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UNITED STATES DISTRICT COURT

FOR THE CENTRAL DISTRICT OF CALIFORNIA

LAWRENCE B. LOCKWOOD, PANIP, LLC, Plaintiffs, vs. SHEPPARD, MULLIN, RICHTER &HAMPTON, LLP, JONATHAN HANGARTNER, STEVE P. HASSID, Defendants.	CASE NO. CV09-5157 JFW (AGRx) The Honorable John F. Walter Ctrm: 16 **DECLARATION OF JOHN R. THOMAS IN SUPPORT OF PLAINTIFFS' OPPOSITION TO DEFENDANTS' SPECIAL MOTION TO STRIKE** Hearing Date: November 9, 2009 Time: 1:30 p.m. Ctrm: 16

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1. Personal Background. I am a tenured, full Professor of Law at the Georgetown University Law Center in Washington, D.C. I currently teach courses in patent law and international intellectual property law. Prior to taking the position at Georgetown University, I served as an Associate Professor at the George Washington University, also in Washington, D.C. I am admitted to the patent bar and formerly worked as a practitioner before the courts and the U.S. Patent & Trademark Office ("PTO"). I received a J.D. from the University of Michigan Law School and an LL.M. in Patent and Intellectual Property Law from George Washington University Law School. I also received a B.S. degree in Computer Engineering from Carnegie Mellon University. I worked for many years as an Instructor at the PTO Patent Academy under the direct supervision of the current Commissioner of Patents. In this capacity, I trained numerous patent examiners on principles of patent law and procedure. I have served as a Special Master in seven patent infringement cases in federal district court. I have also served as an expert witness in the field of patent law and procedure in numerous U.S. patent cases involving the PTO as well as patent cases abroad.

2. I have published widely in the field of patent law and practice before the PTO, including an intellectual property law hornbook and a patent law treatise that review PTO procedures. I have also published articles addressing PTO procedures and practice in such journals as the University of Illinois Law Review and the Berkeley Technology Law Journal. In addition, I have testified before Congress on several occasions, with some of my testimony directed towards improving patent quality through reform of PTO procedures. My curriculum vitae is attached as Exhibit A.

3. I have been retained by Lawrence B. Lockwood and PANIP, LLC, to assist them in this litigation. I have been asked: (1) to explain the customary and procedural aspects of the patent reexamination process through the PTO which are commonly known and understood by members of the patent bar, and (2) to explain the duties and obligations of licensed patent attorneys towards the PTO in the context of

reexamination. In addition, I have been asked to review and give my opinion on whether, under the facts of this case, those duties and obligations have been fulfilled based upon the reasonably objective standards set by patent law and regulations. I am compensated for my time in this matter at an hourly rate of $600.

4. Materials Reviewed.

In preparing this declaration I have reviewed U.S. Patent No. 6,289,319 (the '319 Patent), U.S. Patent No. 5,576,951 (the '951 Patent) (the "Patents"), and U.S. Patent No. 4,359,631 (the "631 Patent"), which was subsequently reissued as U.S. Patent No. Re. 32,115. I have also reviewed the reexamination files of the '319 Patent and '951 Patent, including the two Requests for Reexamination for the '319 Patent and '951 Patent filed on May 5, 2003, by Sheppard Mullin, Richter & Hampton LLP ("Sheppard Mullin"). In addition, I have reviewed the Declaration of Mr. David G. Kay.

5. This analysis is preliminary and subject to change based on continuing investigation during discovery and subject to receipt of additional information or reports from either party or their experts. I therefore reserve the right to amend or supplement my opinions accordingly.

6. Summary of this Declaration.

In my professional opinion as an expert in PTO procedure and the professional obligations of those who practice before the PTO, the two Requests for Reexamination materially misrepresented the application of prior art references to the claims of the '319 and '951 Patents. Absent these representations, the USPTO would not have reached its decision to grant the two Requests for Reexamination. As a direct result of these misrepresentations, a cloud was placed over the '319 and '951 Patents that resulted in their effective unenforceability during the lengthy pendency of the two reexamination proceedings.

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Background of Patent Law Terms Commonly Understood by the Patent Bar and Applied To Evaluation of Requests for Reexamination

7. The Requirement of Novelty.

In order to be patentable, an invention must be novel. A determination of novelty requires two distinct inquiries. First, a determination must be made as to which sources from the universe of available knowledge are pertinent to the novelty inquiry. The Patent Act defines these sources—usually termed "references"—that may be used to judge the novelty of the claimed invention in 35 U.S.C. §102. The sum of these references is denominated the "prior art." Once the prior art has been identified, the second inquiry is whether the invention described in the patent is identical to any one of those prior art references. It is important to note that a claimed invention is novel unless a single reference strictly anticipates it—that is to say, unless a single prior art reference discloses each and every limitation of the claim. This fundamental patentability standard was widely known and accepted by those licensed to practice before the PTO in 2003 at the time of the Requests for Reexamination were made. It was also set forth in case law well known to those licenses to practice before the PTO in this time frame. See, e.g., *Amgen, Inc. v. F. Hoffman-LA Roche Ltd.*, 580 F.3d 1340 (Fed. Cir. 2009).

8. Requirement of Non-obviousness.

In addition to meeting the requirement of novelty, the claimed invention must also be non-obvious. Section 103(a) of the Patent Act explains that an invention may not be patented "if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." 35 U.S.C. § 103(a) (2006). The definitions of obvious and non-obvious are well known to patent law practitioners. For example, in its recent opinion in *KSR v. Teleflex*, 550 U.S. 398, 399 (2007), the Supreme Court confirmed its earlier holding in *Graham v. John Deere Co.*, 383 U.S. 1 (1966) that "[u]nder § 103,

the scope and content of the prior art are to be determined; differences between the prior art and the claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved . . . . Such secondary considerations as commercial success, long felt but unresolved needs, failure of others, etc., might be utilized to give light to the circumstances surrounding the origin of the subject matter sought to be patented. As indicia of obviousness or non-obviousness, these inquiries may have relevancy." 383 U.S. at 17-18. A practitioner before the PTO during the period the requests for reexamination were made in this case would have been aware of the definitions of obvious and non-obvious and the standards regarding the same.

9. The Manual of Patent Examining Procedure.

The PTO publishes a lengthy practice manual titled the Manual of Patent Examining Procedure, or MPEP. In my experience, attorneys practicing before the PTO must be and are very familiar with the MPEP. "The MPEP [is] commonly relied upon as a guide to patent attorneys and patent examiners on procedural matters." *Litton Sys., Inc. v. Whirlpool Corp.*, 728 F.2d 1423, 1439 (Fed.Cir.1984). *See Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1425 (Fed. Cir.1988); *In re Kaghan*, 387 F.2d 398, 401 (1967) ("[A]n applicant should be entitled to rely not only on the statutes and Rules of Practice but also on the provisions of the MPEP in the prosecution of his patent application.") (cited with approval in *Mars, Inc. v. H.J. Heinz Co.*, 377 F.3d 1368, 1375-76 (Fed. Cir. 2004)).

10. While the MPEP does not have the force of law, it is entitled to judicial notice as representing the PTO's interpretation of statutes or regulations. *Molins PLC v. Textron*, 48 F.3d 1172, 1180 n. 10 (Fed. Cir.1995) (The MPEP "does not have the force of law, [but] is entitled to judicial notice as an official interpretation of statutes or regulations as long as it is not in conflict therewith."). Practitioners before the PTO must be and are aware that patent examiners rely on the MPEP.

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Fundamentals of So-Called Ex Parte Reexaminations

11. Reexamination proceedings were introduced into the patent system in 1980. In 1999, Congress renamed the existing proceedings "*ex parte* reexaminations," and also introduced a new sort of proceeding termed an "*inter partes* reexamination." American Inventors Protection Act of 1999, Pub. L. No. 106-113. Under the *ex parte* reexamination regime, any person may challenge an issued patent by citing a prior art patent or printed publication to the PTO. It is insufficient merely to place prior art references before the examiner; rather, pursuant to Section 302, the examiners rely on the writing setting forth "pertinency and manner of applying cited prior art to every claim for which reexamination is requested." 35 U.S.C. § 302 (2006). This requirement for characterizing and comparing the prior art with the patented invention in a formal written request was also widely known and accepted by those licensed to practice before the PTO in 2003 at the time of the Requests for Reexamination were made.

12. The Patent Act next requires the PTO to "determine whether a substantial new question of patentability affecting any claim of the patent concerned is raised by the request, with or without consideration of other patents or printed publications." 35 U.S.C. § 303(a) (2006). The PTO is allotted only three months from the date the request for reexamination was filed to reach this decision. *Id.* The PTO considers the standard for reexamination met when "there is a substantial likelihood that a reasonable examiner would consider the prior art patent or printed publication *important* in deciding whether or not the claim is patentable." MPEP § 2642 (emphasis in original). If a substantial new question of patentability exists, the USPTO will issue an order for reexamination of the relevant patent. 35 U.S.C. § 304 (2006). Additionally, examiners are instructed to "not decide, and no statement should be made as to, whether the claims are rejected over the patents and printed publications" in the order granting the request for reexamination. MPEP § 2246.

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These procedures were widely known and accepted by those licensed to practice before the PTO in 2003 at the time of the Requests for Reexamination were made.

13. The reexamination proceeding then continues following the usual rules for examination of applications. 35 U.S.C. § 305 (2006). The PTO examiner compares the teachings of early publications, patents, and other relevant prior art with a patent's claims in order to determine whether the patented invention meets the requirements of novelty and non-obviousness. The examiner then issues a "First Office Action," that may either uphold the patent, or reject it in whole or in part. 35 U.S.C. § 132(a) (2006). A patent applicant is afforded an opportunity to respond to an *examiner's* rejection. Typical applicant responses include argument that the examiner's rejection was improper, or the introduction of amendments to the claims in order to overcome a rejection based upon the prior art. Id.

14. If the examiner remains unconvinced by the applicant's response, he will issue a Second Office Action titled a "Final Rejection." Dissatisfied applicants may pursue an appeal at the PTO Board of Patent Appeals and Interferences. 35 U.S.C. § 306 (2006). The reexamination proceeding terminates with the issuance of a certificate that may confirm or cancel particular claims of the patent, and possibly incorporate new or amended claims as well. 35 U.S.C. § 307 (2006).

15. It should be appreciated that although this proceeding is nominally termed an "*ex parte* reexamination," it does not operate in an ex parte fashion in the usual sense, meaning that there is no adversary or opponent in the proceeding. As a matter of fact, the patent holder in a reexamination proceeding is given notice and asked to file an opposition to the challenge to his patent. Also, as patent practitioners are well aware, an ex parte reexamination before the PTO is not like the ex parte appearance in other contexts.

For example, Black's Law Dictionary defines ex parte as a "proceeding in which not all parties are present or given the opportunity to be heard." Black's Law Dictionary 1221 (7th ed.1999). In *United States v. Abreu*, 202 F. 3d 386 (1st Cir.

2000), the court defined "*ex parte*" as "[d]one or made at the instance and for the benefit of one party only, and without notice to, or argument by, any person adversely interested." Id. at 390.

This definition of the term *ex parte* does not appropriately describe the so-called *ex parte* reexamination proceeding before the PTO which is a hybrid of *ex parte* and *inter partes* practice. *In re Opprecht*, 868 F.2d 1264, 1265 (Fed. Cir. 1989). Once the PTO determines that the requestor's submissions raise a substantial new question of patentability to exist, it customarily issues a First Office Action rejecting at least some of the patent's claims. *See* Roger E. Schechter & John R. Thomas, Principles Of Patent Law § 7.5 (2d. ed. 2004) ("Because the PTO has determined that a substantial new question of patentability exists, ordinarily the First Office Action includes a rejection of at least one of the claims."). The patent proprietor is then given notice and afforded multiple opportunities to respond to the PTO rejection. 35 U.S.C. § 305 (2006). If the patent proprietor does not respond to this rejection in a manner satisfactory to the PTO, then the rejected claims will be cancelled. 35 U.S.C. § 307 (2006).

16. In addition, the reexamination statute also allows a patent owner to file a preliminary statement following the PTO's issuance of the order for reexamination. 35 U.S.C. § 304 (2006). If the patent owner does so, then the requestor may file a reply to the patentee's statements. *Id.* This interchange does not commonly occur because the PTO has already made the determination that a substantial new question of patentability exists, and patent owners do not commonly invite further participation by the patent's opponent. *See* Roger E. Schechter & John R. Thomas, Principles Of Patent Law § 7.5.4.1 (2d ed. 2004) ("As a practical matter, because most patentees do not wish to encourage further participation by the requestor, few preliminary statements are filed."). The possibility of this additional round of argument between the patent owner and the patent's challenger nonetheless reveals that Congress did not fashion these procedures in a manner typical for *ex parte* proceedings.

17. *Ex parte* reexaminations therefore follow a set of procedures quite distinct from more traditional ex parte proceedings, such as obtaining a license with the Federal Communications Commission. Not only does the USPTO hear from both the reexamination requestor and the patent proprietor during the so-called ex parte reexamination proceedings, the views advanced by the party whose interest is adversely affected—the patent proprietor—constitute the core component of the proceeding. It is my expert opinion that the reexamination proceedings before the PTO involving the Lockwood Patents were not ex parte non adversarial proceedings of the type that may occur before the Federal Communications Commission. Mr. Lockwood as the patent holder was given notice by the PTO of the Request for Reexamination and did in fact appear through counsel before the PTO to defend his patents.

Relevant Legal Requirements for Practice Before the PTO

18. Both the courts and the PTO itself have long recognized that this agency relies to a great extent upon forthright conduct by licensed patent practitioners. Practitioners before the PTO are aware that they are held to the highest degree of candor and good faith and that this is the premise upon which the patent system operates. *See, e.g., Kingsland v. Dorsey*, 338 U.S. 318, 319 (1949) ("[T]he relationship of attorneys to the Patent Office requires the highest degree of candor and good faith.") (cited with approval in *Lipman v. Dickinson*, 174 F.3d 1363 (Fed. Cir. 1999)). The PTO's reliance upon the patent bar is in part reflected by the certification requirement that the agency imposes upon individuals who wish to practice before it. Uniquely among administrative agencies in the United States, the PTO requires potential patent practitioners to pass a special examination in order to demonstrate their competence. 35 U.S.C. § 31 (2006); *see* Lisa Kennedy, *Patent Agents: Non-Attorneys Representing Inventors Before the Patent Office*, 49 Advocate 21 (July 2006).

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19. Individuals who pass the patent bar examination become members of a specialized bar in which the PTO reposes a great deal of trust. The PTO maintains no scientific laboratories to confirm the arguments of individuals requesting reexamination. Examiners cannot compel production of evidence in reexamination and other proceedings. Further, examiners are only allocated a short amount of time in which to perform their duties, including reviewing and responding to a reexamination request.

20. It should further be appreciated that the PTO is widely regarded as an agency "in crisis." *See, e.g.*, Dan L. Burk & Mark A. Lemley, The Patent Crisis And How The Courts Can Solve It (2009). PTO examiners have variously been described as overworked, overextended, undertrained, and underpaid. *See, e.g.*, Amy Tindell, *Toward A More Realistic Fact-Finder in Patent Litigation*, 13 Marq. Intell. Prop. L. Rev. 309 (2009); Thomas M . Mackey, *Nanobiotechnology, Synthetic Biology, and RNAI: Patent Portfolios for Maximal Near-Term Commercialization and Commons for Maximal Long-Term Medical Care*, 13 Marq. Intell. Prop. L. Rev. 123 (2009). This is consistent with my personal and expert experience. Even in a time of economic downturn, the number of patent applications filed each month is significantly greater than just a few years ago. These unfavorable conditions have increased the reliance of PTO examiners upon the honest and forthright conduct of patent lawyers. "The PTO, faced with an increasing volume of applications, relies upon the applicant to provide it with material to be used for consideration of the patent and to relieve it of the duty of conducting extensive prior art searches." Todd M. Becker, *Attorney-Client Privilege Versus the PTO's Duty of Candor: Resolving the Clash in Simultaneous Patent Representations*, 71 Wash. L. Rev. 1035, 1045 (1996). These facts were widely known and understood by the patent bar in 2003 at the time of the Requests for Reexamination of the Lockwood Patents were made.

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21. In view of these circumstances, the PTO maintains a Code of Professional Responsibility that governs practice before that agency. 37 C.F.R. §§ 10.20 *et seq*. 37 C.F.R. § 10.18 provides:

> (b) By presenting to the Office (whether by signing, filing, submitting, or later advocating) any paper, the party presenting such paper, whether a practitioner or non-practitioner, is certifying that—
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> (1) All statements made therein of the party's own knowledge are true, all statements made therein on information and belief are believed to be true, and all statements made therein are made with the knowledge that whoever, in any matter within the jurisdiction of the Patent and Trademark Office, knowingly and willfully falsifies, conceals, or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be subject to the penalties set forth under 18 U.S.C. 1001, and that violations of this paragraph may jeopardize the validity of the application or document, or the validity or enforceability of any patent, trademark registration, or certificate resulting therefrom; and
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> (2) To the best of the party's knowledge, information and belief, formed after an inquiry reasonable under the circumstances, that —
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> (i) The paper is not being presented for any improper purpose, such as to harass someone or to cause unnecessary delay or needless increase in the cost of prosecution before the Office;
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> (ii) The claims and other legal contentions therein are warranted by existing law or by a nonfrivolous argument for the extension, modification, or reversal of existing law or the establishment of new law;

> (iii) The allegations and other factual contentions have evidentiary support or, if specifically so identified, are likely to have evidentiary support after a reasonable opportunity for further investigation or discovery; and
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> (iv) The denials of factual contentions are warranted on the evidence, or if specifically so identified, are reasonably based on a lack of information or belief.

22. In addition, the PTO has promulgated a specific provision directed towards the duty of candor that applies to reexamination proceedings. *See* 37 C.F.R. § 1.555. At least one Court of Appeals decision has held that this obligation applies equally to both the patent proprietor and the reexamination requestor. As stated in *Ball Corp. v. Xidex Corp.*, 967 F.2d 1440 (10th Cir. 1992):

> We hold that the duty of candor and good faith in the reexamination proceeding applies to both the requester and the patent defender, as well as to their respective attorneys and agents. We emphasize that the duty implicitly contains an element of intent: The duty applies when a participant in the proceedings is aware, or becomes aware, of information that is material to the PTO's determination of patentability. As the district court noted, this duty includes an obligation to correct misrepresentations to the PTO.

Id. at 1447.

23. Violation of a practitioner's professional responsibilities towards the PTO is termed "inequitable conduct." "Inequitable conduct occurs when a patentee breaches his or her duty to the PTO of 'candor, good faith, and honesty'." *Warner-Lambert Co. v. Teva Pharms. USA Inc.*, 418 F.3d 1326, 1342 (Fed. Cir. 2005) (quoting *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1178 (Fed. Cir. 1995)). The case law of the Federal Circuit establishes a two-element standard for inequitable conduct. First, the patent proprietor must have misrepresented or failed to disclose material

information to the PTO. Second, such nondisclosure or misrepresentation must have been intentional. *See Cargill, Inc. v. Canbra Foods, Ltd.*, 476 F.3d 1359 (Fed. Cir. 2007).

24. The Federal Circuit has explained that a misrepresentation is material, within the context of patent acquisition, if "a reasonable examiner would have considered it important to the patentability of a claim." *Regents of the University of Cal. v. Eli Lilly & Co.*, 119 F.3d 1559, 1570 (Fed. Cir. 1997). As well, "affirmative misrepresentations . . . in contrast to misleading omissions, are more likely to be regarded as material." *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1318 (Fed. Cir. 2006) (citations omitted).

25. With regard to the intent element of inequitable conduct, the Federal Circuit has observed that courts seldom encounter direct evidence of an applicant's intent to deceive. *Merck & Co. v. Danbury Pharm., Inc.*, 873 F.2d 1418 (Fed. Cir. 1989). "Such intent usually can only be found as a matter of inference from circumstantial evidence." *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 822 F.2d 1556 (Fed. Cir. 1989). A pattern of deliberately withholding or mischaracterizing information is most probative of fraudulent intent, particularly if the individual accused of inequitable conduct cannot provide a believable, good faith explanation for its repeated conduct. *See Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253 (Fed. Cir. 1997). Practitioners before the PTO must be and are aware of these standards. I have reviewed the two Requests for Reexamination under these established and well-known patent law standards in reaching my opinions.

26. The Courts as Sole Arbiters of Fraud Before the PTO .

It should further be appreciated that the PTO does not investigate patent applications for compliance with Rule 56. At one time, an internal unit of the PTO informally known as the "Fraud Squad" would review applications for compliance with the standard of inequitable conduct. *See* Harry F. Manbeck, Jr., *The Evolution and Issue of New Rule 56*, 20 Am. Intell. Prop. Q.J. 136, 139 (1992). However, the

USPTO issued a Notice in 1988 announcing that it would no longer investigate and reject patent applications under Rule 56. PTO Notice Regarding Implementation of 37 C.F.R. § 1.56, 1095 Off. Gaz. Pat. OFFICE 16 (Sept. 8, 1988). *See Nilssen v. Osram Sylvania, Inc.*, 440 F. Supp. 2d 884, 898 (N.D. Ill. 2006) (explaining that the USPTO at one time reviewed patent applications for compliance with Rule 56, but has since ceased to do so); MPEP § 2010 ("the Office does not investigate and reject original or reissue applications under [Rule 56].") As a result of PTO relinquishment of its enforcement authority, the courts have become the sole arbiter of inequitable conduct issues. *See Tafas v. Doll*, 559 F.3d 1345, 1358 (Fed. Cir. 2009), *vacated on other grounds*, 328 Fed. Appx. 658 (Fed. Cir. 2009) ("The reach of inequitable conduct is solely within the control of the courts . . . ."). Practitioners before the PTO should be and are aware of the fact that the PTO itself does not have the ability to investigate fraud or inequitable conduct itself but rather that the integrity of the PTO's processes are enforced by private litigants in court.

27. The Duty of Candor and Good Faith Applicable to Reexamination Proceedings.

As applied to reexamination proceedings, the duty of candor and good faith requires practitioners to present only non-cumulative, prior art patents and printed publications that individually, or in combination, establish a *prima facie* case of novelty, non-obviousness, or another ground of patentability. In particular, it is a violation of the duty of candor and good faith to represent that a prior art reference discloses elements that correspond to claim limitations in a patent subject to a reexamination request, when in fact a person of ordinary skill in the art could not locate that disclosure within the reference. It is also a violation of the duty of candor and good faith to misrepresent that the prior art asserted in a reexamination request is more relevant than the prior art that the PTO previously considered. Further, a violation of the duty of candor and good faith occurs when an advocate represents that a reference qualifies as prior art with respect to the patent subject to a reexamination

request, when in fact that reference in no way so qualifies. It is my experience that a patent examiner will rely on the fact that an attorney licensed to practice before the PTO is making a request for reexamination rather than a non-attorney. Attorney practitioners before the PTO must be and are aware of the duty of good faith and candor, and the PTO's reliance on that duty when considering requests for reexamination.

28. The Failure of the Requests for Reexamination of the '319 and '951 Patents to Satisfy the Duty of Candor.

In my professional opinion, the requests for reexamination of the '319 Patent and the '951 Patent fell far below the duty of candor and good faith required of Sheppard Mullin. In particular, Sheppard Mullin consistently misrepresented that the prior art references it brought before the PTO included technical features that corresponded to the limitations of the claims of the '319 and '951 Patents. Sheppard Mullin also misrepresented that the prior art it asserted was more relevant to the validity of the '319 and '951 Patents than prior art that was before the PTO, when in fact none of the asserted references was more relevant than U.S. Patent No. 4,359,631, which was before the PTO. Sheppard Mullin also misrepresented that the "Electronic Mall" reference qualified as prior art with respect to the '319 Patent, when in fact it did not so qualify.

29. Misrepresentations of the "Prior Art" in the Request for Reexamination of the '319 Patent.

I have reviewed U.S. Patent No. 6,289,319 (the '319 Patent) and the three primary references provided with the Request for Reexamination of that patent: "Comp-U-Store," "Globecom," and "Discount Store News." I have reviewed U.S. Patent No. 5,576,951 (the '951 Patent) and the five references provided with the request for reexamination of that patent: "Comp-U-Store," "Globecom," "Discount Store News," "Forbes," and "Kleinberg." I have further reviewed the Declaration of Professor David G. Kay.

30. In view of the Declaration of Professor Kay, I wish to stress that the sheer number of misrepresentations made in both Requests for Reexamination with respect to the teachings of the prior art is extraordinary. To be sure, some elements of the claims of the '319 and '951 Patents can be found in the references advanced by Sheppard Mullin—although I observe that many of the common elements constitute standard components of any computer system, such as a central processing unit, video screen, and keyboard. Yet the elements of the invention that allow for the automated commercial transactions contemplated by these two patents are simply absent from the asserted prior art, by any stretch of argument or imagination.

31. It is my professional opinion that no reasonable practitioner could forthrightly assert that any one of the references asserted by Sheppard Mullin anticipated either the '319 or '951 Patents. It is my opinion that the attorneys from Sheppard Mullin licensed to practice before the PTO did not make these numerous affirmative misrepresentations by accident or mistake. The novelty requirement is a bedrock principle of patent law, known well even by novice practitioners. Under the rule, in order to defeat the novelty of a claim under 35 U.S.C. § 102, a reference must teach each and every element of the claimed invention. As explained by Professor Kay in a most exacting manner, not one of the asserted references is even close to fulfilling this requirement. Put simply, the argument of Sheppard Mullin that any one of the asserted references anticipates even a single claim of the '319 or '951 Patents was an outrageous misstatement, not even close to being accurate.

32. It is also my professional opinion that no reasonable practitioner could forthrightly assert that the claimed inventions of the '319 and 951 Patents would have been obvious in view of the references, and that the attorneys from Sheppard Mullin did not. The argument advanced by Sheppard Mullin within its two Requests for Reexamination is that the references collectively taught all of the limitations of the challenged claims of the '319 and '951 Patents, and that it would have been obvious to a person of ordinary skill in the art to combine those elements. As the Declaration of

Professor Kay explains, however, not all of the limitations of the claimed invention are found within the asserted references. As a result, this assertion is also facially implausible, and simply beyond the ability of even a zealous advocate to make.

33. I further observe that misrepresentations made by Sheppard Mullin incorporated in the two requests for reexamination regarding the independent claims of the '319 and '951 Patents would necessarily apply to the appropriate dependent claims of those patents as well. Under well-understood principles of patent law, a dependent claim references an earlier claim, but then provides additional limitations upon the scope of that claim. 35 U.S.C. § 112 (2006). Dependent claims are interpreted to include all of the limitations of the referenced claim as well as those that are newly recited. Misstatements with respect to an independent claim therefore applied equally to any claims that were dependent upon it.

34. In reaching this conclusion, I am well aware that patent lawyers may appropriately assert aggressive arguments that further the positions of their clients before the PTO. But when these arguments are deliberately made in order to mislead an examiner, they cross the line into fraud and inequitable conduct. As recognized in *Bristol Myers Squibb Co. v. Ben Venue Labs,* 90 F. Supp. 2d 522 (D.N.J. 2000), "[i]t is worth noting that advocacy before the PTO is appropriate. But, there is a line between legitimate advocacy in accordance with the duty of candor, and advocacy that the applicant surely knows has a propensity to mislead the examiner."

35. The Status of the "Electronic Mall" Reference as Prior Art.

In addition to making repeated mischaracterizations of the teachings of the asserted references, the Request for Reexamination of the '319 Patent filed by Sheppard Mullin also misleadingly asserts that the "Electronic Mall" reference qualifies as prior art against the '319 Patent under 35 U.S.C. § 102(b). In fact, as a matter of rudimentary patent law, no legitimate argument can be made that the "Electronic Mall" reference so qualifies.

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36. Section 102(b) of the Patent Act states that a "printed publication in this or a foreign country . . . more than one year prior to the date of the application for patent in the United States" qualifies as potentially patent-defeating prior art. The Request for Reexamination for the '319 Patent describes the "Electronic Mall" reference as "a users [sic] manual that CompuServer [sic] provided to merchants participating in the Electronic Mall program." Request at 7. It further states that "this manual is believed to be a 1986 version." *Id.*

37. An initial difficulty with the assertion is that the term "printed publication" is a term of art within the patent law, and the nomenclature is well known to practitioners before the PTO such as Sheppard Mullin. The Federal Circuit has recently confirmed the longstanding principle that in order to qualify as a printed publication under § 102(b), a reference must be publicly accessible. *Cordis Corp. v. Boston Scientific Corp.*, 561 F.3d 1319 (Fed. Cir. 2009). In particular, a "document is publicly accessible if it 'has been disseminated or otherwise made available to the extent that persons interested and ordinarily skilled in the subject matter or art, exercising reasonable diligence, can locate it and recognize and comprehend therefrom the essentials of the claimed invention without need of further research or experimentation.'." *Id.* at 1333 (citations omitted). In the *Cordis* case, the Federal Circuit concluded that the distribution of a monograph to a limited number of entities, even without a legal obligation of confidentiality, did not rise to the level of a "printed publication." Id. at 1334-35.

38. In view of this well-known and established standard, my professional opinion is that the "Electronic Mall" reference cannot plausibly qualify as a "printed publication" under §102(b). The "Electronic Mall" reference was explicitly designated as "confidentiality and proprietary," was provided only to individual merchants that participated in a specific corporate program, and was issued only upon the condition it be returned upon the completion of that program. Under these circumstances, the "Electronic Mall" reference utterly lacks the trait of public

accessibility that is essential to a finding that it qualifies as a "printed publication" under 35 U.S.C. § 102(b). Rather, the only indication is that the "Electronic Mall" reference was distributed in a confidential and proprietary manual—circumstances that the patent law has long deemed to disqualify the reference as prior art. *See, e.g., Constant v. Advanced Micro-Devices, Inc.*, 848 F.2d 1560, 1569 (Fed. Cir. 1998).

39. Worse yet, the "Electronic Mall" reference incontestably does not qualify as prior art against the '319 Patent under § 102(b) because of its publication date. The '319 Patent issued from a number of so-called "continuing applications." 35 U.S.C. § 120 (2006). These applications are sometimes called "continued" or "continuations". Stated generally, continuing application practice allows an applicant to obtain additional opportunities for examination at the U.S. Patent and Trademark Office (PTO). By so doing, applicants may negotiate further with a patent examiner, amend claims, submit new claims, and gain more time to prepare evidence to be submitted to the USPTO in support of their applications. *See* John R. Thomas, Pharmaceutical Patent Law 246 (2005).

40. Several types of continuing applications exist. Two of these types are "continuation" and "continuation-in-part" applications. A continuation application discloses the same subject matter as the predecessor application. A continuation-in-part application, or CIP, adds some additional subject matter to the predecessor application. *See Transco Products Inc. v. Performance Contracting Inc.*, 38 F.3d 551, 555 (Fed. Cir. 1994).

Section 120 of the U.S. Patent Act imposes several technical requirements that must be met with respect to continuing applications. First, the continuing application must be filed prior to the patenting, abandonment, or termination of proceedings of the predecessor application. Second, the predecessor application and continuation application must have at least one inventor in common. Third, the continuation application must expressly identify the predecessor application. Fourth, to be entitled to the benefit of the filing date of the predecessor application, claims within the

continuing application must be fully supported by the technical disclosure found within the predecessor application. Claims that reference "new matter" found in the continuing application, but not in the predecessor application, are entitled only to the actual filing date of the continuing application. As noted previously, such applications are termed continuation-in-part or CIP applications. *See* John R. Thomas, Pharmaceutical Patent Law 246 (2005). The standards governing continuing applications form a fundamental part of patent practice, and were well-understood among even entry-level patent practitioners at the time the two requests for reexamination were filed.

41. As noted, the '319 Patent issued from a series of continuing applications, with the original application filed o May 24, 1984. That application was followed by a continuation-in-part application on January 24, 1986, and then by several continuation applications. In terms of §102(b), then, the '319 Patent is accorded a filing date of May 24, 1984, or, to the extent new matter was added to the application, January 24, 1986. As a result, to qualify as prior art under §102(b), a publication must quite clearly have been published one year before the latest possible filing date—namely, by January 24, 1985.

42. As PTO-licensed patent attorneys, the lawyers of Sheppard Mullin plainly knew that the assertion that the "Electronic Mall" is prior art applicable to the '319 Patent is entirely specious. Further, this issue is not one of subtle law—determining that a reference published in 1986 was not available as of January 24, 1985, is hardly a difficult calculation. It is not credible that this assertion resulted from ignorance or negligence on behalf of these licensed patent lawyers, particularly in view of the numerous other misrepresentations made in the two Requests for Reexamination.

43. The portrayal of the "Electronic Mall" reference as a printed publication that qualified as prior art should be viewed of the context of the other references Sheppard Mullin presented to the PTO. The "Electronic Mall" manual incorporates approximately 150 pages of detailed information. Absent the "Electronic Mall", the

references accompanying the Request for Reexamination of the '319 Patent—namely, the "Comp-U-Store," "Globecom," and "Discount Store News" references—would have collectively comprised a quite modest total of 14 pages. Further, the disclosures of these references are much more abstract than that of the "Electronic Mall" manual. In my professional opinion, the "Electronic Mall" reference plainly formed the centerpiece of Sheppard Mullin's case in its Request for Reexamination of the '319 Patent. I also conclude that even in view of all the other misrepresentations included in this reexamination request, the PTO would have been far less likely to grant the request had the "Electronic Mall" reference not been included.

44. The misleading assertions regarding the "Electronic Mall" nonetheless impacted the PTO's decision to grant reexamination with respect to the '319 Patent. The Order Granting Request for Ex Parte Reexamination of the '319 Patent specifically refers to the "Electronic Mall" reference as raising a substantial new question for patentability. Plainly the PTO examiner relied upon Sheppard Mullin's assertions in issuing this order.

45. The Relationship Between the Asserted References and the Prior Art '631 Patent.

In its Request for Reexamination of the '319 Patent and Request for Reexamination of the '951 Patent, Sheppard Mullin specifically asserted that the references it advanced were more pertinent than what was before the PTO when the patents issued. I have reviewed U.S. Patent No. 4,359,631 (the "631 Patent"), which was subsequently reissued and reexamined as U.S. Patent No. B1 Re. 32,115. I have also reviewed the Declaration of Professor Kay, which explains that the '631 Patent was a more pertinent prior art reference than any of the references submitted in either Request for Reexamination.

46. In view of the findings of Professor Kay, it is also my professional opinion that Sheppard Mullin misrepresented that its asserted references were more pertinent to the patentability determinations of the '319 and '951 Patents. The '631

Patent plainly incorporates more comprehensive and directed teachings with respect to the subject matter of the '319 and '951 Patents than do any of the references identified in the two Requests for Reexamination. In my professional opinion, Sheppard Mullin was obligated to review the prior art before the PTO when it chose to allow the '319 and '951 Patent to issue, and to ensure that any references identified in a Request for Reexamination were of greater relevance to issues of patentability. In particular, Sheppard Mullin should have determined that any newly asserted prior art was not cumulative to the prior art of record, that it identified prior art technologies that were not known to the PTO, that it was more comprehensive in its teachings, or any other factor that would negatively impact the validity of the '319 and '951 Patents. Sheppard Mullin plainly failed successfully to do so in this case.

47. Consequences of Misrepresentations of the References in the Request for Reexamination of the '951 Patent.

The pattern of misleading conduct evidenced in the two Requests for Reexamination demonstrates that Sheppard Mullin was not merely ignorant or negligent. Rather, I cannot come to any other conclusion and there is no other rational conclusion but that Sheppard Mullin expressly intended to deceive the PTO by making a series of material misrepresentations. In my professional opinion, Sheppard Mullin attorneys took advantage of the trust the PTO reposed in them as licensed patent lawyers to provide candid, forthright, and honest analysis of the prior art in order to place a cloud on the title of the '319 and '951 Patents that would last for many years.

48. In making these misrepresentations, Sheppard Mullin was well aware that PTO examiners do not make a full or independent investigation of the facts relating to the reexamination request. Rather, a reasonable PTO examiner would have relied upon the material misstatements of Sheppard Mullin in reaching his decision to issue an order granting a request for reexamination. The Patent Act requires the PTO to determine whether a substantial new question of patentability exists within a short time frame—a mere three months—from the date the request for reexamination was

filed. 35 U.S.C. § 303(a) (2006). Additionally, examiners are instructed to "not decide, and no statement should be made as to, whether the claims are rejected over the patents and printed publications" in the order granting the request for reexamination. MPEP § 2246. As two experienced patent attorneys recently observed, "[t]here is a time lag between ordering reexam and the examiner's actual consideration of the patentability of the claims over the prior art." *See* Paul Morgan & Bruce Stoner, *Reexamination vs. Litigation—Making Intelligent Decisions in Challenging Patent Validity*, 86 J. Pat. & Trademark Off. Soc'y 441, 444 (2004) (emphasis added).

49. The time lag explains why "[h]istorically, the [PTO] has found a substantial new question in almost every ex parte request . . . ." J. Steven Baughman, *Reexamining Reexaminations: A Fresh Look at the Ex Parte and Inter Partes Mechanisms for Reviewing Issued Patents*, 89 J. Pat. & Trademark Off. Soc'y 349 (2007). It was commonplace knowledge in the patent community that the USPTO grants requests for ex parte reexamination at a rate of approximately 94%. This PTO policy is in part founded upon the agency's expectation of and reliance on honest and forthright conduct from licensed patent practitioners.

50. In this respect, the repetitive response of the PTO examiner in issuing orders granting the requests for reexamination is worthy of note. The examiner's orders, which merely parroted language found in Sheppard Mullin's two requests, further confirm that the PTO chose to grant reexamination based upon their misleading assertions. That the assertions of Sheppard Mullin were substantively meritless is further evidenced by the fact that all challenged claims of the '319 and '951 Patents were upheld fully intact following reexamination.

51. It is also my professional opinion that absent the misrepresentations of Sheppard Mullin, the PTO would not have initiated reexamination proceedings with respect to the '319 and '951 Patents. None of the references identified by Sheppard Mullin was more pertinent to these patents than prior art already before the PTO

during their issuance. One of the references, the "Electronic Mall" manual, does not even qualify as prior art under § 102. And the references, individually or collectively, do not even form the basis of a plausible argument that either patent was invalid. I therefore conclude that absent Sheppard Mullin's misrepresentations to the contrary, the PTO simply would not have granted its request for reexamination.

52. It is notorious within the patent community that reexaminations at the PTO typically require many years to complete. The former Director of the PTO, Jon Dudas, testified before the Senate Committee on the Judiciary that "a large number of reexamination proceedings have been pending before the USPTO for more than four years" and further questioned whether this lengthy period of time is consistent with the statutory requirement that "[a]ll reexamination proceedings . . . will be conducted with special dispatch within the Office". Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop, of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Jon W. Dudas, Undersecretary of Commerce for Intellectual Property, Director of the U.S. Patent and Trademark Office). As practitioners familiar with the PTO Sheppard Mullin knew that by filing Requests for Reexamination that persistently misrepresented fundamental facts, it could effectively suppress the '319 and '951 Patents through a lengthy and costly administrative proceeding.

53. Consequences of the Reexaminations of the '319 and '951 Patents.

The consequences to the proprietor of any patent that is subject to unwarranted reexamination proceedings can be severe. At a minimum, the patent proprietor must devote significant resources towards defending the cloud that has been placed on the title of the patent at the USPTO. As Senator Jon Kyl recently explained, merely to mount a defense of one's patent in these proceedings "routinely costs a patent owner hundreds of thousands of dollars in legal fees" and "many smaller companies, universities, and others, when faced with these costs will simply abandon their patent because they lack the money to defend themselves. In many cases simply granting these proceedings is a death sentence for a patent." Senator Jon Kyl, Remarks at

Executive Business Meeting of the Senate Judiciary Committee (March 31, 2009) (available at http://judiciary.senate.gov/webcast/judiciary03312009-1000.ram). It has been my personal experience that reexamination proceedings are costly and can be a financial catastrophe for a patent owner.

54. In addition, patent proprietors generally find that patents subject to reexamination are extremely difficult to exploit financially. In particular, infringers may be unwilling to accept a license of a patent that is under review at the USPTO. Because a patent endures for only a limited number of years, the time lost during often lengthy reexamination proceedings simply cannot be recovered. This situation is particularly true when industrial reliance upon a technology is growing, and the patent proprietor would have found himself in a strong position to license its intellectual property rights but for the pendency of reexamination proceeding.

55. Conclusion.

It is not pleasant for anyone to conclude that licensed patent attorneys have intended to deceive the PTO. This charge is a serious one. It holds significant deleterious consequences for the individuals who have chose to walk this path. It is nonetheless my professional opinion that the repeated conduct of Sheppard Mullin speaks for itself, readily falling into the category of fraud that the Federal Circuit has condemned as an abuse of the patent acquisition system. I therefore conclude that

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Sheppard Mullin engaged in fraudulent and inequitable conduct while filing the Reexamination Requests for the '319 Patent and '951 Patent. The result was that the owner of these patents was both deprived of his ability to benefit financially from them, and also forced to direct considerable time and resources toward defending them.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 21st day of October 2009, in Washington DC.

John R. Thomas