McGuireWoods

Episode 106: Patent Investment Strategies, With Amanda Wieker

Episode Summary

Think a patent is bulletproof once it's issued? Think again. Amanda Wieker, partner at McGuireWoods and former acting vice chief administrative patent judge at the Patent Trial and Appeal Board, reveals why patent validity can remain in flux for decades.

In this conversation with McGuireWoods colleague and host Geoff Cockrell, Amanda unpacks the complex lifecycle of patents in private equity investments. She explains challenges to patent validity, the Patent Trial and Appeal Board process, and critical diligence considerations for investors acquiring companies where patents are material assets.

Transcript

Voice Over (00:00):

This is The Corner Series, a McGuireWoods series exploring business and legal issues prevalent in today's private equity industry. Tune in with McGuireWoods Partner Geoff Cockrell as he and specialists share real world insight to help enhance your knowledge.

Geoff Cockrell (00:19):

Thank you for joining another episode of The Corner Series. I'm your host Geoff Cockrell, a partner at McGuireWoods. Here at The Corner Series, we try to bring together deal makers and thought leaders at the intersection of healthcare and private equity. Today's discussion is going to be a little bit more technical. I'm joined by my partner Amanda Wieker. We're going to be talking about investments in companies where a material asset is a patent and some of the complications that can arise and to just be mindful of.

(00:50):

Amanda, if you could start off introducing yourself and a little bit of your background, and then we'll talk some about these topics to be mindful of.

Amanda Wieker (00:58):

Sure. Thanks, Geoff. It's great to be with you today. My name is Amanda Wieker. I have spent my entire career in the patent field. I graduated with an engineering degree in biomedical engineering and much of my practice has been in the medical device space. I started my career as a patent examiner with the US Patent and Trademark Office. In that role, I really helped the US Patent Office issue patents that were requested by inventors of medical device technology. That's really what led me into this space.

(01:32):

From there, I went to law school and practiced patent litigation before becoming a judge at the Patent Trial and Appeal Board. I think we'll discuss a little bit more detail about the Patent Trial and Appeal Board, which I'll refer to as PTAB, as we go through the discussion today because it really is an interesting area where the patent rights that a company may acquire through a merger or acquisition can really be tested in ways that impact the value of that asset in the long run.

Geoff Cockrell (02:02):

Maybe to set the table a little bit, if someone's looking at a company where a patent or a particular technology is critical to the business, maybe you could describe a little bit what the lifecycle of a patent is. In the sense that, if you don't live in that space, you think of it as binary, you either have it or you don't, but it's a little bit more of process that has some permutations and detours. Maybe give a little overview of the lifecycle.

Amanda Wieker (02:28):

Absolutely. Let me start with a definition of what a patent is. A patent is a property right like any other, it is just an intellectual property right. The patent gives the owner the right to exclude others from making, or using, or selling what is covered by the patent. The patent itself will have a description of the technology or the invention that's being discussed to the public, and then it will end with a series of claims. What those claims are is basically the boundary, the meets and bounds, the definition of what the invention is. The claims are very important. They're written in one-sentence statements at the end of the patent and that is the property right that the patent conveys.

(03:17):

The way you get that property right is a negotiation with the US Patent and Trademark Office. An inventor will file an application. At that time, you'll see, for example if you've ever watched Shark Tank, they'll often say that they have a patent pending. That is actually not a property right at all. That is just a stage of the patent application process where you filed for an application and the government is considering whether to grant you a patent.

(03:46):

That process, that negotiation between the inventor, usually represented by an attorney, in the US Patent and Trademark Office can take several years. There will be communications back and forth between the two. Basically saying whether the applicant has met the requirements to obtain a patent, and if they haven't, whether there are ways that they could amend their application to get the patent to issue. That process takes a long time and it impacts the ultimate patent right that is issued. If at the end of the day, the government does decide to give you a patent, the statements that you made to the government during that negotiation process help inform the scope of what your patent covers.

Geoff Cockrell (04:32):

Once a patent is issued, again if you don't live in the space, you think of it as binary, like you're all good. In reality, that might be just the launch point for the next part of the game. What happens once it's issued?

Amanda Wieker (04:46):

When the patent is issued, like I said earlier, the patent owner has the right to prevent others from practicing in that space basically. A competitor who, for example, might want to release a product in an adjacent space, if that competitor is sued for infringement by the patent owner, the competitor has the right to defend that infringement suit. The typical way that they do that is to argue, one, my product doesn't infringe. And two, the patent never should have issued in the first place. The patent is invalid.

(05:22):

That argument has typically been made in district court in conjunction with a patent infringement lawsuit. But Congress, about 15 years ago, passed the America Invents Act. That act covered various aspects of patent law and procedure. But one thing it did was create the Patent Trial and Appeal Board. I'm going to refer to that as PTAB. The PTAB was created basically to give an alternate jurisdiction for those invalidity arguments that a defendant in a district court patent infringement suit used to bring to the district court. The idea was that PTAB being part of an executive agency with expert decision makers could determine whether a patent was properly issued or improperly issued such that it should be canceled. That they could do that more quickly, efficiently, cost-effectively.

(06:16):

In late 2011, early 2012, PTAB started receiving challenges to existing patents filed by a third party. Anybody other than the patent owner could challenge a patent at PTAB. When that happens, the PTAB undertakes a review of the materials submitted by the patent challenger to determine whether they've raised a significantly valid challenge to the patent such that they should hold a trial. If they determine to hold a trial, over the next year, it will be an adversarial two-party dispute in front of the PTAB where a panel of three judges, all of whom have scientific training in the relevant area and legal degrees, will determine whether that patent should have been issued or should be canceled.

Geoff Cockrell (07:12):

Basically, the minute that you try to exclude someone else, you're going to basically draw fire and they're going to want to revisit the original premise of the issuance of your patent. Is that how it plays out?

Amanda Wieker (07:29):

Yeah, I think that's a fair way to put it. Basically, if you have a patent and your out there asserting it against competitors in the industry, if you sue them for infringement, you should expect that they are going to defend themselves in some way. Most often, that involves an invalidity challenge trying to cancel that patent. Because after all, if they get the patent canceled, it doesn't matter if their product infringes because the patent is no longer in force, the whole trial will be canceled.

(07:54):

Cancellation of the patent is very consequential. Obviously, if the patent was a valuable portion of, for example, a merger or an acquisition, if you were involved in that transaction in part to get this patent, you want to ensure that your patent that you're buying is sufficiently strong that it can withstand that challenge that's almost inevitably going to be thrown at you if you assert the patent affirmatively.

Geoff Cockrell (08:24):

Investors encounter this process where a company has one or more patents at various stages in this process. During the patent pending stage, it's like you said, a negotiation with the government for the scope of that patent. Then it's issued. Then it's tested perhaps by a competitor. How long does that entire sequence generally take? Maybe breaking it apart into when you see something with a patent pending, how long of a process could you expect that to take? If there's going to be a distilling process where a competitor's challenging, how long would that process take? Longer than people might think, but just to give a perspective on it.

Amanda Wieker (09:07):

I will say, some of this is in flux and varies at different points in administrations and various other things. Typically, the prosecution part of the patent issuance, that examination, negotiation with the Office, that will take between say 18 months and, on average, maybe three years. There are things at patent applicant can do to speed it up. There are also programs that the Patent Office offers to allow an expedited examination. Some of it's in the patent applicants control, some of it is not. The pendency for patent examination is longer than the Office would like.

(09:47):

But at the end of the day, if you do get your patent issued, it can be challenged at any point during the life of the patent. Which, just purposes of our high level discussion, say is around 20 years. The patent can be challenged at any point during that window. It can even be challenged by, for example a competitor, after the patent has expired due to some nuance of exposure to damages for patent infringement. This process could go on for a long time. It's at any point in the life cycle, the investors need to be thinking of how to monetize that patent. And how they monetize it and what their exposure is varies along that lifecycle we talked about.

Geoff Cockrell (10:31):

Given that the validity and scope of a patent can potentially be in flux for the duration, if an investor's looking at something, what diligence can they do to test the strength of that patent when you're looking at an investment?

Amanda Wieker (10:47):

Yeah, there are several things you can do on the front end. I do want to say a patent, once it's issued by the Office, it's presumed to be valid in district court. But that being said, like we discussed, there are ways competitors could challenge that validity either at PTAB or district court.

(11:04):

In advance of finding yourself on the receiving end of a validity challenge, a potential patent owner can look at, I'm going to talk about two groups of things. One are things that are facial to the patent itself. There are certain requirements to obtain a patent in the United States. Doing diligence, you could look at the patent as issued to determine certain things. For example, the patent laws prohibit the patenting of what's called an abstract idea. Basically, something that you could do in your mind, effectively. Somebody doing diligence on a potential patent acquisition might look at the claims of the patent, those sentences at the end that set forth the meets and bounds of the invention, and determine whether it presents anything more than an abstract idea. Or does it just use a lot of words to convey something that you could do in your mind? If it is an abstract idea and the patent has issued, it's less likely to withstand a post-grant review at PTAB or a challenge in district court.

(12:10):

Some of these things, you can look at the patent itself and assess the strength or the weaknesses of the patent. Other things, like chain of title effectively, the assignment and ownership of the patent up until this point in time is something that you can analyze based on the face of the patent and the USPTO's databases.

(12:34):

Then there's a separate second bucket of grounds on which a patent background be declared invalid and those relate to what else was out there in industry when this patent application was filed. This is what's, in patent parlance, is called prior art. Basically, a patent can only be issued for a technology that is new and non-obvious. Part of the USPTO's job during the examination negotiation is to investigate what else was out there at the same time. Is there anything existing in the prior art that is the same as this patent application, or is substantially similar to it?

(13:19):

That's something that's a little bit of a bigger undertaking in the diligence process. For example, there are prior arts search firms and entities you can hire to do some of this research for you. They can investigate technologies in the US and across the globe. It can also be done on a bit of a smaller scale, depending on how important this diligence process is to any given transaction.

Geoff Cockrell (13:43):

There's the diligence aspect of it where you're testing the things that you're able to test of the challenges and claims that may come against the patent holder. What are some other considerations in an M&A context that people should think about?

Amanda Wieker (13:57):

An important part, maybe the most important part, is to really identify what you, as the potential acquisition party, want to do with this patent. Do you have it because you want to try to get other competitors out of the space in which you would like to operate? Are you trying to acquire this for leverage in a licensing negotiation? Often, two parties that operate in the same technological space will cross-license their patents to each other. Are you intending to acquire this to bolster your patent portfolio for licensing purposes? All of those potential ways that you might use the patent should be identified up front because that'll help you figure out the type of diligence that makes the most sense for you.

(14:45):

Other things to consider are, for example, has this patent prior to your acquisition been litigated against another party? Part of the way patents are interpreted depends on the way the claims that define the invention, how those terms are understood by a person skilled in that technological area. That is something that is often developed and argued about in litigation. You'd definitely want to consider past litigation history. Past, even if you haven't gotten to litigation, cease and desist letters, any kind of assertion activity by the previous owner of the patent is important to know.

(15:25):

Things like the scope of the claims are important to understand. For example, if your invention was a table, you could describe it as something with four legs and a flat horizontal surface on top of the four legs. Or you could describe it in exceptional detail about the materials of the legs, whether there's a wheel or a caster at the bottom of the leg. Various levels of detail may or may not be included in a patent claim. The more detailed the patent claim is, the narrower its potential application to, for example, infringing activity. The broader it is, the more things it may cover. Those are things you're going to want to evaluate during due diligence.

(16:14):

Then other nuts and bolts, like assignment, ownership issues, maintenance fee payments, the expiration of the patent term, those kind of things all can be considered in the diligence process.

Geoff Cockrell (16:27):

Maybe you could give a little bit of war stories of things that an acquirer has discovered, either about their patents that they acquired or about the process, that was surprising to them. Then secondly, mistakes that you've seen people make in this process.

Amanda Wieker (16:45):

That's a good question. This is going back many years, but I was involved in a litigation where there was effectively a defect in the chain of title. As patent portfolio transferred hands, there was a failure to assign a certain patent to who was effectively supposed to be the next owner. Such that, by the time it got to the owner at issue in this litigation, they did not effectively have title and have ownership of that patent due to the failure at the earlier stage.

(17:18):

Patent law is a mix of the law and legal formalities with technical questions, and developments, and innovation. Sometimes those legal requirements and obligations can stand in the way to a future transaction in a way that's really disappointing.

Geoff Cockrell (17:39):

Amanda, we probably have time for one more topic. If someone's an investor, they've bought something, they either bought the patent itself or acquired a company where this is a material asset, and now they're drawing fire from a competitor. What can a patent owner expect in that sort of process?

Amanda Wieker (17:57):

Yeah. This is the most important part for the patent owner because they've spent the money, they've done the diligence to acquire this asset or the company that owns the patent. Now that might become worthless if that patent is determined to be invalid. I'll speak mostly to the Patent Trial and Appeal Board, because that's my most recent experience, but the process is similar in district court as well.

(18:24):

When a patent is challenged, the patent owner will be able to defend their patent, for example at the PTAB. And in doing so, they will file argumentative response from the lawyers establishing why the allegations of invalidity are wrong on the facts or wrong on the law. Importantly, almost every patent case involves technical experts. One thing the patent owner will do is hire an expert skilled in this area of technology. For example, if it's a medical device case, you might hire a cardiologist or the appropriate medical professional to talk about what the state of the art was at the time the patent was invented. For example, were there other pacemakers on the market at the time? How this one is different. It's really, the defense of the patent invalidity challenge is really important for the patent owner to establish a story about how their invention is unique and important over what existed at the time. That's largely done through expert testimony.

(19:37):

In district court, the same approach will happen. A patent owner will put forth their expert. It often becomes a bit of a battle of the experts, but it is really the most important part. I think for most patent litigators, the most exciting part because you really get to tell the patent owner's story of why this is a valuable technology, what problem it was trying to solve, and how it did so in a way that's novel or

non-obvious over what existed at the time. That's really the most important part of the defense is developing that story to tell either to the three judges at PTAB or to your jury in your district court trial about the strengths and the merits of your patent.

Geoff Cockrell (20:22):

Then I would add translating that back to the private equity owner, especially when you're talking about a patent where the single or bundle of patents are central to the underlying business. The more central it is, the more you have to have a strategy for dealing with the potential that there could be some form of cloud over that that could persist for quite a while. That cloud is not necessarily fatal, but it is a cloud. Being ready in the midst of that, navigate through the idea that you may end up selling the company in the meantime, and this cloud is still present. Having a more fulsome strategy for dealing with the overlay of this lengthy process. The more important the patent is, they're going to be asserting that claim against other people, then this cloud is going to come. Having a strategy for dealing with that is also important from an investor perspective.

Amanda Wieker (21:19):

I think that's exactly right. You raised the ability to sell the patent and that's an incredibly valuable part of it. Do you have a cloud over this asset? Such that even if it hasn't been canceled, the value to you as the seller has been greatly diminished. Everything you can do during the examination process to come out of the Patent Office with strong patent claims, and then through your assertion activities to have a clear record of the patent's scope and how it's being applied, all of that is going to be a factor in the ultimate selling price for the patent owner if they do determine to move that asset on to someone else.

Geoff Cockrell (22:02):

Then in the M&A context, being thoughtful, especially as a seller, but it can be of the reverse considerations as a buyer, of allocating some of this cloud risk. Clouds that have presented and ones that haven't yet, and who's going to be absorbing that potential both expense and things that could come from a patent being deemed to be invalid. All of those are live open questions in the context of an M&A transaction. And not always a clean answer as to where that risk should land, but that'll be a live discussion as well.

Amanda Wieker (22:37):

Absolutely. That's where a good interaction between your technically skilled patent attorneys and your M&A counsel can help navigate those risks and allocate them where they are most appropriately falling.

Geoff Cockrell (22:50):

Amanda, there's probably more topics we could talk about, but I think we'll end that there. This has been a ton of fun, very involved topic that comes up fairly regularly. I really appreciate you joining the podcast.

Amanda Wieker (23:01):

Thanks so much, Geoff. Great to be with you.

Voice Over (23:06):

Thank you for joining us on this installment of The Corner Series. To learn more about today's discussion, please email host Geoff Cockrell at gcockrell@mcguirewoods.com. We look forward to hearing from you.

(23:19):