

Patent Demand Lessons For Cannabis Cos. From Big Tech

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With cannabis patenting at an all-time high, those in the cannabis industry are poised to encounter a threat that is all too familiar to those in big tech: patent demands. Indeed, the reward for attaining success in the marketplace is often a letter from a patent holder demanding a payout on threat of suit.

The patent demand landscape is complex, involving large as well as small enforcement entities and patents that are strong as well as patents that are weak. As the cannabis business landscape matures and becomes national in scope, those who are successful are likely to encounter patent demands.

Here we discuss a specific strategy often deployed in the technology sector. This strategy aims to minimize cost and prevent becoming a soft target.

Will cannabis be targeted like big tech?

Cannabis patenting is surging. From 2017 to 2019 alone, the U.S. Patent and Trademark Office issued over 350 cannabis-related patents, more than the previous seven years combined.[1] That arms race promises to continue as cannabis businesses, large and small, battle for market share by securing, protecting and enforcing intellectual property.[2] The patent land grab spans the cannabis supply chain, from agriculture and biotechnology to therapeutics and consumer products, with owners ranging from global pharmaceutical companies to solo inventors.

As the cannabis patent landscape matures and the number of cannabis patents reaches a critical mass, the industry will increasingly face what the technology sector has confronted as a cost of doing business since the mid-1990s: patent assertion entities, i.e., companies that make money by suing, or threatening to sue, others for patent infringement.

Patent assertion entities typically do not compete in the marketplace. Rather, they focus on collecting patents with broad scope that read on business activities and commercially successful products in order to target those who are succeeding in the marketplace and willing to pay out nuisance-value settlements.



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Today, cannabis patents vary widely in terms of quality. Some thinly describe naturally occurring materials and processes or broadly claim age-old ways of growing, processing or using cannabis. Others contain highly detailed disclosures, as robust and supported by data as those filed by sophisticated biotechnology companies who invest heavily in and rely on patents to maintain exclusivity and recoup research and development costs.

Many more fall somewhere in between these extremes. It is the former, however, not the latter, that are likely to form the basis of a demand letter from an assertion entity because patents that are broad and vague often read on a range of commercial embodiments, allowing their owners to pursue many diverse targets.

As the cannabis business landscape matures and profits and market share increase, those in the cannabis industry are expected to increasingly face the familiar threat of patent demands.

What does the battlefield look like?

The patent demand business has faced some major setbacks over the last decade. Since at least the mid-2000s, patent assertion entities have been at the center of a charged debate over patent policy, one that culminated with Congress' passage of the Leahy-Smith America Invents Act in 2011.

As part of broader reforms to the patent system implemented in the AIA, in part to curb abusive litigation practices, the AIA created a set of procedures for challenging the validity of patents before a newly created Patent Trial and Appeal Board within the U.S. Patent and Trademark Office.[3] PTAB proceedings are formal administrative adjudications conducted before a panel of administrative patent judges.

Compared to district court litigation, PTAB trials are streamlined. They examine only whether the patent should have been issued in the first place, not whether the patent has been infringed. PTAB proceedings involve little if any discovery. By statutory mandate, PTAB proceedings must be concluded within a year of being instituted.[4]

All these features make PTAB proceedings a cost-effective, typically faster alternative to resolving patent validity before a district court. In general, district courts agree. From 2012 to 2019, district courts granted 80% of motions seeking to stay litigation pending review of an asserted patent by the PTAB.[5] While the stay rate varies depending on the jurisdiction, at a high level, this statistic indicates that district courts are generally willing to put the brakes on litigation to allow the PTAB to assess whether the patent is valid in the first place.

This is good news for defendants in patent litigation because a stay stops the financial hemorrhaging associated with discovery, removing a key source of leverage for the patent assertion entity. A critical aspect of patent assertion entity strategy is to capitalize on the fact that defendants who market a product will inevitably face significantly higher discovery burdens than the patent assertion entity will.

The leverage a patent assertion entity gains from discovery increases as time marches on in the litigation. The longer the district court action is active, the more the defendant is exposed to invasive discovery about the accused acts of infringement. Infringement discovery commonly involves finding and turning over confidential documentation about how products are made, how they work, and how much money the defendant is making.

This discovery process also subjects engineers and those involved in product marketing to deposition. Independent of the costs and burdens associated with discovery, fees and costs to litigation counsel accrue as time passes. A 2018 patent litigation study by PricewaterhouseCoopers LLP reported that the median time to trial in patent litigation was almost 2.5 years (over 910 days).[6]

If a defendant pursues inter partes review before the PTAB within one year of the suit's being filed, however, median pendency of a district court action until a stay is granted drops to 210 days.[7] Furthermore, the earlier in the litigation the petition for inter partes review is filed at the PTAB, the earlier a stay can be obtained.

While a stay does not terminate the litigation, it typically stops the discovery process and shifts the focus of the dispute to the PTAB, where the patent's validity is now being called into question. In this way, a stay of litigation pending review by the PTAB has the additional benefit to the defendant of casting a cloud over the validity of the patent. This is because, in order to initiate an inter partes review against a patent, the petitioner for such review must show that "there is a reasonable likelihood that the petitioner would prevail." [8]

If the PTAB makes such a finding and starts the proceeding, there is good reason to think the patent claims will ultimately be found invalid. Statistics bear this expectation out. According to USPTO, the PTAB finds all of the challenged claims invalid in 63% of PTAB cases, finds some of the claims valid and some invalid in 18% of PTAB cases, and upholds all of the claims in only 19% of PTAB cases.[9]

As a result of the threat posed by the PTAB, leverage shifts to the patent challenger. In 2019, 16% of PTAB proceedings settled before the PTAB decided whether to institute and 29% of instituted PTAB proceedings settled before the adjudication concluded. These statistics show that patentees faced with the threat of losing their patent before the PTAB are frequently inclined to settle. In doing so, they are unlikely to be settling on their own terms. For these reasons, the PTAB has become a powerful tool against patent demands, even if not pursued to completion.

Pursuing review before the PTAB does not come without a cost. Electing the PTAB as the primary venue to challenge patent validity will limit the defenses that can later be brought in litigation due to statutory estoppels.[10]

PTAB proceedings are also complex, conducted before judges who have expertise in adjudicating patent validity issues, and governed by a web of statutes, regulations and agency precedents that make PTAB practice particularly specialized. In this regard, if the PTAB option is utilized, it is important to pursue that strategy with the right counsel and with the expectation that the procedure itself can be a cost-intensive commitment.

The best defense is a good offense.

Those in the technology sector are familiar with the patent demand threat and battlefield discussed above. They also know that fending off patent demands can be a full-time job, one that distracts from business operations and consumes financial resources. This makes responding to patent demands an endeavor that companies should plan for so that they can respond swiftly and forcefully.

Here we describe a systematic approach to handling patent demands that aims to: (1) stay the litigation early, thereby minimizing or even eliminating discovery costs, and (2) send a strong message to the

demanding party, namely, that your company is not a soft target willing to simply payout settlements. This approach involves quickly and systematically responding to patent demands with an immediate counterthreat of inter partes review before the PTAB.

The first tenet of this strategy is to respond quickly. It is natural to delay engaging with a threat in the hopes that it will disappear or be resolved on its own; and patent assertion entities exploit this inclination. As time passes, the costs and burdens associated with litigation increase, thereby increasing the attractiveness of paying out a settlement; again, assertion entities know this and aim to capitalize on it.

The closer to responding to discovery the defendant is drawn, the higher that settlement is likely to become. To this end, the sooner PTAB review is sought the better. When deciding whether to grant a stay, district courts consider the stage of the litigation and whether letting the PTAB resolve validity will simplify issues. Responding swiftly also maximizes the cost-savings that come from a stay because discovery is arrested earlier.

The second tenet of this strategy is to mount a strong response. As soon as the patent demand comes in, determine whether the patent is strong or weak and what the best prior art is. Putting together a forceful invalidity defense based on prior art is often the strongest and most economical approach to formulating a counter threat. While noninfringement defenses may often appear viable, they can take years to crystallize and, even then, are often not amenable to resolution on summary judgment.

By that stage of the litigation, the assertion entity has already succeeded in drawing the defendant into a costly dispute. By contrast, a prior art attack can be developed rapidly and readily formed into a petition for inter partes review. That petition can be shared with the patent owner before it is filed (a so-called pocket IPR) or filed immediately with the PTAB, thereby immediately shifting the focus from infringement to patent validity.

The third tenet of this strategy is to stick to your guns and respond swiftly and forcefully to all patent demands. Once settlements are paid, there is the risk of being viewed by other patent assertion entities as a soft target. Soft targets get more demands. As the cannabis marketplace grows in scope, patent assertion entities will have numerous targets from which to choose. Being regarded as a dangerous bear to poke, one that will not allow a patent assertion entity to make a demand and expect a handout, can save resources in the long run.

The strategy outlined above is designed to earn and maintain such a reputation. It involves use of the PTAB to mount a swift and deadly attack, seize leverage in the dispute and minimize costs associated with discovery. A PTAB strategy can be budgeted and proceeds on a relatively predictable timeline. In sum, the conventional wisdom holds true for patent demand response: The best defense is a good offense.

Patent demands are an inherent risk of doing business in an innovative field. Today, cannabis is just that. As the cannabis field matures, it is likely to become more prone to the same types of threats that have long been a feature of the technology sector. Those in the cannabis industry should therefore take steps now to ensure that they are prepared and have a strategy.

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[1] Matthew Bultman, Cannabis Patent Activity Surges Amid Industry Gold Rush, Law360 (Oct. 16, 2019), available at <https://www.law360.com/articles/1203746/cannabis-patent-activity-surges-amid-industry-gold-rush>; Matthew Kamps, The Number Of Cannabis-Centric Patents Is Getting High, Law360 (Oct. 10, 2019), available at <https://www.law360.com/articles/1206064>.

[2] David Bienenstock, Leafly investigation: Inside the billion-dollar race to patent cannabis, Leafly (Dec. 9, 2019), available at <https://www.leafly.com/news/industry/the-race-to-patent-cannabis-is-turning-into-a-war>.

[3] The AIA created three types of challenges: inter partes review (“IPR”); covered-business method (“CBM”) review; and post-grant review (“PGR”). Each has distinct eligibility requirements. To date, IPR proceedings have proven to be the most widely utilized.

[4] 35 U.S.C. § 316(a)(11).

[5] Based on a total of 1,558 motions to stay litigation pending inter partes review that were either granted outright (1,244) or denied outright (314). This excludes motions that were granted or denied in part, denied without prejudice, or decided on a request for reconsideration.

[6] PricewaterhouseCoopers, 2018 Patent Litigation Study (May 2018), available at <https://www.pwc.com/us/en/forensic-services/publications/assets/2018-pwc-patent-litigation-study.pdf>.

[7] Average pendency was calculated across 626 actions where a motion to stay pending inter partes review was filed and granted within one year of the case’s filing date.

[8] 35 U.S.C. § 314(a).

[9] U.S. Patent & Trademark Office, Trial Statistics IPR, PGR, CBM, Patent Trial and Appeal Board (Jan. 2020), available at https://www.uspto.gov/sites/default/files/documents/trial_statistics_20200131.pdf.

[10] 35 U.S.C. § 315(e).