

INTELLECTUAL PROPERTY

PATENT LITIGATION REMAINS IN THE LIMELIGHT AS CLAIMS PROLIFERATE FROM PATENT holders who aren't inventors. This year has brought numerous news and feature stories, important court rulings, and a plan from the president to address intellectual property challenges. Updates to the America Invents Act of 2011 are pending in Congress, and the state of Vermont in May adopted its own law targeting demand letters sent to consumers and small businesses challenging their use of common office equipment like scanners. Here's a roundup from four IP practitioners, Michael A. Berta of Arnold & Porter; John P. Bovich of Reed Smith; Ashok Ramani of Kecker & Van Nest; and David T. Rudolph of Lieff, Cabraser, Heimann & Bernstein. Mediator Jeff Kichaven moderated the conversation with Laura Impellizzeri of *California Lawyer*.

EXECUTIVE SUMMARY

JEFF KICHAVEN: Let's start with a quick overview. How is litigation involving non-practicing entities (NPEs) or, as they're sometimes called, patent assertion entities (PAEs) or patent trolls, evolving? What's it like to be practicing now?

JOHN BOVICH: It's exciting, and it's constantly changing. Whether the term is troll or NPE or PAE, there are many flavors of plaintiffs. And the issue is not limited to lawsuits: Even letter-writing campaigns are under scrutiny.

A lot of what we're talking about involves behaviors that fall short of litigation. A target of the Vermont statute was an entity that sent multiple demand letters to consumers and small businesses working with scanners on networks. So part of the question is how do we deal with this at the district court level and at the International Trade Commission (ITC). Another part is whether policy measures and legislation can prevent this from even getting to litigation.

MICHAEL BERTA: One mark of evolution is that patent litigation in the past involved competitor-versus-competitor, high-stakes disputes. Everyone knew it was expensive, and you weighed the costs and benefits of going after competitors in your space to protect your market.

It's not the same power dynamic anymore. There are patent-assertion companies out there who are threatening people with litigation—or filing litigation and settling it—where every factor is in their favor with respect to the costs of litigation, and that is driving settlements, which people perceive as a fundamental unfairness.

ASHOK RAMANI: I do think it's an exciting time because there are

a large number and variety of patent cases proceeding in different fora, both in the United States and internationally, that sometimes require coordination. It also is exciting because it seems that, despite all kinds of gridlock in Congress generally, something is going to happen in this current Congress about the increase in patent lawsuits. Whether it ends up being effective, or necessary, or having unintended consequences remains to be seen.

KICHAVEN: Recently, the number of fora in which you can litigate these patent claims has been expanding. How has that affected your practices?

DAVID RUDOLPH: The ITC is a very, very hot forum right now, and there are a lot of good reasons. One is the general speed with which things get resolved. As anybody who's litigated a case in the ITC knows, though, those cases are extremely expensive. And that cuts both ways.

BERTA: There has been a belief for a long time that the domestic industry requirement would keep the ITC from becoming like district courts with respect to patent-assertion entities. In theory, the ITC was founded to protect companies with industry and employees in the United States that were manufacturing something, but it has evolved. Now, there are more cases where licensing activity alone meets the domestic-industry requirement, which then fits within a patent assertion entity's business model. And that doesn't seem to match the perception of the purpose of the ITC.

RUDOLPH: Actually, Section 337 (19 U.S.C. 1337) has an explicit

provision that substantial investment in licensing can qualify as domestic industry. This goes to the heart of allegations of abuse of the ITC by NPEs. My initial reaction is I don't know of NPEs who are abusing it any more than operating companies. But it just strikes people as being fundamentally unfair to have a company that doesn't produce anything excluding products manufactured abroad by companies that are based in the U.S. through a forum that was specifically designed to protect American companies. So there really needs to be some movement in terms of modifying the statutes to comport with what people think the ITC is supposed to be doing.

RAMANI: Taking a step back, there's really a different calculus between the ITC and federal court. Sometimes you have patents that are either very technical in nature and so confusing you have to explain them to a jury or a judge. You may also have patents that are long in the tooth and so maybe you're going to have a laches or other type of damages problem.

We saw this in the smartphone cases, where our client, HTC, was sued by Apple in the ITC and in the district court. Apple's lawyers selected patents that were very old, had very early priority dates to help them with potential prior art challenges that also only

had a couple years of life left. They threw all those into the ITC because they figured they'd be able to get through their appeal and get an injunction while the patent still had a couple of months or maybe a year of life left. The newer patents that covered iconic features that you think of in a smartphone or iPhone they put in district court, thinking maybe those would be more persuasive to a jury and maybe they'd be able to get a bigger damages number.

RUDOLPH: One aspect that is actually very important in the calculus of where to bring a case is that damages are not available in the ITC. You can get an injunction. So, from a plaintiff's perspective, you have to know what the end game is. What is it that you want? If your end game is you want a trial or hearing on the merits and you want what you're entitled to under the statutes or whatever is within the jurisdiction of the court, that's an important factor as well.

BERTA: I do think that the perception these days is that it's very hard to get an injunction, and extremely hard if you're a patent assertion entity. So that has tended to limit injunctive relief in the district courts. In contrast, the purpose of the ITC is for injunctive relief, and it's pretty limited; it really just stops imports at the border. So



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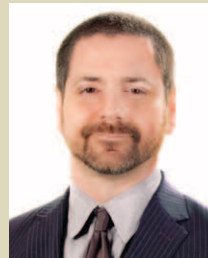
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you take the type of case the ITC is intended for—for example, we had litigation for Crocs to stop all of the fake Crocs that were coming into the country from China and other places—we named a slew of respondents in order to establish a pattern and practice of infringement so as to justify an exclusion order stopping all infringement at the border. If you switch the remedy to no injunction or you change the rules to prevent claims against multiple parties, you do damage to some of the core inquiries at the ITC.

KICHAVEN: What are some of the most important, significant impacts of the America Invents Act of 2011? How is it affecting your day-to-day lives?

BOVICH: In some ways, everything is different, and in other ways, everything is the same. Instead of one lawsuit with 30 defendants, you now may have 30 lawsuits with one defendant each, which are routinely consolidated for pretrial purposes. To that extent, you still have the same joint defense issues, you still have the same pressure to have a unified *Markman* position (see *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996)). However, the AIA does make transfer somewhat less complicated because you don't have to go through the process of severance. Some judges, however, will defer the transfer decision until after *Markman*.

RAMANI: The aspect of the AIA that's affected my practice the most is the changes to reexamination proceedings and the fact that you basically have a year to decide to seek reexamination.

RUDOLPH: The change to the joinder procedure rules was sort of a nonevent. The way it affects the calculus is just that you have to file more cases and then they will get consolidated into multi-district litigation (MDL). But other things like the covered-business-method (CBM) patent review procedure have affected the way we look at cases. From the plaintiff's perspective, it's actually useful to have the option of getting an early definitive take on the validity of the patent through the Patent and Trademark Office (PTO) rather than filing a lawsuit, having a collateral re-exam, going through the district court, going up to the Federal Circuit, going back, having something happen in the re-exam, having something different happen in district court. There's actually an appeal in having it stayed while the PTO sorts out what it should have done before the patent was issued.

BERTA: Some of the effects of the AIA are only apparent in practice. For example, the CBM, from a defense perspective, seems like an attractive option. There is no time bar, you don't have estoppel for things that you don't raise, and it is a fast proceeding. But, with respect to the new inter partes review (IPR), we're now in two cases where we didn't get any asserted claims from the plaintiff until more than a year after the case was filed, making the IPR less attractive. That is the subject of some of the proposed legislation—making the plaintiff come forward with all of its asserted claims at the beginning so you know what is at issue and can plan an IPR effectively.

RUDOLPH: The Vermont law is interesting because it's custom-tailored to address a certain issue, which is small companies such as nonprofit nursing homes being targeted with extortionate demand letters. The preemption issue seems very thorny. The other question is what happens if we have a system where there are state-by-state rules about the kind of patent cases you can bring and the kind of claims you can assert. Do we really now want to create in, say, South Dakota, a super-friendly plaintiffs' jurisdiction where people go because it doesn't have a state statute that prohibits certain type of patent claims? That seems problematic.

RAMANI: I thought the new CFPB, the Consumer Financial Protection Bureau, might be able to play some role in the nuisance aspect when individuals like, hypothetically, my grandmother get some complaint saying she has to stop using her sewing machine because it's infringing on some patent. It seems like an existing regulatory structure could address those concerns.

KICHAVEN: There's been quite a lot of judicial activity in the area of patent eligibility over the past year. Can you speak to what these cases do and don't hold, and the ways they affect patent litigation and how you're bringing claims?

RUDOLPH: The *CLS Bank* case, even though it was technically non-precedential, gave us a look into the mind of the Federal Circuit. The panel was one vote short of potentially invalidating hundred of thousands of patents—financial services patents, business method patents, software patents—so anybody bringing those claims has to weigh very carefully the risk that you really have no idea what's going to happen with your case until you see who the panel is. There were five judges who basically wanted to find that adding a computer to perform certain types of limitations doesn't confer patent eligibility, which would essentially kill software patents and a lot of financial-method patents, if not all. This is a perfect case for the Supreme Court to take up. (See *CLS Bank Int'l v. Alice Corp.* 717 F.3d 1269 (en banc).)

BOVICH: I also think *Ultramercial II* (*Ultramercial, Inc. v. Hulu, LLC* (2013 WL 3111303)) may ultimately be worthy of Supreme Court review. What is interesting about *Ultramercial* is that it is more about when the determination ought to be made—as opposed to how it ought to be made. In the context of a motion to dismiss, the court said it's the rare case that ought to be resolved at the Federal Rule of Civil Procedure 12(b)(6) phase. But district court judges, especially ones experienced in patent law, are pretty well equipped to decide eligibility at the pleadings phase.

KICHAVEN: Can you draw a distinction between cases that should be decided at the pleading stage versus later?

BOVICH: I think some cases smack of predatory patenting without true invention or a simple restatement of a business method or an abstract idea that might occur on a computer. District judges know that the Section 101 (35 U.S.C. § 101) determination does not stop

simply because a patentee includes the words “computer” or “processor” or “memory” in the claims.

RUDOLPH: One piece of guidance from *Ultramercial* is that applicants need to be very, very specific about what the computer system does in their method claim, and that’s not necessarily well understood. To the extent there’s a big problem with the patent system, it isn’t necessarily that NPEs are suing people, it’s that there are a lot of low-quality patents being issued by the Patent Office and a lot of patents that, frankly, under existing Federal Circuit precedent shouldn’t get issued. But they’re getting issued anyway.

BERTA: That’s the problem with all these mid-’90s to mid-2000s patents that were issued at the infancy of major computer networking and Internet-type businesses. It’s not clear that decisions at the PTO were being made at the time on such things as full-scope enablement. So you get broad claims for something that you have an example of in your specification, and now it is being read to cover the world. And limiting something to what a person actually allegedly invented can be difficult in litigation 15 years later, when the world has changed so much.

RAMANI: Fundamentally, the way our patent system is set up, there’s always going to be a tension along these lines because a patent gives you the right to exclude. So one way to structure our system is to make it so the thing that the patent holder can exclude others from doing is specifically what the patent holder invented. That’s it.

I think pretty much everyone would agree that would be way too narrow a reading, because competitors could make a slight change and skirt the protection the inventor should receive. The flip side of that is, because of artful PTO practice, an overworked examiner, luck, or whatever the case may be, someone who invented something relatively small can end up getting coverage to exclude a much, much larger world. I’m just not sure what the best way to solve that problem would be, short of a massive overhaul of the PTO. People are quick to criticize the PTO and the examiners, but when you look at the task that they’re given, it’s enormous.

LAURA IMPELLIZZERI: Is the Supreme Court’s decision in *Association for Molecular Pathology v. Myriad Genetics, Inc.* (133 S.Ct. 2107 (2013)) playing much of a role in your practice? Or is there still a big divide between life sciences litigation and software litigation?

RAMANI: Biotech companies didn’t have any problems with robust patent protection in issuance of patents because that’s how they justify enormous R&D expenditures. I have biotech clients who were petrified that the *Myriad* case would mean that no genetic-related testing of any sort would be patentable. So while they weren’t happy with the outcome, they were at least cautiously optimistic because it wasn’t as bad as they thought it might be.

KICHAVEN: In light of *FTC v. Actavis, Inc.* (133 S.Ct. 2223 (2013)), which permits antitrust challenges to patent settlements in cer-

tain pharmaceutical cases, do you think we’ll see more antitrust challenges to other patent settlements?

RUDOLPH: The question of what sort of patent assertion activity or settlements gives rise to antitrust claims is at the bleeding edge of patent law right now. There’s a lot of talk about how NPEs might be violating antitrust laws and how the assertion of standard-essential patents might be violating antitrust laws, but I haven’t seen a very cogent explanation of how that’s the case. You have these two doctrines bumping right against each other. Monopolies are anticompetitive, but patents are government-sanctioned monopolies. So it’s very difficult to draw the line.

BOVICH: I’m interested in seeing what happens with case scope reduction. The Federal Circuit issued a model order that it then revoked. The order initially limited plaintiffs to 32 claims and defendants to 40 references. Regardless of what happened with this order, for quite some time many district court judges have used their authority to control their dockets in a similar manner. It doesn’t mean a plaintiff loses its constitutional right to litigate certain claims that have been tabled, but it allows them to bring a test case and it forces the defendants to bring test prior art as well. How will that play out if there is an adjudication based on the reduced case and a plaintiff later on wants to try a new claim or a defendant wants to try new prior art?

BERTA: It helps with the idea that judges should be free to put some limits on a case to manage scope, but they may do it so far later in the process that it doesn’t necessarily help with costs. The idea of earlier limits coming out of the Federal Circuit is good.

RAMANI: From the defense perspective, it’s very desirable to get a relatively early identification of claims, both because it can contain your discovery costs and it will inform any PTO action that you may want to take, an IPR or otherwise. From the plaintiff’s perspective, depending on the nature of your invention, sometimes you really do need some discovery in order to confirm exactly which of your claims you believe that the defendant infringes. Obviously, you have to have a good-faith belief to file the suit, but sometimes you actually need some discovery, especially in a software case.

KICHAVEN: What’s your experience with district court judges who focus or specialize in patent cases? Good idea, bad idea? How is it working out in practice?

RUDOLPH: It can only be a good idea to have judges who are interested in patent cases hearing patent cases. When a judge is unenthusiastic about learning about the technology or just isn’t interested in patent cases, it can be a problem for everyone.

BOVICH: I don’t know if the data are available from all of the Patent Pilot Programs on specifically who’s declining patent cases, but an analysis of that data should help get these cases into the hands of judges who are interested in them. ■