Changes in US Patent Litigation

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Sources of Litigation Reform

• Statutory Changes in the America Invents Act (2011)
  – Venue
  – Best Mode (Prior Session)
  – Prior Use Defense (Prior Session)
  – Interplay with Post-Grant Review (Next Session)
• Decisions by the Supreme Court and Court of Appeal for the Federal Circuit
  – Venue
  – Patent Ownership
  – Damages
  – Infringement, Invalidity, and Unenforceability
  – Patentable Subject Matter (Next Session)
• Local District Court Patent Litigation Rules of Practice
Groundwork

• The *majority* of defendants being sued in US are large, publicly traded companies.
• In these cases, most of the patentees are small companies that have somehow financed the litigation:
  – Contingency fee (no-win-no-pay)
  – Litigation finance companies
  – Buy-then-sue

Protecting Turf

• Still, there are substantial number of lawsuits filed by manufacturing company to protect market against competitor.
• These conflicts are more frequently settled before any public lawsuit filing.
• Prior Contractual Agreement:
  – Forum Selection
  – Agreement to Arbitrate
Patentee vs. Individual Infringer

- Rare that individuals are sued for infringement beyond owner/CEO (But see, EveryMD v. Rick Santorum, Mitt Romney, and Newt Gingrich (2012 C.D. California)).
- US has Extremely narrow experimental use and de minimus use defenses
- 19th Century History of “patent sharks”

US Jury System
Right to Jury Trial

• 7th Amendment to the U.S. Constitution:
  – “In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.”

• Courts Ask:
  – Would this have been subject to a common law jury trial in England in the year 1791?
  – Jury decides issues of fact necessary for common law verdict.
  – Judge decides issues of “law” and also issues of equity.

<table>
<thead>
<tr>
<th>Decision Making Authority</th>
<th>Common Law Issue</th>
<th>Issue from Court of Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question of Fact</td>
<td>Jury*</td>
<td>Judge</td>
</tr>
<tr>
<td>Question of Law</td>
<td>Judge</td>
<td>Judge</td>
</tr>
</tbody>
</table>

But Consider “mongrel” issues such as claim construction, obviousness, and willfulness.
U.S. Jury

• Demographics:
  – Adult US Citizen / Non Felon / English Speaker
    • Cannot be Active Military, Police, Public Officials
    • No expertise required (parties with court may agree otherwise)
    • $40 per day payment + Parking

• Size:
  – Six to Twelve members

• Unanimity Required
  – Sometimes

U.S. Juries

• Jury verdict often seen as “black box” that is difficult to appeal.
• A judge’s decision is easier to review because
  – (1) the judge must provide the reasoning behind any conclusions and
  – (2) a lower standard of review is applied to a judge’s opinion
• Strategies if you think you’ll lose in the first instance:
  – Get judge to decide
  – Get special verdict form that forces juries to answer multiple questions.
### Verdict Form

1. Has Oracle proven by a preponderance of the evidence that Google infringes claim 11, 27, 29, 39, 40, or 41 of United States Patent Number RE38,104?

<table>
<thead>
<tr>
<th>Claim</th>
<th>Yes (Infringing)</th>
<th>No (Not Proven)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claim 11:</td>
<td></td>
<td>✗</td>
</tr>
<tr>
<td>Claim 27:</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Claim 29:</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Claim 39:</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Claim 40:</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Claim 41:</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

2. Has Oracle proven by a preponderance of the evidence that Google infringes claim 1 or 29 of United States Patent Number 6,061,520?

<table>
<thead>
<tr>
<th>Claim</th>
<th>Yes (Infringing)</th>
<th>No (Not Proven)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claim 1:</td>
<td></td>
<td>✗</td>
</tr>
<tr>
<td>Claim 29:</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

### Venue and Forum Shopping
Forum Shopping

- Patent Infringement Lawsuits Normally Filed in Federal District Court
  - Each of the 50 States at least one District (89 total)
  - Each District often has Multiple Court Locations (Divisions)
  - Total of 670+ Federal Judgeships (some not filled). Any one of these can hear patent cases.
  - Patent cases are usually randomly distributed to judges within courthouse where case is filed
Eastern District of Texas

- One of four districts sited within Texas
- EDTX includes six courthouses, each with 1-5 judges.

Patent Pilot-Program

- 10 Participating District Courts.
- Cases Randomly Assigned.
- However, judge can decline patent case and it will then go to one of the designated “patent judges” in the district.
- 10-year pilot started January 2012.
 Practical Considerations in Venue Selection

• Convenience
• Speed
• Court that is friendly and knowledgeable of patent cases
• Amenable jury pool
• Quality local counsel
• Favorable patent rules
• “Home town” advantage

Legal Considerations in Forum Shopping

• Patent “Law” is uniform throughout the USA.
• However, there are ancillary variations.
  – State Law Claims (e.g., Texas Defamation Law);
  – Non-Patent Issues Ruled by Regional Circuit;
  – Litigation Process Rules (Patent Rules)
• The court must have personal jurisdiction over parties
  – Sufficient Minimum Contacts with State: General or Specific
• The particular forum must be “proper” and “convenient” (forum non conveniens)
Joinder of Multiple Defendants

- Normally, a plaintiff (claimant) can file a US lawsuit against multiple defendants so long as those parties if:
  - each of the claims arises from the same transaction or occurrence, and
  - there is a common question of law or fact relating to all claims.

- Until September 2011, patentees have been arguing that “infringement of the same patent” qualifies for joinder.

- AIA Restricts this Practice:
    (b) ALLEGATIONS INSUFFICIENT FOR JOINER.—For purposes of this subsection, accused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit.
    (c) WAIVER.—A party that is an accused infringer may waive the limitations set forth in this section with respect to that party.
Potential Impact of Non-Joinder

- Potentially added legal costs to both parties
- Defendants now treated separately and have more opportunities for discovery and challenge
- Less complicated caption means that courts are now more likely to transfer venue
  - *Federal Circuit continues to be receptive to mandamus action to transfer venue when refused by court*

Non-Joinder Fallout

- Likely fewer defendants being sued.
- However, some defendants unhappy b/c of loss of cover.
- Law still allows cases to be consolidated for pre-trial issues.
- US Multi-District-Litigation (MDL) panel held it is not bound by the law. (*In re Bear Creek Technologies (2012)*)
- *In re EMC (2012)* (Federal Circuit says old joinder process improper even without AIA)
Suing Patentees

• Declaratory Judgment Action
  – Asking court to declare the patent invalid or not infringed
  – Myriad patent case (next session)
• US Constitutional Limits on Standing:
  – Actual Case & Controversy
  – *MedImmune v. Genentech*: Flexible & Liberal test

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*In rem Jurisdiction*: Suing Foreign Patent Holders

*FLAG FOR IMMEDIATE ACTION
Amended 35 U.S.C. 293* Nonresident patentee; service and notice.

• Every patentee not residing in the United States may file in the [PTO] a written designation ... of a person residing within the United States on whom may be served process or notice of proceedings affecting the patent ...

• If the person designated cannot be found at the address given in the last designation, or if no person has been designated, the United States District Court for the *Eastern District of Virginia District of Columbia* shall have jurisdiction and summons shall be served by publication or otherwise as the court directs.

• The court shall have the same jurisdiction to take any action respecting the patent or rights thereunder that it would have if the patentee were personally within the jurisdiction of the court.
US Forum Shopping

• Patent Infringement Lawsuits Normally Filed in Federal District Court
• **Alternative I:** US Action may also be brought in the US International Trade Commission (USITC)
  – Typically faster
  – Power to Grant General Exclusion Orders; but No Damages
  – Many see greater risk of invalidity finding and potential lower quality judgment depending upon ALJ
  – Must be used to protect US Industry
  – But FTC Says: No Trolls; Delayed Injunction Considered
• **Alternative II:** Both District Court and USITC
New Global Patent Litigation Market

- Global smartphone wars
- For the first time, US patent attorneys and patent litigators are recognizing that we have a world market for patent litigation
- Opportunity for UK to be defined as a viable option for US-based companies. (Germany now in the lead). (But European court creates uncertainty).

New Role for Advice from UK on US Litigation

1. Need to generally understand worldwide infringement venues.
2. Court and parties need to understand ongoing related disputes worldwide. See Motorola v. Microsoft (W.D. Wash.) (US Court orders worldwide block on enforcement of foreign judgment)
3. Court needs to understand world-wide patent law to interpret America Invents Act (AIA).
Harmonization as Interpretive Tool

• “Sense of Congress - It is the sense of the Congress that converting the United States patent system from ‘first to invent’ to a system of ‘first inventor to file’ will improve the United States patent system and promote harmonization of the United States patent system with the patent systems commonly used in nearly all other countries throughout the world with whom the United States conducts trade and thereby promote greater international uniformity and certainty in the procedures used for securing the exclusive rights of inventors to their discoveries.”

• Suggestion:
  – Courts need to consider harmonization when interpreting US law
  – Scope of grace period, meaning of “on sale” and “public use”

World Patent Free Zones

• With TRIPS, almost all countries have a patent system. However, the vast majority of countries have very few patents registered.

• A growing number of companies are relying upon these de facto patent free zones to develop and test new product ideas.

• For the US, the nearest patent-free market is Latin America (Mexico + Central America + S. America).
Discovery in Patent Cases

- FRCP 26:
  - Unless otherwise limited by court order, ... parties may obtain discovery regarding any nonprivileged matter that is relevant to any party's claim or defense—including the existence, description, nature, custody, condition, and location of any documents or other tangible things and the identity and location of persons who know of any discoverable matter. ... Relevant information need not be admissible at the trial if the discovery appears reasonably calculated to lead to the discovery of admissible evidence.

- New model e-discovery rules for patent cases
  - Idea to limit scope of discovery to focus on core documentation related to the patents at issue and the products
  - Recognize that e-mail discovery is expensive and potentially problematic but is normally not useful.
  - Adopted by some courts and E.D. Texas
  - But see, In re Google Inc. (Fed. Cir. 2012) (agreeing that Google must turn over e-mail)

- Document Retention
  - Should have a policy regarding document retention and destruction.
  - Need a method to apply a "litigation hold"

Substantive Issues

Inequitable Conduct; Damages; Validity; Claim Construction; Ownership; Infringement
Inequitable Conduct

- Patent can be held unenforceable if patentee committed fraud on the USPTO.
  - Patent as a whole (+ bleed-through to family)
  - No statute on point
  - Two cases strongly limit defense
- *Therasense v. BD* (2011)
  - Inequitable conduct requires bad act that is both intentional (intent to deceive) and material (but for cause of patent issuance)
    - Intent to deceive must be the “single most reasonable inference able to be drawn from the evidence.”
    - Materiality: Act must be “but for” cause of patent issuance (unless act is particularly egregious)
    - Once IC is found, judge must then determine whether patent should be held unenforceable. (lesser consequence?)
- *Excergen* (2011)
  - Inequitable Conduct must be pled with particularity (What was the bad act, who did it, what facts show intent to deceive)

Damages in Patent Cases

- Statute requires:
  - “compensatory damages” that are at least a “reasonable royalty”
- Jury sets damage amount for past infringement
- However, award must be based on “substantial evidence”
  - New focus on evidence
  - Distrust of expert testimony (Each party)
- Unclear on “ongoing royalty rate”
- Defense Strategic Difficulty:
  - Propose damage amount?
  - Use alternative calculation method
Treble Damages

- Enhanced damages available when infringement is willful (or willfully blind)
  - Both Objective + Subjective analysis to determine willfulness.
  - Then determine enhancement.
- New law:
    - My prediction: No room left for Jury
  - AIA codifies common law *(Knorr Bremse)* that absence of opinion from counsel cannot be used to prove willful infringement.

American Rule for Attorney Fees

- Each side pays its own attorney fees except in an “exceptional case”
- Most patent cases include request for fees, but usually only apply to particular frivolous motions.
Most cases settle, but when they don’t

- Some confusion about when settlement documents are discoverable in the same suit and/or later suits
  - *IN RE MSTG, INC.* (Fed. Cir. 2012) (license negotiations related to reasonable royalties and damage calculations are not protected by privilege)
  - *Charles E. Hill v. 1-800 Flowers.Com, Inc.*, Case No. 2:11-CV-174 (EDTX 2012) (Patentee ordered to produce draft license agreements and any communications between the plaintiff and third parties that related to negotiations of license agreements to resolve past claims under the patent-in-suit.)
  - Court has expressly not decided existence of mediation privilege or potential scope of settlement negotiation privilege.
    - DC: Written contract between parties *may* prevent disclosure for that case.

Regarding Mediation and Arbitration

- Most U.S. Courts require some mediation, but rarely successful on its own. (Often Magistrate)
- Few arbitrations except when agreed-to pre-dispute
- Few international commercial arbitrations of patent disputes. However, this should play a growing role once we have a better understanding of global patent venues.
Patent Validity

• Microsoft v. i4i:
  – Because already examined, clear and convincing evidence is required for invalidation of a patent
  – However, court may give more weight to evidence not considered by the USPTO.
  – Concurrence: Issues of law require lower standard. (Obviousness)
  – Query:
    • When is evidence “considered” by USPTO

Patent Validity (Obviousness)

• *KSR v. Teleflex* lowered threshold for patent invalidity by asking court to use common sense rather than strict procedure when determining obviousness
• In *Mintz v. Dietz & Watson, Inc.* (Fed. Cir. 2012), the court appears to be pulling-back by focusing attention on the avoidance of hindsight bias.
• *Otsuka Pharmaceutical Co., Ltd. v. Sandoz, Inc.* (Fed. Cir. 2012) (Inventive step approach for chemical cases – identify lead compound and then determine whether prior art would lead POSITA to the new compound)
Appealing PTO Nonpatentability Decisions

• Can either (1) appeal directly to Federal Circuit or (2) file a civil action in a trial court
• *In re Hyon* (Fed Cir. 2012)
  – When appealed directly to CAFC, facts reviewed for substantial evidence
  – Strategy – focus on mistakes of law that are reviewed *de novo*. (*Claim construction + ultimate question of obviousness*)
• Hyatt (Supreme Court):
  – When applicant files a civil action with the trial court and presents new evidence, PTO’s factual findings are reviewed de novo.

Claim Construction Continues to be a Mess

• Claim construction continues to be a mess
  – PTO liberally allows patentees to amend claims and add language not found in original application.
  – Courts rarely find patent disclosures insufficient (enablement + written description)
  – Plethora of claims
  – Trial court judge must write opinion on claim construction and that construction is reviewed *de novo* on appeal.
Patent Ownership

• Ownership is interpreted as a mixture of local law and federal patent law.
  – Most problems arise in employment law; divorce; and bankruptcy.
  – In US, employer usually will not hold patent rights absent written agreement.
  – Stanford v. Roche – Federal Circuit distinguishes between
    (1) present assignment of a future invention; and
    (2) promise to assign the future invention.
  – Trust Problem – Splitting Legal and Equitable Title can cause problems. One party must hold substantially all rights.

Infringement

• Direct Infringement (Make, Use, Sell, Offer to Sell, Import)
  – Single actor
  – Performed each element of claimed invention
  – US Territorial Limitation
• Indirect Infringement
  – Agency Doctrine (Acting on behalf of master)
  – Inducing Infringement / Contributory Infringement
    • Require Underlying Direct Infringement
    • Require Knowledge of the patent and that the result will likely lead to direct infringement
• Pending inquiry: Joint Infringement
  – McKesson and Akamai.
End for Today

• Next Week:
  – Post (and Pre) Grant Review Strategies
  – New Law of Patentable Subject Matter

Patent/Copyright/TM Cases

• John Wiley & Sons v. McDonnell Boehnen Hulbert & Berghoff (MBHB) (N.D. Ill.) (Complaint)
• Kirtsaeng v. John Wiley & Sons, Inc. (SCT 2012)
• Already (YUMS) v. Nike (SCT 2012)