



IP in the Reform Era:

IP as Sword and Shield
for Competitive Survival

April 13, 2010 • Tokyo, Japan

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Time	Topic	Speakers
1:15 pm - 1:30 pm	Registration	
1:30 pm – 1:40 pm	Opening remarks and introduction of speakers by H Wegner, E Doi, and M Kaminski	
1:40 m – 3:10 pm	Mock Corporate Strategy Session — How Can You Respond to Competitive Threats? <ul style="list-style-type: none"> ▪ At a fictional global Japanese corporation, the head of visual media division, director of legal, IP counsel (US) and their IP and IP litigation advisors will decide on strategies to protect their crown jewel products sold in the United States and other parts of the world ▪ Options being evaluated include different pre-litigation/litigation tactics as well as pros and cons of Section 337 ITC investigations 	P Agarwal E Doi B Huey S Maebius L Shatzer
3:10 – 3:30 pm	Coffee Break	
3:30 pm – 4:10 pm	For Greater Good or Evil? — Reaching Out to Fight NPEs <ul style="list-style-type: none"> ▪ Fending off Non-Practicing-Entities (NPEs; sometimes referred to as “trolls”) has become extremely costly for Japanese businesses ▪ This session discusses measures to counter NPEs such as joint defense groups and venue transfer strategies as well as the role of legislation and government agencies 	J Dudas P Agarwal M Lowrie E Doi
4:10 pm – 4:45 pm	New Federal Circuit and Compromise Patent Reform Bills— New Rules of the Game? <ul style="list-style-type: none"> ▪ With the announcement of Chief Judge Paul R. Michel of the U.S. Court of Appeals for the Federal Circuit stepping down shortly, the Hon. Randall R. Rader becomes Chief Judge on June 1, 2010 ▪ Bipartisan compromise on the patent reform bills may be imminent ▪ This session will address changes that can be expected regarding how the Federal Circuit and Patent Reform Bills will influence in protection of IP assets in the United States in coming years 	J Dudas H. Wegner
4:45 pm – 5:30 pm	Hot Topic Round Up — <i>Bilski</i>, <i>Prometheus</i>, Damages, Patent Marking, ITC, and More <ul style="list-style-type: none"> ▪ This session will feature high-impact IP cases and events in the United States that will affect how Japanese companies will develop and protect IP assets, including <i>Bilski</i>, <i>Prometheus</i>, <i>Microsoft v. i4i</i>.(damages) and false patent marking cases ▪ Includes discussion on trends on litigation venues, ITC investigations, and post <i>KSR</i> landscape 	M Kaminski M Lowrie L Shatzer
5:30 pm – 5:35 pm	Closing comments M Kaminski and H Wegner	
5:35 pm – 7:30 pm	Reception at Ma Chambre, 3FL, Izumi Garden	




IP in the Reform Era: IP as Sword and Shield for Competitive Survival

Mock Corporate Strategy Session

How Can You Respond to Competitive Threats?



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IP in the Reform Era: IP as Sword and Shield for Competitive Survival

Mock Corporate Strategy Session — How Can You Respond to Competitive Threats?


Pavan K. Agarwal Etsuo Doi
Robert H. Huey Stephen B. Maebius
Larry L. Shatzer

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IP in the Reform Era: IP as Sword and Shield for Competitive Survival

Players

- From ABC Corporation:
 - Head of Division (Jigyo Hon-Bucho), Visual Media Division: Bob Huey
 - Legal Director (Homu-Hon-Bucho): Etsuo Doi
 - In-House IP Counsel - US: Steve Maebius
- From DEF Law Firm
 - IP Practice Partner: Pavan Agarwal
 - IP Litigation Practice Partner: Larry Shatzer

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The Company

The ABC Corporation is a large successful **publicly traded** multi-national Japanese corporation.

- Their visual media products are highly profitable and the crown jewels of the company
- Products are manufactured in Japan using R&D done in the US and elsewhere, and sold in Japan, the US and numerous other countries.
- Well known for its innovative research and the application of that research to successful products.
- The ABC brand has very strong recognition in the domestic and international markets.
- The typical lead time for designing and manufacturing a product is two years.



The Product

3DTv, the market leader in emerging 3D television sector, is a very well regarded, competitive product

- Had been selling very well in the US, enjoying steady profits and increasing market share until very recently.
- A large competitor, XYZ, with a new division has recently introduced a similar product in the US market at a much lower price.
- ABC does have a new modification for its 3DTv
- ABC needs to respond to XYZ's competitive pressure in the US market .



What Can We Do? – Key Questions

- What should a Japanese company do as a business and legal response to competitive pressure in the U.S. market?
- How should a Japanese company seek legal as well as business solutions?
- What are the major options a Japanese company can consider?
- Is the speed of litigation and success rate for a patentee different depending on jurisdictions?
- How can a party seek to slow down the procedure?
- What legal counter actions can a Japanese company take?
- How would the ITC action by or against the Japanese company affect the decision-making by the Japanese company?



What Non-Litigation Options Do We Have?

- To avoid or mitigate the effect of litigation, what should we first consider?
 - Is work-around possible?
 - Do we have opinion of validity or non-infringement?
 - Is cross-licensing an option?
 - USPTO proceedings (reexam, etc.)?



What Defensive and Offensive Litigation Options Do We Have? - Fundamental Questions

- What's our potential exposures?
- What counter-actions may the other side take?
- What's our best bet?



Offensive Considerations

- Which courts are available to us?
 - Exemplary patent savvy: ND California, Delaware, CD California, ED Texas, WD Wisconsin, ED Virginia
- Key factors for forum selection?
 - Speed (time to trial)
 - Home court advantage
 - Need for discovery
 - Court's and jury's tendencies
 - Chance of transfer
 - Chance of stay pending reexamination
 - Trial win rates
 - Summary Judgment motion trends



Comparison: Docket speed Pendency in Months

<u>Venue</u>	<u>All Cases</u>	<u>Trial</u>
N.D. California	7.7	26.2
C.D. California	7.0	21.2
E.D. Texas	11.8	24.4
W.D. Wisconsin	6.6	17.7
D. Delaware	15.7	39



Comparison: Average patentee win rate at trial

<u>Venue</u>	<u>% Won</u>
Northern District of California	56
Central District of California	66
Eastern District of Texas	75
Western District of Wisconsin	70
District of Delaware	64



Comparison: Stays pending re-examination

<u>Venue</u>	<u>% Stayed</u>
Northern District of California	~65
Central District of California	~35
Eastern District of Texas	~20
Western District of Wisconsin	Relatively few
District of Delaware	~35



Defensive – Some Fundamental Questions

- Consider potential exposures
 - Consider all potential overlaps of technology
 - Put key company IP at risk
 - Consider worldwide risks

- What counter-actions might XYZ take?
 - Countersuit
 - Reexamination
 - File a DJ action during negotiations



Elements of a Section 337 Case

Section 337 is a trade statute administered by the U.S. International Trade Commission to protect U.S. industries from unfairly traded imported products.

- (1) Domestic Industry
 - Economic Prong – Investment in U.S.
 - Technical Prong – Practicing patents in U.S.
- (2) Importation
- (3) Infringement
- (4) Remedy



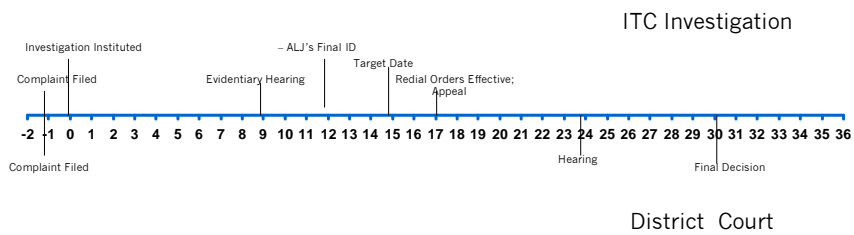
Differences Between the ITC and District Court Infringement Actions

- Commencement of Action:
 - Participation of ITC Staff in preparation of Complaint
 - Complaint must be more detailed including claim charts for all independent claims
 - In District Court: Notice pleading.
- Timing
 - ITC investigations proceed on an extremely accelerated schedule:
 - Hearing (trial) typically occurs about 9 months after an investigation is instituted.
 - Final resolution 15-18 months after institution.



Differences Between the ITC and District Court Infringement Actions

Timeline of Investigation an District Court Infringement Action



Differences Between the ITC and District Court Infringement Actions

- Broad Jurisdiction
 - The ITC exercises *in rem* jurisdiction over the accused imports.
 - Personal jurisdiction over the accused respondents does not need to be established.
 - Allows a single action against multiple respondents in different jurisdictions.
 - Broad subpoena authority.
 - Jurisdictional battles are avoided.



Differences Between the ITC and District Court Infringement Actions

- Discovery
 - Shorter response times; fewer limits
- Protective Orders
 - High degree of protection for confidential information; strictly enforced
- Commission Investigative Staff
 - The ITC has its own investigative staff of attorneys in the Office of Unfair Import Investigation that participate as a party in the proceedings.



Differences Between the ITC and District Court Infringement Actions

- No Jury
 - ITC investigations are conducted entirely by an Administrative Law Judge (ALJ).
 - The ALJ makes an Initial Determination after hearing all the evidence and argument.
 - Highly specialized and experienced
 - The Initial Determination may be reviewed by the Commission, which may adopt, reject, or modify it.



Differences Between the ITC and District Court Infringement Actions

- Relief
 - No damages for past infringement may be awarded by the ITC.
 - Relief is only forward-looking:
 - Limited Exclusion Order
 - General Exclusion Order
 - Cease and Desist Orders
- Enforcement: US Customs Service



Differences Between the ITC and District Court Infringement Actions

- Advantages
 - Prompt decisions
 - Nationwide jurisdiction for discovery and subpoena power
 - *In rem* jurisdiction and *in rem* exclusion orders
 - Useful for multiple respondents
 - Sanctions to obtain foreign discovery
 - Customs enforcement
 - Experienced ALJs



Differences Between the ITC and District Court Infringement Actions

- Some Disadvantages
 - Costs associated with filing a Complaint
 - Limited *res judicata* or collateral estoppel
 - Unavailability of 271(g) defenses
 - Domestic Industry Requirement
 - No money damages



Trends & Statistics

- Plaintiff Win Rates
 - 58 percent of cases reaching a final determination are historically resolved in the complainant's favor.
 - Compared to 35 percent win rate in district court



Trends & Statistics

- ITC litigants are less likely to settle:
 - 68 percent of district court cases settle
 - 42 percent of parties to ITC investigations settled
- ITC litigants are more likely to adjudicate disputes to an end
 - ITC investigations were fully adjudicated (at trial or summary judgment) 44 percent of the time
 - 11 percent of district court cases are fully adjudicated



Domestic Industry Requirement

- Economic Prong
 - Significant Investment in Plant and Equipment
 - Significant employment of labor or capital; or
 - Substantial investment in its exploitation, including engineering, research and development, or licensing
- Technical Prong – Are you practicing at least one claim of each asserted patent?



Kyocera Decision and Remedies – Downstream Products

- The Federal Circuit Recently Limited The Scope of Limited Exclusion Orders
 - “The default exclusion remedy [a limited exclusion order or ‘LEO’] ‘shall be limited to persons determined by the Commission to be violating [§1337(d)(2)].” *Kyocera Wireless Corp. v. Int’l Trade Comm’n*, 545 F.3d 1340, 1356 (Fed. Cir. 2008).
 - “[T]he ITC has no statutory authority to issue an LEO against downstream products of non-respondents...” *Id.*, 545 F.3d at 1345.
 - Prior to this decision, the ITC had issued limited exclusion orders prohibiting the importation of downstream devices of non-Respondent.



Kyocera Decision and Remedies – Downstream Products

- A General Exclusion order Requires “Exceptional Circumstances”
 - “Section 337 permits exclusion of the imports of non-respondents only via a general exclusion order, and then too, only by satisfying the heightened requirements of 1337(d)(2)(A) or (B).” *Kyocera*, 545 F.3d at 1358.
 - “The authority of the Commission to order an exclusion from entry of articles shall be limited to persons determined by the Commission to be violating this section **unless** the Commission determines that
 - “(A) a general exclusion from entry of articles is necessary to prevent circumvention of an exclusion order limited to products of named persons; or
 - “(B) there is a pattern of violation of this section and it is difficult to identify the source of infringing products.”
 - 19U.S.C. § 1337(d)(2)



Kyocera Decision – Open Question

- What about non-respondents that are importing the product at issue in the investigation rather than a downstream product?
- In *Certain GPS Devices and Products Containing Same*, Inv. No. 337-TA-602, three of the six ITC Commissioners indicated that they believe the Kyocera decision does not prohibit exclusion of the products at issue even if imported by non-respondents.



Proceedings in a Section 337 Case: Enforcement


- ITC issues an Exclusion Order
- Presidential Review Period
- The U.S. Customs and Border Patrol posts an internal “Trade Alert” based on information from the ITC creating instructions for its ports of entry regarding incoming shipments that require examination of goods subject to an exclusion order
- If goods subject to exclusion arrive at a port of entry, CBP denies the good entry and issues a notice of exclusion to the importer
- ITC Procedures are available to Complainant to assist with Customs enforcement (advisory opinion procedures, enforcement procedures, modification procedures)



For Greater Good or Evil? — Reaching Out to Fight NPEs



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For Greater Good or Evil? — Reaching Out to Fight NPEs

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IP in the Reform Era: IP as Sword and Shield for Competitive Survival

Agenda

- NPEs and Trolls – Evolving Landscape
- Effective Joint Defense Strategy
- Transfer Strategy
- Reexamination
- Patent Disclosures
- Role of Legislation and U.S. Governmental Agencies
- Applications to Japanese Companies

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Types of Non-practicing entities “NPEs” – “Troll” is too gross of a word

- The “vulture”
 - Applies for patents not to exploit, but purely to extract (extort?) money when companies later commercialize
- The “champerty” (buying a cause of action)
 - A company trying to commercialize fails and someone buys the patent for the purpose of exploiting
- The “failed experiment” (increasing in occurrence)
 - A legitimate company trying to commercialize does not quite succeed, and seeks to succeed by instead enforcing its patents
- The “aggregator” (relatively recent)
 - Acquires a pool of patents from a variety of sources
- The “alternative” (relatively new)
 - A viable and successful company has patents in an R&D area it is not practicing and seeks to enforce them



Types of NPEs; How they do business

- Contingency law firms (the beginning)
 - Typical terms
- Partial (or hybrid) contingency cases (second phase)
 - Typical terms
- Funded cases (fairly recent)
 - Investment money pays some or all of the fees in exchange for a some of the proceeds
 - Typical terms
- Purchased cases (becoming a preferred paradigm)
 - Investment money buys the opportunity, for money up front
- Funded portfolios (most recent trend)



NPEs - Trends

- Trends – the drivers
 - Follow the money (what the investors want)
- Numbers of defendants
 - Prevalence of hybrid funded cases results in pressure to larger number of defendants
- Types of defendants (trend to retailers)
 - Indemnity issues/leverage
 - Damages base



NPE type – Take aways

- The behavior of the NPE depends on its type
- The incentive structures of law firm, investors and patent owner impact behavior
- Litigation and settlement strategy needs to take this into account



Speaking of large, large number of defendants

- The available strategies
 - Mutual
 - Take charge
 - Duck and cover (let someone else pay)
 - Sharing
- Opportunities for sharing cost
 - Prior art searching
 - Analysis
 - Experts
- Phasing issues (unpredictable)



Joint defense – special issues

- Settlement
 - Need (legal and real) for independence
- Controlling your case
 - Identification of noninfringement contentions – do you want to control it? (hint: if continuations are pending?)
 - Identification of prior art – do you want to control it? (Particularly important with possibility of reexams)
 - Structuring JDAs
 - Issues in reexamination



Dealing with Patent Trolls

- Early Settlement
- Prepare for long fight
- Seek transfer to less patent-friendly venue
- File reexamination with USPTO
- Focus on particular areas, such as discovery issues such as infringement contentions and damage base



Early Settlement

- First Licensee may receive favorable terms.
- Save litigation costs.
- Sufficient amount at risk to litigate?
- Potential to become known as an easy target.



Prepare for Long Fight

- Demonstrate to market that willing to fight NPEs
- Comprehensive prior art search for invalidity
- Focus on stronger defenses (e.g., non-infringement and invalidity) versus weaker defenses (e.g., written description)
- Strong jury optic defenses such as fraud
- Potential claims that create risk for patentee, e.g., if learn that no Rule 11 pre-filing inquiry was done



Transfer Case to Different Venue

- Search for basis to transfer case to less favorable venue – Why?
 - Slow down the case
 - More balanced court between plaintiffs and defendants
 - Better jury pool (home court advantage)



Transferring Venue from ED Texas (cont.)

- Significant shift in past 18 months towards transfers
 - *In re Volkswagen AG* (5th Cir. Oct. 2008)
 - Automobile products-liability case - 5th Cir. granted mandamus and transferred to N.D. Texas, overruling J. Ward denial
 - *In re TS Tech United States Corp.* (Fed. Cir. 2008)
 - Transfer favored when the bulk of the physical evidence and documents is located near the transferee venue
 - Relative inconvenience to witnesses increases directly with the additional distance to be traveled
 - When a defendant sells products all over the country, no specific venue has a dominant interest in resolving the issue of patent infringement



Transferring Venue from ED Texas (cont.)

- *In re Genentech* (Fed. Cir. May 2009)
 - ED Texas is not a "central location" when documents and witnesses spread over U.S., but not in ED Texas
 - Noted foreign witnesses inconvenienced about equally regardless of venue
 - Subpoena power for trial important
- *In re Hoffmann-La Roche* (Fed. Cir. Dec. 2009)
 - In addition to other factors, transferee venue connection to the underlying events (e.g., location of the accused product development)
 - CAFC called plaintiff's transfer of 75,000 pages of documents to local counsel in Texas prior to filing suit a "fiction" designed to manufacture venue in ED Texas



Transferring Venue from ED Texas (cont.)

- *In re Nintendo Co.* (Fed. Cir. Dec. 2009)
 - Fed. Cir. granted mandamus petition to transfer case without waiting for ruling on reconsideration.
 - Stressed absence of any real connection to ED Texas
- *SMDK Corp. v. Creative Labs* (ED Tx. Dec. 2009)
 - No connection to ED Texas (one co-inventor in Austin, TX); several defendants with presence in California
 - Defendants from all over the U.S. and Japan. ND California not as convenient for East Coast and Midwest defendants, but no defendant opposed transfer



Transferring Venue from ED Texas (cont.)

- *Balthaser Online v. Network Solutions, et al.*, case no. 2:08-cv-430 (ED Tex. Sept. 2009)
 - Original complaint filed in 2008, but amended in Jan. 2009 to add Texas-based defendants (among others)
 - Original defendants moved to transfer to California, where plaintiff and most of defendants were located
 - The added Texas-based defendants were either defunct, or unable to afford representation (defendants alleged that plaintiff's counsel drafted answers, and affidavits opposing transfer for them)
 - Judge Folsom severed the case, transferred the non-Texas entities, and left the Texas entities in E.D. Texas



Transferring Venue from ED Texas (cont.)

- “Take-aways” - Defendants may consider:
 - What are the ties to E.D. Texas?
 - What other venue satisfies the most factors?
 - Identify location of documents and other evidence
 - Identify locations of potential witnesses and parties
 - Could suit have been brought in the transferee venue in the first place?
 - Have the asserted patents already been litigated in E.D. Texas?
Judicial economy remains important
 - Possibly seek severance coupled with motion to transfer



File Reexamination

- Can tie up patent in PTO for some time; not good for future licensing efforts
- Inter partes reexamination is relatively fast, at least in front of PTO Examiner
- Seek stay of the pending litigation
 - NPE investors want money fast
 - Potential elimination of past damages



Push on Particular Areas in Discovery, esp. Related to Infringement Contentions

- Push for product level contentions rather than only technology standard contentions. See *Linex Tech., Inc. v. Belkin Int'l, Inc.*, 628 F. Supp. 2d 703, 708 (E.D. Tex. 2008)
- Push back when plaintiff tries to identify more accused products or patents later in litigation that should have been identified earlier. *Realtime Data, LLC v. Packeteer, Inc.*, No. 6:08-CV-144, 2009 WL 2590101 (E.D. Tex. Aug. 18, 2009)



Push on Particular Areas in Discovery, esp. Related to Infringement Contentions (cont.)

<p>(2) if a data message, (a) analysing it to determine if it can be compressed according to a known compression technique and if so compressing the data by that technique, (b) if compression was not possible, and if the data consists of characters which are uniquely determined by 7 bits, treating the data as a 7 bit character string and stuffing the 7 bit character string into an 8 bit string, (c) assigning a sub-channel number to data which is processed according to steps 2(a) or (b) or which has not been so processed,</p>	<p>Reference is made to Exhibit 4-B. The Editor_HandleMessagePackingEvents function calls the EMS_Packer function implemented in emspacker.c</p> <p>Reference is made to Exhibit 4-C EMS_Packer states that this "routine packs the internally represented message data into a linked list of SMS_PACKETS_LIST. Calls EMS_PackWithForwarding A call is made to the function CompressEMSData.</p>
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- *Michael Sutton Ltd. v. Nokia Corp.*, No. 07-203 (ED Texas; Feb. 2009). Ordered Plaintiff to supplement with reference to source code.



Push on Particular Areas in Discovery, esp. Related to Infringement Contentions (cont.)

- Simple citations to documents alone insufficient: “EON must put forward its position as to where it believes particular limitations are met by the accused instrumentalities. EON's theories may be bolstered or further illuminated by citations to documents and evidence, but identification of evidence alone does not independently satisfy the notice function of the rules.” *Eon Corp. IP Holdings LLC v. Sensus USA Inc.*, 2010 WL 346218 (ED Texas Jan. 21, 2010)
- Must identify all accused products in the Infringement Contentions. *Eon Corp.*



Push on Particular Areas in Discovery, esp. Related to Infringement Contentions (cont.)

- Seek to reduce the damage royalty base or unsupported theories for damages. *IP Innovation LLC v. Red Hat, Inc.*, Civil Docket No. 7-447 (ED Texas, March 2, 2010). Judge Rader by designation stated:

Accordingly, Mr. Gemini's current expert report improperly inflates both the royalty base and the royalty rate by relying on irrelevant or unreliable evidence and by failing to account for the economic realities of this claimed component as part of a larger system. This court hereby precludes Mr. Gemini from testifying at the trial of this case or otherwise presenting his opinions on the issue of damages based on his current expert report. Given the lack of evidence in the



Non-practicing Entities and the ITC Potential Further Patent Law Reforms

- Amend estoppel provision for *inter partes* reexamination and post-grant opposition to apply to ITC proceedings (not just litigation)
- Encourage the USPTO to adopt rules that streamline reexamination
 - With quicker reexamination, courts will be more likely to use their discretion to stay litigation



Non-practicing Entities and the ITC More Potential Further Patent Law Reforms

- Provide automatic stays for ITC proceedings and litigation when the USPTO orders a reexamination
- Amend ITC jurisdiction to exclude non-practicing entities
- Amend ITC exclusion order authority to consider the status of the patentee as a non-practicing entity under public interest factor



Non-practicing Entities and the ITC Potential Patent Law Reforms to Watch

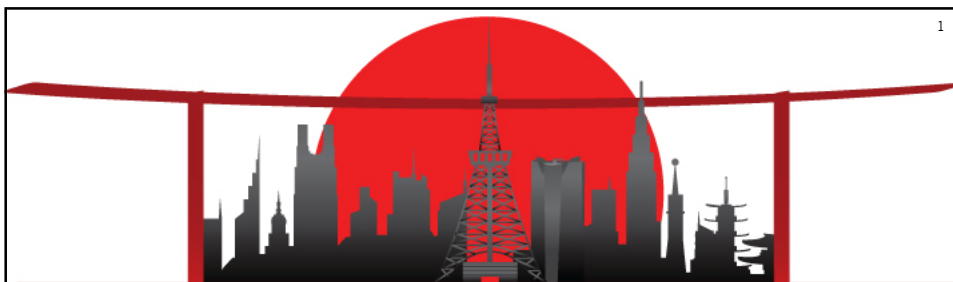
- Legislative efforts to overturn *Kyocera* and allow limited exclusion orders for downstream products are being discussed



New Federal Circuit and Compromise Patent Reform Bills

New Rules of the Game?





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New Federal Circuit and Compromise Patent Reform Bills— New Rules of the Game?

Jon W. Dudas
Harold C. Wegner



IP in the Reform Era: IP as Sword and Shield for Competitive Survival

***New Federal Circuit* What Changes Can be Expected?**





Patent Reform Bills Latest Developments



The First Senate Compromise

- On April 2, 2009, the Senate Judiciary Committee approved their bill, S. 515 by a vote of 15-4



House Judiciary Committee Response

- Key Members dispute the Senate compromise:
 - Chairman Conyers: **“This body is no more a rubber stamp for the Senate than the Senate is a rubber stamp for the House.”**
 - Ranking Member Smith: **“It’s not going to be helpful if the Senate takes a ‘take it or leave it’ attitude on the Senate bill.”**



Another Senate Compromise

- On March 4, 2010, the Senate Judiciary Committee leaders announced it had another compromise. It has not been voted upon but is a true compromise in the *Senate*.



House Judiciary Committee Response Again

- Key Members dispute the Senate compromise. Chairman Conyers, Ranking Member Smith, Cong. Lofgren:
 - *We are hopeful that Congress can come together to pass real and meaningful patent reform. With regard to the proposed Senate Judiciary Committee language released today, we believe a number of changes are essential before it could be considered by the House. We are hopeful our Senate Judiciary colleagues will consider these changes as part of their process. We remain open and willing to work on meaningful patent reform, but must be sure that any legislation responds to abuses and improves the overall system.*



Heard in the House

- From an experience House Member to a new staff member:
- “Always remember, the other party is your worthy ***opponent***, but the Senate is your ***enemy***.”
- The battle lines are between a few Members and a few Senators—much like last Congress—where the key negotiators were within 5 words.
- This time it is factions and houses of Congress



Process

- The Senate bill has not changed yet. The compromise is an agreement to substitute a substitute.
- A substitute would go straight to the Senate floor with at least this one key amendment.
- The plan is to pass this bill and have the House adopt the identical language—the only way to get this bill through.



Proposed Changes in the New Senate Compromise

- Post-grant review
- Damages (Willfulness)
- Venue
- False Marking



Changes--Damages

- Willfulness and damages are presumptively to be tried after validity and infringement are determined.
- Willfulness must be pled with particularity
- A demand letter is not sufficient to support a willfulness determination unless it identifies the infringed claims and infringing products with particularity and explains the basis for the infringement allegation
- If the trial judge decides that the validity and infringement phase of trial presented a “close case,” willfulness may not be found



Changes—Post Grant Review

- There are four (4) different avenues for post-grant review of an issued patent.
- Within nine months of grant, any patent can be challenged on any issue of patentability.
 - Initially, the party challenging the patent must demonstrate that it is more likely than not that the information it presents renders at least one of the patent's claims invalid
 - Next step—a panel of three Administrative Patent Judges (APJs) must conclude the proceeding within 12 months, unless the PTO finds good cause for a single six-month extension of this deadline.



Changes—Post Grant Review (con'd)

- (2) A third party can request an inter partes reexamination of the patent.
 - The prohibition against inter partes reexamination of patents granted prior to 1999
 - Bases for inter partes reexamination are limited to patents and printed publications that create “a reasonable likelihood” that the third party will prevail with respect to a claim of the patent. The reexamination will be heard by APJs and is subject to the same time restrictions as the initial post-grant review.



Changes—Post Grant Review (con'd)

- Ex parte reexamination continues to be available, largely unchanged from its current form.



Changes—Post Grant Review (con'd)

- A new post-grant procedure intended to reduce the frequency of inequitable conduct allegations
 - Patentee would be allowed to request “supplemental examination” of the patent to have the PTO consider any information considered relevant to the patent. Any patent that survives the supplemental examination process cannot be held unenforceable based on information considered by the PTO.



Changes—Post Grant Review (con'd)

- Patent owners are protected from improper use of these procedures:
 - A party challenging a patent in a post-grant review proceeding is estopped from seeking a subsequent post-grant review on any ground that was, or reasonably could have been, raised in the initial proceeding
 - In a district court case, a party may not assert any ground of invalidity that it actually raised in the administrative post-grant review
 - An alleged infringer may only see administrative review within three months of the date it files its answer in the litigation



Changes—False Marking

- The proposed legislation substantially tightens the standing provisions of 35 U.S.C. § 292
 - Applies only to parties who have suffered a competitive injury due to false marking of a product with patent number
 - Recovery is limited to damages adequate to compensate for the injury
 - Effective date “shall apply to all cases, without exception, pending on or after” enactment of the legislation
 - eliminates the qui tam that have become increasingly common since the Federal Circuit's decision in *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009).



What is next with Patent Reform?

- **Implementation**
 - Once passed, some of the biggest changes take place
 - The USPTO has specific rulemaking authority in the bill
 - The Administration has 12 months after the bill is signed to establish comprehensive rules
- **Additional Legislation**
 - Administration may press for patent reduction measures
 - New efforts to address non-practicing entities




IP in the Reform Era: IP as Sword and Shield for Competitive Survival

Hot Topic Round Up

Bilski, Prometheus, Damages, Patent Marking, ITC, and More



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IP in the Reform Era: IP as Sword and Shield for Competitive Survival


Hot Topic Round Up
Bilski, Prometheus, Damages, ITC, and More

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Patentable Subject Matter

- *In re Bilski*: Method of managing business risk by purchasing hedging securities
 - Appeals Court: not patentable subject matter because the method is not tied to a particular machine or test
 - The present: unclear what this means, for example, would a claim to a computer with software that performs the method be patentable subject matter? There are splits among decisions in the Patent Office and the trial courts

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Patentable Subject Matter, cont'd

- *Bilski* (the future)
 - The Supreme Court will review the decision
 - A decision is expected soon, although it could be delayed to the Fall
 - Most people expect the Supreme Court to affirm, but the reasons for affirming could change the analysis



Patentable Subject Matter, cont'd

- *Mayo v. Prometheus*
 - Claim to a method of running a known test and then reaching a conclusion/diagnosis based on the outcome of the test and treating a patient
 - In *Metabolite*, three justices on the Supreme Court wanted to review this issue, and find this not to be patentable subject matter
 - Appeals Court found this to be patentable and specifically noted that they did not need to follow the views of the three justices
 - Supreme Court may review or grant "GVR"



Reexams in the litigation setting

- What are they?
 - *Ex parte*
 - *Inter partes*
- Why file them?
 - 2.5% cost rule
 - Possibility to stay the litigation
 - Raised 50% of the time
 - Where raised, opposed 50% of time
 - Where opposed, granted about 50% of time
 - Flush out position
 - May be more favorable forum (statistics below)



Reexams cont'd

- Why not?
 - Settlement
 - Control
- What happens?
 - 1999 – present (*inter partes*):
 - 8% confirmed
 - 41% changes to claims
 - 51% all claims canceled or disclaimed
 - But, time frame
 - Two years, *ex parte*
 - Three years, *inter partes*, plus appeal
 - Impact on litigation
- Managing reexams and litigation – use personal statistics



Defense Strategies: Initial Motions

- Motion to stay
 - Fed. Cir. Decision in *Stauffer v. Brooks Bros., Inc.*, 615 F. Supp. 2d 248 (S.D.N.Y. 2009), Fed. Cir. App. Nos. 2009-1438, -1430 and -1453
 - Fed. Cir. Decision in *Pequignot v. Solo Cup Co.*, 646 F.Supp.2d 790 (E.D.Va. 2009), Fed. Cir. App. No. 2009-1547
 - Patent Reform Bill S. 515



Defense Strategies: Initial Motions

- Motion to transfer venue
 - 28 U.S.C. § 1404
 - Little contact with filing forum
 - Little discovery from plaintiff
 - Information at defendant place of business
- In multi-defendant case, sever claims against various defendants
 - Misjoinder: Fed. R. Civ. P. 20 and 21



Venue

- Why is this a big deal? It matters.
- Indicia of favorable venues:
 - Patentee win rate
 - Damages
 - Transfer rate
 - Local rules
 - Patent “friendliness”
 - Time to trial
- Traditional favorite venues:
 - ED Texas
 - ED Virginia
 - Delaware
 - WD Wisconsin



Venue – and changes to their desirability

- ED Tx
 - Pro-patentee before 2006 – Things may be changing (below national average for 2006-7; only won 3 of 9 trials in 2007)
 - ***Used to be*** very fast district – now 3 years
 - Relatively few cases decided on summary judgment
 - Big Damage Awards by juries continue:
 - *I4i L.P. v. Microsoft Corp.* – **\$200M + \$40M** enhanced (2009; Davis)
 - *Saffran v. Boston Scientific Corp.* – **\$431M** (2008; Ward)

Source: LegalMetric, LLC



Venue cont'd

- ED Virginia (an original favorite)
 - 1 in 4 cases assigned to the Alexandria Division – the original “Rocket Docket”
 - Average time to termination by rocket – 6 months
 - 57% average win rate for patentee
- Delaware
 - 65% average win rate for patentee
 - Average time to termination – 16 months
 - Changes on the bench are coming
- WD Wis.
 - Can get to trial in 5 months, seldom over 18 months
 - 53% win rate
 - Changes on the bench
- Summary – the traditionally favored locations are changing



Damages Update

- ***i4i v. Microsoft***
 - Review of prior decision
 - New panel opinion issued
 - On willfulness, incorrect statement fixed (but willfulness affirmed)
 - Two challenges concerning injunctive relief based upon past competitive harm (distinguishing *eBay*) and a massive damages award left intact (challenged based on legal errors)
 - **En Banc Vote** The court now has rejected an *en banc* review.
 - Eventual Supreme Court review?
- Federal Circuit is otherwise continuing to review “royalty rates” carefully (except for *i4i!*)



Post-KSR Situation

- At time of KSR, not clear how KSR was going to be applied
- Seems to be primarily dependent on technology—based on “predictability” of the underlying technology
 - If technology is “predictable” (e.g., simple mechanical), then KSR is more likely to be applied
 - In the chemical and biotech fields, KSR is less likely to be applied
 - **Examples:**
 - *Procter & Gamble Co. v. Teva Pharms. USA Inc.*, 566 F.3d 989 (Fed. Cir. 2009)
 - *Eisai Co. Ltd. v. Dr. Reddy's Labs., Ltd.*, 533 F.3d 1353 (Fed. Cir. 2008)
 - *Altana Pharma AG v. Teva Pharms. USA, Inc.*, 566 F.3d 999 (Fed. Cir. 2009)



“Written Description” Affirmed

- ***Ariad v. Eli Lilly*** (*En Banc Decision*, March 22)
 - Very, very broad patent. Inventors were the first to identify NF-kappaB and the mechanism by which NF-kappaB activates gene expression underlying the body’s immune responses to infection
 - Affirmed that a separate “written description” requirement exists, separate from enablement
 - The specification must contain a “written description” of the claimed invention
 - All of the claims were invalid for lack of a “written description”
 - Claims were directed to the “mechanism” (i.e., reducing NF-kappaB activity) and not to specific compounds that accomplished the “mechanism”



False Marking - Brief History

- 1842: Congress enacts the first false marking statute – making it a fineable offense to mark an unpatented article as patented with the intent to deceive
- In the intervening 168 years there have been 11 circuit court decisions addressing the merits of the statute – three from the Federal Circuit



Brief History (cont.)

- In 2008, over a dozen actions named the false marking statute as a count
- In 2009, at least nine cases were filed by “marking trolls”
- So far, in 2010, over 100 companies have been sued for false marking



The False Marking Statute 35 U.S.C. § 292

- Definition of Liability
 - a) Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article the word "patent" or any word or number importing the same is patented, for the purpose of deceiving the public ...
- Definition of the Fine
 - b) ... Shall be fined not more than \$500 for every such offense



The False Marking Statute 35 U.S.C. § 292 (cont.)

- *Qui Tam* Provision
 - c) Any person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States



What is False Marking?

- Item must be marked
 - Each article marked is an offense
- Marking must be false
 - Item not patented
 - Patented vs. Patent Pending
 - Patent expired
 - Method is patented but not the product
 - Extraneous patents listed



What is False Marking? (cont'd)

- Marking must have been made with intent to deceive
 - The marker must have had the specific intent to deceive the public into believing something that the marker knew to be false



Defense Strategies: Initial Motions

- Fed. R. Civ. P. 12(b) motions to dismiss
 - Plaintiff lack of standing (12(b)(1))
 - Article II
 - Article III
 - Government intervention
 - Failure to sufficiently plead intent (12(b)(6))
 - Criminal statute with civil penalties
 - Fed. R. Civ. P. 8(a)
 - Fed. R. Civ. P. 9(b)



Defense Strategies: Substantive Defenses

- Substantive defenses (12(b)(6))
 - Product covered by a valid patent claim is not an “unpatented article”
 - Marking product with expired patent is not false marking
 - Marking in certain locations (e.g. user manual) is not advertising



Forfeiture/Damage Issues

- 5 year limitations period 28 U.S.C. § 2462
- *Forest Group* gives trial court broad discretion
- Constitutional limits
 - Fair notice of both conduct punished and severity of penalty
 - *BMW v. Gore*, 517 U.S.599 (1996)
 - *San Huan v. I.T.C.*, 161 F.3d 1347 (Fed. Cir. 1998)



Proposed Legislative Changes

- Patent Reform Bill
- Proposed amendment to 35 U.S.C. § 292(b):
- Current Language
 - “(b) Any person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States”
- Proposed Language
 - “(b) A person who has suffered a **competitive injury** as a result of a violation of this section may file a civil action in a district court of the United States for recovery of **damages adequate to compensate for the injury**”



Proposed Legislative Changes

- Two bills pending in Congress one tied to patent reform bill introduced in the U.S. Senate
- Second (Issa Bill) introduced in U.S. House is bipartisan and is not necessary tied to patent reform.
- The proposed amendment applies to all pending and future actions on the date of enactment
- No recovery for Government
- Creates a private right of action
- No longer a *qui tam* statute?



Avoiding a *Qui Tam* Action Establishing a Company Policy

- Establish a Formal Patent Marking Program and Procedure
 - Identify which patents support the Company's IP Business Plan
 - Create a System to track patents as they expire and/or abandoned
- Ensure the Patents to be Marked Cover the Products
 - Conduct an initial review
 - Review upon product change
- Mark only patents that cover the product
 - Avoid "May be covered by one or more of the following Patents"
- Create a System to track patents as they expire and/or abandoned
- Obtain Opinion of Counsel



Avoiding a *Qui Tam* Action Actions to take today

- Immediate Action – Focus on Expired Patents
- Remove all references to expired patents on the Internet pages of the Company
- Remove all Expired Patents from
 - Advertising
 - Product literature
 - Product packaging
 - Product labels
 - Products themselves (Where mark is on the die)

For on-going updates on false marking, visit www.foley.com/falsemarking



Paice V. Toyota

Case Background and Recent Developments at US ITC



Background of Case

- Texas jury found Toyota infringed Paice's patent for hybrid electric vehicle drive train
- Jury awarded money damages, but court denied Paice's motion for preliminary injunction under the eBay test set forth by the U.S. Supreme Court
- Instead, court imposed a \$25 per vehicle "ongoing royalty" for each vehicle sold during the remaining life of the patent
- Federal Circuit affirmed on merits and found ongoing royalty was not a compulsory license but remanded case to district court for limited purpose of reevaluating the royalty



Background of Case (cont.)

- Paice then filed a Section 337 complaint at the U.S. ITC seeking an exclusion order against Toyota
- Paice requested by summary determination motion that ITC find that Toyota was precluded from contesting infringement, validity and unenforceability due to the district court decision.
- The ALJ granted Paice's motion, but on April 2, the ITC reversed finding the ALJ applied the incorrect legal standard of claim preclusion and ordered the ALJ to reconsider the issue under the doctrine of issue preclusion.



Recent Decisions at ITC

- Paice also filed summary determination motion that it satisfied the domestic industry requirement
- Paice argued that its research and development efforts to build a prototype drive train and its patent licensing, prosecution and enforcement efforts satisfied the domestic industry requirement



Recent Decisions at ITC (cont.)

- The ALJ found several issues precluded summary determination. These included:
 - Whether R & D was related to the asserted patent
 - Whether Paice's allocation of expenses and employee responsibilities was supported by the facts
 - The extent to which the asserted patent was the subject of license negotiations
 - The need for more detail regarding the prototype drive train.