patent family chain where one of the links in the chain is an application that was abandoned. Many people believe that an application becomes abandoned when the patent office issues a notice of abandonment. Yet, such a notice is merely a formal acknowledgement of the occurrence, not a date, and such a notice often follows weeks, if not months, after the actual statutory date of abandonment. Accordingly, the face of a patent to be acquired may show a chain of priority back to an earlier application/patent, yet the abandonment of a middle application in the chain effectively destroys the chain or priority to the first link. Now later art references are potentially in use for invalidity, including even the previous patents/applications in the family chain.

Still other factors should be taken into account for a proper diligence analysis. Previous litigation of the patent may find a settlement agreement between the parties. Such an agreement may include a license between parties. If a potential defendant only is infringing the patent due to the use of a product/service of that previous defendant in the now settled litigation, then the potential defendant may be indemnified from an infringement action.

Whether seemingly small or large issues, all issues should be identified and vetted. In the end, minor flags can be corrected even if requiring some fees. Major flags can be used to lower the acquisition price or walk away from the potential acquisition altogether. Simply put: never acquire a patent like an ostrich with its head in the sand.



**John M. Fleming**

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**Year-End Brings New Developments  
in Patent Eligibility**

**Ernest V. Linek**

***Banner & Witcoff Intellectual  
Property Alert***

**December 17, 2014**



## Intellectual Property Alert: Year-End Brings New Developments in Patent Eligibility

By Ernest V. Linek

December 17, 2014 – Section 101 of the Patent Act (35 U.S.C. 101) continues to be of concern for patent practitioners, patent applicants and patent owners. The language of this statute defines what constitutes patent eligible subject matter, as follows:

“Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.”

Using the statutory language as a guide, the courts and the United States Patent and Trademark Office (USPTO) have defined subject matter that is not eligible for patent protection. This is an update of that process.

### **USPTO Issues New Section 101 Guidelines for Patent Eligibility**

On December 16, 2014, the USPTO published its new “2014 Interim Eligibility Guidance on Patent Subject Matter Eligibility” in the Federal Register (79 Fed. Reg. 74618). In this document, the USPTO gives patent examiners instructions for analyzing patent claims for subject matter eligibility under 35 U.S.C. §101 with respect to the judicial exceptions to patent eligibility of “abstract ideas, natural phenomena, and products of nature.”

This version replaces the guidelines issued in March 2014 and updates those guidelines on the “product of nature exception” in light of the *Mayo* and *Myriad* decisions. The new guidelines also supplement the June 2014 guidelines regarding the “abstract idea exception” in light of the *Alice* decision.

The March guidelines were issued in response to the Supreme Court decisions in *Association for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013) and *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012). The June guidelines were issued in response to the Supreme Court’s decision in *Alice Corporation Pty. Ltd. v. CLS Bank International*, 134 S. Ct. 2347 (2014).

The new guidelines provide an updated view of subject matter eligibility in line with *Alice Corp.*, *Myriad*, *Mayo*, and recent case law. The new guidelines also respond to the public comments received pertaining to the March and June versions.

One important note is that the new guidelines do not constitute substantive rulemaking and do not have the force and effect of law. The guidelines are merely provided to the examiners (and the public) to provide better understanding and implementation of Section 101 analysis of patent claims, particularly with respect to the provisions of MPEP Sections 2105, 2106 and 2106.01.

Another important note is that the new guidelines are not intended to create any right or benefit, substantive or procedural, enforceable by any party against the Office. Rejections will continue to be based upon the substantive law, and it is these rejections that are appealable. Failure of any USPTO personnel to follow the guidelines is not, in itself, a proper basis for either an appeal or a petition.

With respect to the “product of nature” guidance, the December guidelines are distinguished from the prior versions as follows:

1. separates the “product of nature” analysis from the “significantly more” analysis for overcoming the exception;
2. focuses on claims “directed to” a product of nature, rather than claims that merely “involve” a product of nature; and
3. uses a “markedly different” analysis of characteristics that can include a product’s structure, function, and/or other properties as compared to its naturally occurring counterpart in its natural state.

The new guidelines regarding nature-based products replace the prior set of explanatory examples with a new set of examples, and according to the Office, include many examples suggested in public comments.

The new guidelines include a decision-making flowchart with the following instructions for claim analysis under Section 101:

Prior to evaluating a claim for patentability, establish the broadest reasonable interpretation of the claim and analyze the claim as a whole when evaluating for patentability.

Step 1 – is the claim to a process, machine, manufacture or composition of matter?

If yes – go to Step 2A.

If no – the claim is not eligible subject matter under 35 U.S.C. §101.

Step 2A – (*Mayo* test – Part 1) – is the claim directed to a law of nature, a natural phenomenon, or an abstract idea (the judicially recognized exceptions to patentable subject matter)?

If no – the claim qualifies as eligible subject matter under 35 U.S.C. §101.

If yes – go to Step 2B



Step 2B (*Mayo* test – Part 2) – does the claim recite additional elements that amount to significantly more than the judicial exception?

If no – the claim is not eligible subject matter under 35 U.S.C. §101.

If yes – the claim qualifies as eligible subject matter under 35 U.S.C. §101.

Notable changes from prior guidelines include:

All claims (product and process) with a judicial exception (of any type) are subject to the same steps.

Claims including a nature-based product are analyzed in Step 2A to identify whether the claim is directed to (i.e., recites) a “product of nature” exception.

This analysis compares the nature-based product in the claim to its naturally occurring counterpart to identify markedly different characteristics based on structure, function, and/ or properties.

The analysis proceeds to Step 2B **only** when the claim is directed to an exception (i.e., when no markedly different characteristics are shown).

The new guidelines further explain the Section 101 claim analysis as follows:

1. Determine what the claim is “directed to.”
2. Identify the judicial exception recited in the claim.
3. Determine if recited nature-based product has characteristics “markedly different” from natural product.
4. Determine if the structure, function or other properties of the recited nature-based product are “markedly different” from natural product.
5. Determine if any element in the claim ensures that the claim is “significantly more” than the judicial exception.

According to the new guidelines, a claim is “directed to” a judicial exception when a law of nature, a natural phenomenon, or an abstract idea “is recited (i.e., set forth or described) in the claim.”

Claims that recite a judicial exception may nonetheless be patent eligible if they are “directed to inventions that clearly do not seek to tie up the judicial exception.” Included in the new guidelines is an extensive collection of examples to show what subject matter has been found either eligible or ineligible under Section 101.

The new guidelines became effective as of December 16, 2014, and apply to all applications filed before, on, or after that date.

Public comment is invited and must be received on or before March 16, 2014.

## **New Section 101 Case Law**

On December 17, 2014, the Federal Circuit, in the case of *University of Utah Research v. Ambry Genetics*, applied Section 101 against patent claims used by Myriad – that had previously not been reviewed by the court.

Four composition of matter claims directed to DNA primers were held to be ineligible subject matter, because they are directed to products of nature – citing the Supreme Court’s *Myriad* decision. The court’s basis for concluding that the primers are directed to “products of nature” was that they possess the same nucleotide sequence as the naturally occurring DNA.

In addition, two method claims were found to be ineligible subject matter because they were directed to abstract ideas based on the use of the DNA primers – citing the Supreme Court’s *Mayo* decision.

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**IP Due Diligence Practices Geared  
Toward Potential Offensive Use**

**John M. Fleming**

***Transaction Advisors***

**December 23, 2014**

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# IP Due Diligence Practices Geared Toward Potential Offensive Use

Dec 2014

When an acquisition involves intellectual property, typically that intellectual property will be the chief element of both the buyer's motivation for purchasing and the transaction's overall price.

In such circumstances, the authors of this articles emphaizes taking the necessary steps to verify the enforceability, and more importantly, the outright ownership of the IP assets.

When looking to acquire a patent or patent portfolio for eventual offensive use, proper due diligence is essential.

Although counterintuitive, the main goal of the due diligence should be to invalidate the patent, to find the patent unenforceable, or identify other issues. Such an approach will generate a similar defense that the acquirer can expect if and when claims arise.

When looking for prior references to complete a validity analysis, these authors suggest searching issued, pending, or abandoned child applications.

Additionally, the prosecution of foreign counterpart applications to the patent to be acquired can be fruitful sources of prior art references.

Validity analysis is but one piece of proper diligence, however. Due diligence should uncover situations effecting a destruction of the claim of priority in a patent chain. While many such mistakes are correctable through the paying of a fee, other mistakes are not correctable or have dramatic effects on term or enforceability. Mistakes in a priority claim in an intermediate patent in the chain effectively destroys the claim of priority thereafter in the chain.

Another factor discussed in this article is the analization of previous litigation of the patent. This litigation may have led to a settlement between the parties that included license terms. A settlement agreement may include indemnification provisions to the benefit of any potential defendants as well.

This author encourages buyers to identify and vet all potential issues, large and small. In the end, minor flags can be corrected even if requiring some fees. Major flags can be used to lower the acquisition price or walk away from the potential acquisition altogether.

*This article was originally published in Inside Counsel.*

Full article



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BY JOHN M. FLEMING, ESQ.



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**“Do the Due”: Due Diligence  
Practices Geared Toward Defensive  
Protection (Part 3)**

**John M. Fleming**

***Inside Counsel***

**January 6, 2015**

## Inside Counsel

# “Do the Due”: Due diligence practices geared toward defensive protection

Knowing as many of the issues upfront allows a company to properly respond to an accusation in a timely and authoritative manner

By [John M. Fleming](#)  
January 6, 2015

*The third in a three-part series, also check out [how to perform proper diligence when assessing IP assets for acquisition](#) and these [due diligence practices geared toward potential offensive use](#).*

Whether a company receives a demand for compensation veiled in a seemingly pleasant cease and desist letter or an outright accusation of willful patent infringement to an extreme, the company is on notice. A patent owner often reaches out to companies to secure a licensing opportunity during the term of a patent. The owner may have any number of reasons to seek out the specific company, but the goal often enough is to be compensated for alleged infringement of the patent's claims. An industry practicing patent owner may want to prevent other competitors from practicing the patent's claims, while a non-practicing entity that owns a patent just wants to be compensated.

Initially, a company that is accused of patent infringement or asked to seek licensing rights in a patent should try to understand these two goals: the goal of the accusing entity and the goal of the company being accused. The initial correspondence from the accusing entity likely specifies some details of his or her end goal but likely doesn't tell the whole story. A diligence analysis on the patent regarding its litigation history and licensing history often tells a larger story. Appreciating the results of a litigation, post-grant proceeding against the patent, and information concerning licensing entities may inform the company being accused not only of the strength of the patent being asserted, but also of the accuser. Financially strapped accusers and accusers that have seen a weakening of rights affiliated with their patent often tell an accused company about ulterior motives of an accuser or the underlying reasons for the accusation.

On the other side of the alleged infringement coin, appreciating the goals of the accused company is even more important. Although the end goal always is centered on mitigating any financial amount or goodwill damage, the analysis of a proper due diligence will streamline fulfillment of these goals and further provide the accused company valuable information in deciding how to take the next steps, whether fighting against the accuser, negotiating a license or even potential acquisition. A due

diligence analysis on the patent in some instances can even allow an accused company to step back to the negotiation table with enough of an initial strengthened response to make the accuser go away.

Often the ideal position for an accused company is to detail how it does not infringe the accuser's patent. And in cases of many accused products/services, a diligence result providing a non-infringement position ensures a best case scenario for an accused company. Yet, in today's marketplace, products and services change rapidly. New versions are released, new software or firmware packages are installed, or new operating procedures and/or manufacturing processes are employed on a regular basis. Yet a proper due diligence analysis in accessing a product for infringement will be limited to the specific product reviewed and perhaps even the specific date or time it was reviewed. Accordingly, additional positions always should be considered.



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# **POST-ISSUANCE PROCEEDINGS**



**Motion to Amend in *Inter Partes*  
Review Proceedings — A Quick  
Reference**

**Christopher L. McKee**

***IIPI/BBNA AIA Post-Grant Patent  
Practice Conference***

**February 19-20, 2014**

**MOTIONS TO AMEND IN *INTER PARTES* REVIEW  
PROCEEDINGS – A QUICK REFERENCE**

**IIPI/BBNA AIA POST-GRANT PATENT PRACTICE CONFERENCE**

**February 19-20, 2014**

**Christopher L. McKee, Banner & Witcoff, Ltd.**

**Statutory Basis:** 35 U.S.C. § 316(d).

**Rule:** 37 C.F.R. § 42.121.

**Guidance:** Office Patent Trial Practice Guide (OPTPG), 77 Fed. Reg. 48766-67.

**PTAB Decisions:** Some discussed below.

1) Board approach to motions to amend highly restrictive. THIS IS NOT LIKE REEXAMINATION.

2) Procedural Requirements/Limitations

a. Generally only one opportunity to move to amend claims.

i. To be filed no later than with Patent Owner Response Rule 42.121(a)(1).  
No opportunity to amend claims with Preliminary Response. Rule 42.107(d).

b. Must discuss motion to amend with Board in conference call in advance of filing. Rule 42.121(a).

c. Proposed claim amendments may be contingent or non-contingent -- to be clearly stated in motion. *Idle Free Systems, Inc. v. Bergstrom, Inc.*, IPR 2012-00027, Paper 26 at 10.

3) Substantive Requirements/Limitations

- a. Amendments may not enlarge the overall scope of the patent claims (same as in reexam). Rule 42.121(a)(2)(ii).
- b. Claim amendments must be responsive to unpatentability grounds asserted: “[A] proposed substitute claim is not responsive to an alleged ground of unpatentability of a challenged claim if it does not either include or narrow each feature of the challenged claim being replaced.” *Idle Free*, IPR2012-00027, Paper 26 at 5.
  - i. appears to prohibit broadening of a dependent claim within the scope of its original base claim (more restrictive than reexam).
- c. The permitted reasonable number of substitute claims (35 U.S.C. § 316(d)) means no more than a one for one substitution of an amended claim for each claim in trial, absent a demonstration of need. Rule 42.121(a)(3). Strictly applied.
  - i. “A desire to obtain a new set of claims having a hierarchy of different scope typically would *not* constitute a sufficient special circumstance. . . . If a patent owner desires a complete remodeling of its claim structure according to a different strategy, it may do so in another type of proceeding before the Office.” *Idle Free*, IPR2012-00027, Paper 26 at 6.
  - ii. No provision for alternative proposed amendments akin to European opposition proceedings.
  - iii. The one-for-one claim substitution limitation has been applied very restrictively: “If a proposed substitute claim includes all the features of an original patent claim, then it counts as a substitute claim for that original patent claim, regardless of the actual designation of substitution contained in the motion.” *ZTE Corp. v. Contentguard Holdings Inc.*, IPR 2013-00136, Paper 33 at 4. Here, the Board was addressing a situation

- where the Patent Owner sought to substitute claims for dependent claims to make those claims depend from a proposed substitute base claim. The limitation stated would seemingly preclude such changes of claim dependency absent a demonstration of special need for more than a one for one substitution of amended claims.
- d. Must demonstrate written description support for amendments in application as filed, **and** in any earlier application from which priority is sought. Rule 42.121(b).
    - i. Not enough to show support in patent as issued.
  - e. BURDEN IS ON PATENT OWNER TO PROVE PATENTABILITY OF AMENDED CLAIMS. Under *Idle Free*, IPR2012-00027:
    - i. Rule 42.20(c), addressing motions generally, provides the basis (“moving party has the burden of proof to establish that it is entitled to the requested relief.”) Paper 26 at 7; Paper 66 at 26 and 33.
    - ii. Need to show general patentability over prior art.
      - 1. “A patent owner should identify specifically the feature or features added to each substitute claim, as compared to the challenged claim it replaces, and come forward with technical facts and reasoning about those feature(s), including construction of new claim terms, sufficient to persuade the Board that the proposed substitute claim is patentable . . .” Paper 26 at 7; Paper 66 at 34.
    - iii. Not enough to establish patentability over prior art applied to original patent claims. Paper 66 at 33. Need to show patentability over prior art of record and the closest prior art known to Patent Owner. Paper 26 at 7; Paper 66 at 34.

- iv. Need to address what is known about the level of skill in the art, in terms of the ordinary creativity and skill set of one of ordinary skill in the art. This is to be done *with respect to each added feature*. Paper 66 at 33-34.
- v. Need to address whether the element/limitation relied upon in the amended claim is known in any context, and if it is, need address non-obviousness of use in context of claimed invention, i.e., “why it would not have been applicable to render [the claimed invention] obvious to one with ordinary skill in the art.” Paper No. 66 at 35-36.

f. Page limits are a significant constraint!

- i. 15 pages for a motion to amend. Rule 42.24(a)(v). Listing of substitute claims counts against the 15 page limit. *Synopsys, Inc. v. Mentor Graphics Corp.*, IPR 2012-00042, Paper 30.
- ii. Petitioner likewise has 15 pages for opposition (Rule 42.24(c)(2)), and can raise new evidence (e.g., prior art, declaration testimony) to show unpatentability of claims. OPTPG, 77 Fed. Reg. 48767.
- iii. Patent Owner gets only 5 pages for reply. Rule 42.24(c)(2) (strictly enforced).
  - 1. Board has refused a Patent Owner request for three additional pages to address six new references cited by Petitioner against amended claims. *Synopsys*, IPR2012-00042, Paper 39.

4) An Opportunity for the Patent Owner: The Office Patent Trial Practice Guide (OPTPG) expressly provides for requesting from the Board a “substantial identity” determination that may support an argument that proposed substitute claims found patentable are not subject to the doctrine of intervening rights:

- a. “When filing a motion to amend, a patent owner may demonstrate that the scope of the amended claim is substantially identical to that of the original