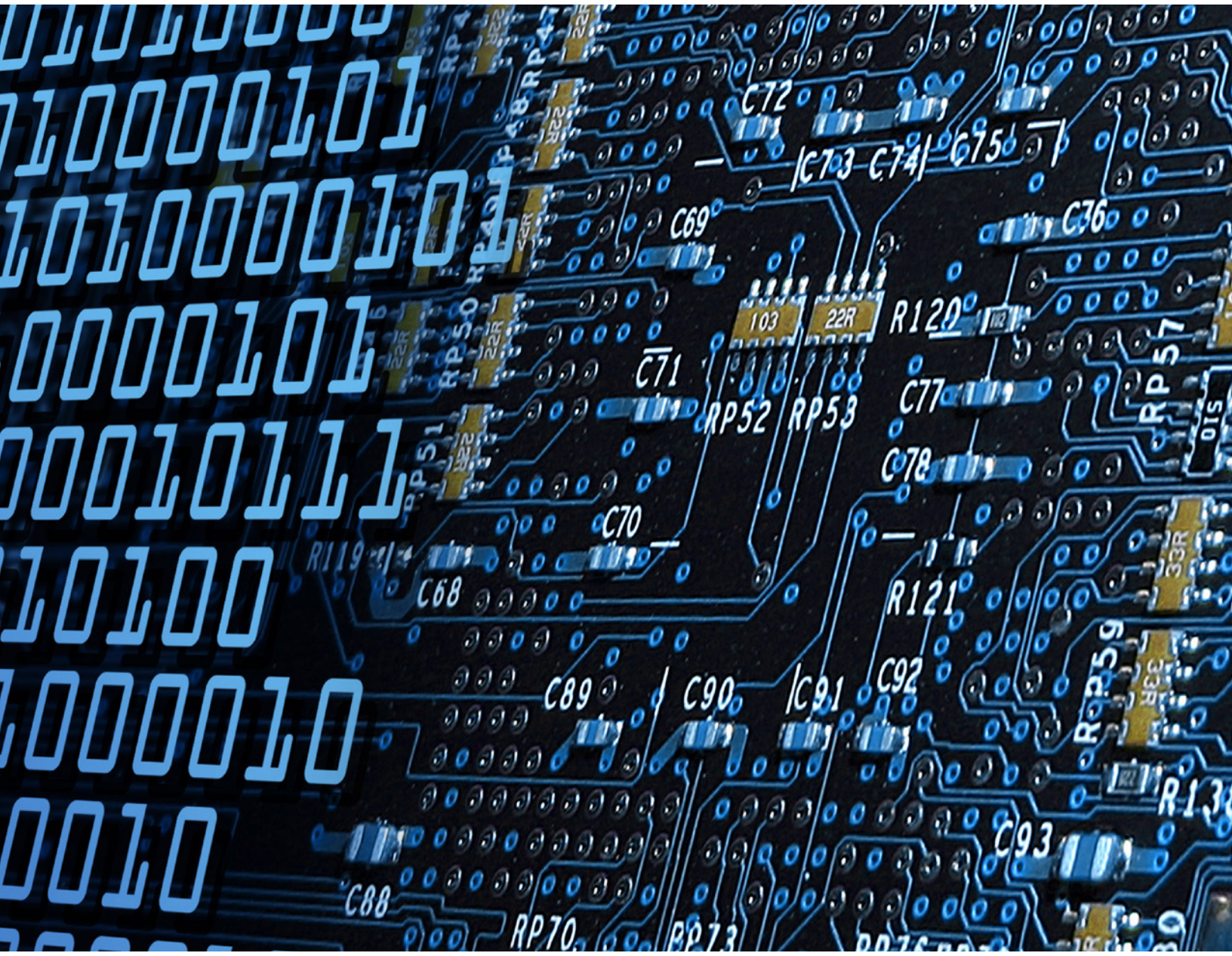
Advanced Technology Patent Report 2015

An Executive Guide to Current Trends in U.S. Patent Law and Practice
for the Electrical and Computer Technology Fields



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Introduction

The Advanced Technology Patent Report 2015 surveys recent patent trends and developments in the electrical and computer technology fields. The report is divided into four sections—patent prosecution at the U.S. Patent and Trademark Office ("USPTO"), post-grant proceedings at the USPTO, litigation in federal district courts, and litigation at the U.S. International Trade Commission ("ITC"). The intended audience for this report is not only patent practitioners, but also in-house counsel and business managers who are involved in patent issues and disputes for their company.

With the recent implementation of the Leahy-Smith America Invents Act ("AIA"), an increasing number of patent cases before the Supreme Court of the United States, and record numbers of granted patents and patent infringement lawsuits, the past few years have proven eventful for patent stakeholders in the United States.

The USPTO continues its initiatives to increase the speed and quality of patent examination. Legislatures and courts are also addressing the increase in innovation and patenting, and what some characterize as excessive litigation and abuse among patent assertion entities. The Supreme Court has been particularly active in 2014, issuing several patent-related decisions on topics such as patent eligible subject matter and divided infringement. And, following two recent district courts that addressed the proper calculation of fair, reasonable, and non-discriminatory ("FRAND") royalty rates, the U.S. Court of Appeals for the Federal Circuit issued a lengthy decision that addressed damages issues for standard-essential patents ("SEPs"). The Federal Circuit was also active in shaping the law in other areas.

At the ITC, the number of patent infringement investigations has receded from its peak in 2011, but it remains a popular forum for patent owners. Recent decisions address issues such as Section 337 violations based on indirect infringement of method claims and the ITC's jurisdiction over electronic transmissions of digital data. And in a rare occurrence, the President of the United States vetoed a Commission decision to issue exclusion and cease-and-desist orders in an investigation involving SEPs and certain Apple iPhone and iPad devices.

We appreciate your interest in Finnegan's Advanced Technology Patent Report 2015. For more in-depth coverage of these topics and more on intellectual property, we encourage you to visit our firm's website at www.finnegan.com.

C. Gregory Gramenopoulos C. Brandon Rash

Washington, DC
April 6, 2015

I. Patent Prosecution

Intellectual property ("IP") continues to be an important asset for high-tech companies. The annual number of patents filed across the world and in the United States continues to grow and hit all-time highs. With this growth in patenting, however, public skepticism of the quality of issued patents has also increased. To combat this skepticism and promote an innovation economy, the U.S. Patent and Trademark Office ("USPTO") has implemented pilot programs to speed up examination, as well as provisions of the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) ("AIA"), aimed at increasing patent quality, such as preissuance submission. There are also new provisions and programs to help promote global harmonization, such as the first-inventor-to-file provisions of the AIA and the Global Patent Prosecution Highway Pilot Program 2.0. The USPTO and the federal courts have also issued several important decisions in the last two years that provide guidance on patent eligibility and validity. This includes decisions from the Supreme Court of the United States on the standards for patent eligible subject matter and claim definiteness, as well as guidance from the USPTO on the eligibility of business methods and computer-implemented inventions, and functional claiming and clarity in patent claiming.

A. Trends in Patent Filings and Issuance

1. U.S. Trends

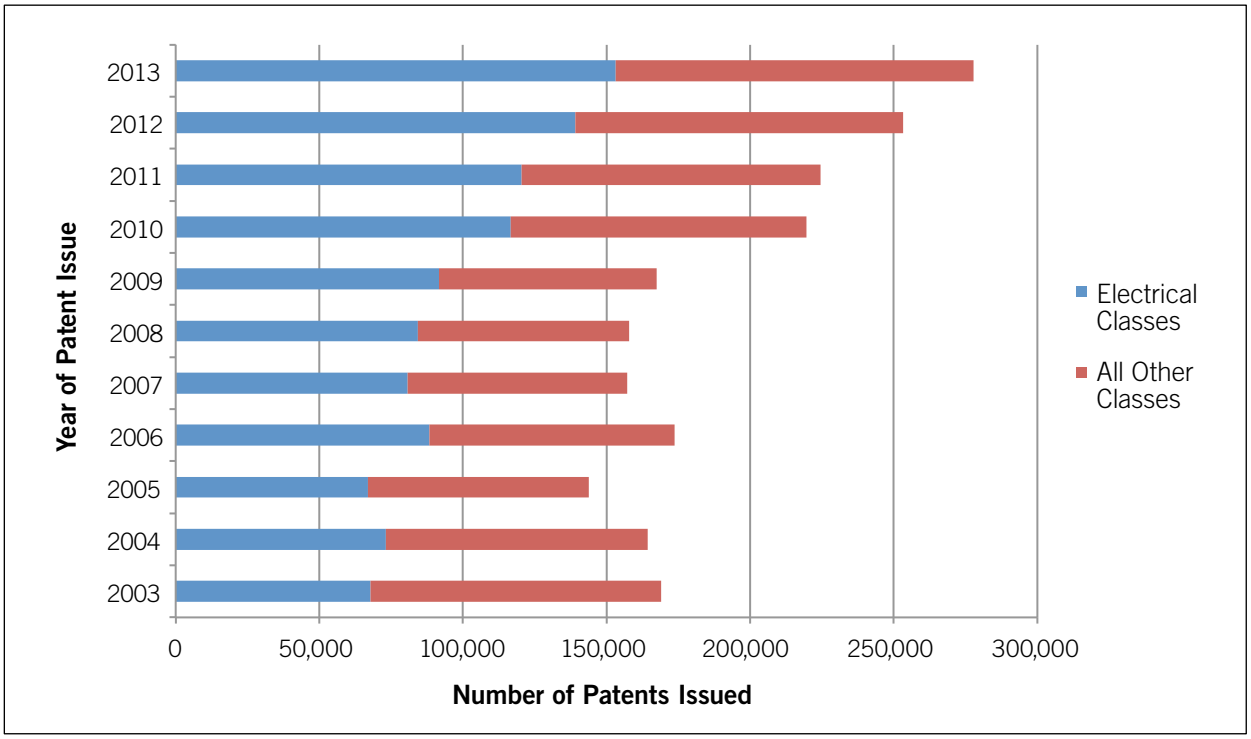
Each year, the number of patents issued and applications filed around the world continues to grow, highlighting the continued importance of IP to modern economies. For example, according to a recent report from the World Intellectual Property Organization ("WIPO"), approximately 2.57 million utility patent applications were filed worldwide in 2013, a 9% increase from 2012 and driven mostly by filings in China and the United States. *See* World Intellectual Property Indicators 2014, at 12 (WIPO) [hereinafter "2014 WIPO Report"].[1] After topping the one-million mark for the first time in 2012, the number of patents granted increased another 3.1% in 2013 to about 1.17 million patents. *Id.* at 18.

Patent grants and patent application filings continue to grow in the United States as well. According to the latest official report issued by the USPTO, the office issued the largest number of utility patents ever in 2013—a total of 277,835 patents. *See* U.S. Patent Statistics Chart Calendar Years 1963 - 2013 (USPTO).[2] The number of utility patent applications filed at the USPTO likewise hit an all-time high in 2013, at 571,612 applications. *See id.* Comparing these

numbers to the 45,679 utility patents granted and 85,869 utility applications filed in 1963 shows the substantial growth in patenting at the USPTO in the intervening decades. *See id.*

Much of the growth in patenting in the United States has been in the electrical and computer technology classes. In these classes, the USPTO granted 153,113 patents in 2013 versus 56,382 patents in 2000, a more than 250% increase in thirteen years.[3] Most areas within the electrical and computer technology classes experienced this kind of growth. For example, in the areas of electrical computers, digital processing systems, information security, and error/fault handling, the USPTO granted 56,349 patents in 2013 versus 13,761 patents in 2000.[4] In the area of semiconductor devices and manufacture, the USPTO granted 19,969 patents in 2013 versus 12,806 patents in 2000.[5] And in the telecommunications area, the USPTO granted 28,451 patents in 2013 versus 8,337 patents in 2000.[6]

Electrical-Related U.S. Patents v. Total U.S. Patents Granted
(USPTO Patent Technology Monitoring Team ("PTMT") Report 2013)[7]



1 http://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2014.pdf.
2 http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm.
3 http://www.uspto.gov/web/offices/ac/ido/oeip/taf/stelec.htm.
4 http://www.uspto.gov/web/offices/ac/ido/oeip/taf/ec_dps_is_efh.htm.
5 http://www.uspto.gov/web/offices/ac/ido/oeip/taf/reports_stech.htm.
6 http://www.uspto.gov/web/offices/ac/ido/oeip/taf/telecomm.htm.
7 http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm; http://www.uspto.gov/web/offices/ac/ido/oeip/taf/stelec.htm.

Worldwide growth in the number of electrical and computer technology patents has also occurred. The 2014 WIPO Report indicates that computer technology and electrical machinery accounted for the largest number of published applications across the globe and across all technology areas in 2012, the latest year for which data are available. *See* 2014 WIPO Report, at 6. Electrical engineering technologies experienced growth almost across the board in the number of applications filed from 2008 to 2012, with the electrical machinery, apparatus, energy field and the digital communication field experiencing the highest average growth rate during that time, at 8.4% and 8.3%, respectively. *See id.* at 31. Two notable areas that were exceptions to electrical engineering technologies experiencing growth were the telecommunications and audio visual technology areas, where filings fell 7.5% and 3.6%, respectively. *See id.*

The following table shows the top ten organizations obtaining patents in electrical technologies in 2013. Companies rounding out the top fifteen include Apple, Inc., LG Electronics Inc., Intel Corporation, Telefonaktiebolaget L M Ericsson (Publ.), and Hewlett-Packard Development Company. *See* USPTO PTMT Report 2013, at Part B.

Top Ten Companies Based on Utility Patents Granted in Electrical Classes in 2013
(USPTO Patent Technology Monitoring Team ("PTMT") Report 2013)[8]

Rank	Company	Utility Patents Granted in Electrical Cases in 2013
1	International Business Machines Corporation	6,038
2	Samsung Electronics Co., Ltd.	3,947
3	Canon Kabushiki Kaisha	3,011
4	Sony Corporation	2,822
5	Microsoft Corporation	2,613
6	Panasonic Corporation	2,131
7	Qualcomm, Inc.	2,090
8	Toshiba Corporation	1,996
9	Google, Inc.	1,831
10	Fujitsu Limited	1,710

8 http://www.uspto.gov/web/offices/ac/ido/oeip/taf/stelec.htm#PartB.

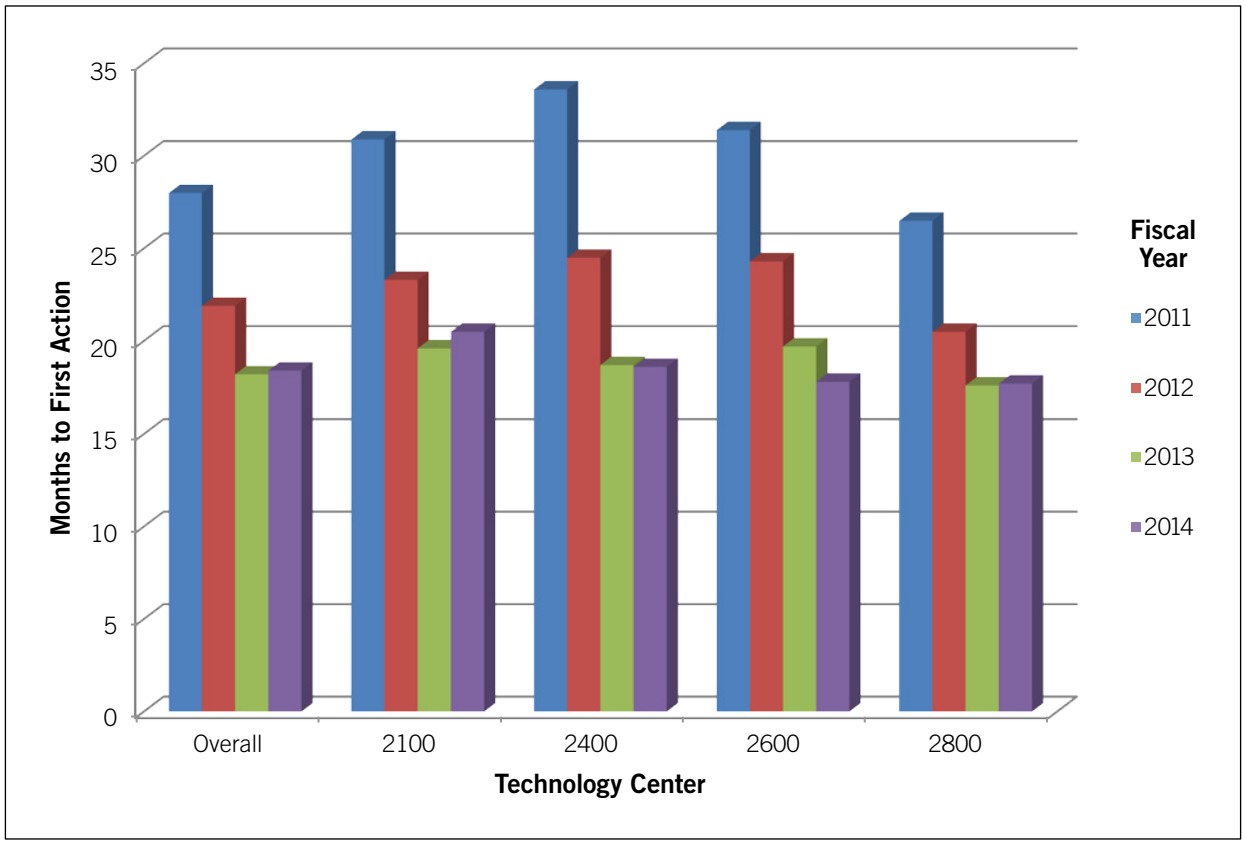
2. USPTO Statistics

In its 2014-2018 Strategic Plan, the USPTO set as one of its strategic goals to optimize patent quality and timeliness. *See* 2014-2018 Strategic Plan, at 4 (USPTO).[9] To achieve this goal, the USPTO seeks to reduce patent pendency and backlog, maintain consistently high quality, and efficiently implement legislative and administrative patent reforms. Despite the increasing number of patent applications, the USPTO has already succeeded in recent years in reducing both patent pendency and backlog.

As of November 2014, the USPTO estimated an average pendency of 18.1 months between the patent application filing date and the date the USPTO mails a first office action. *See* USPTO Data Visualization Center—Patents Dashboard ("USPTO Dashboard").[10] This number is consistent with the declining average first action pendency over all areas of the USPTO since 2011. *See* 2013 Performance & Accountability Report ("2013 PAR"), at 16 (USPTO).[11] The average first action pendency for electrical and computer technologies mirrors the overall reduction in time to a first office action that has occurred in recent years. As of November 2014, the average first action pendency was (1) 20.4 months for computer architecture, software, and information security technologies (Technology Center ("TC") 2100); (2) 19 months for computer networks, multiplex communications, video distribution, and security technologies (TC 2400); (3) 17.2 months for communications technologies (TC 2600); and (4) 17 months for semiconductors, electrical, and optical systems and components technologies (TC 2800).[12]

9 http://www.uspto.gov/about/stratplan/.
10 http://www.uspto.gov/dashboards/patents/.
11 http://www.uspto.gov/about/stratplan/ar/USPTOFY2013PAR.pdf.
12 http://www.uspto.gov/dashboards/patents/kpis/kpiTCFirstActionPendency.kpixml.

Average First Action Pendency
(USPTO Dashboard)



The USPTO reports similar improvements in the average total pendency between filing and final disposition (e.g., issued as a patent or abandoned). The average total pendency was 27.2 months as of November 2014, down from 32.4 and 29.1 months in fiscal years 2012 and 2013,[13] respectively. *See* USPTO Dashboard; 2013 PAR, at 16. The average total pendency for electrical and computer applications has improved as well. As of November 2014, the average total pendency was (1) 31.3 months for computer architecture, software, and information security technologies (TC 2100), down from 32.3 months in fiscal year 2013; (2) 30.1 months for computer networks, multiplex communications, video distribution, and security technologies (TC 2400), down from 34.2 months in fiscal year 2013; (3) 28.5 months for communications technologies (TC 2600), down from 32.1 months in fiscal year 2013; and (4) 26.5 months for semiconductors, electrical, and optical systems and components technologies (TC 2800), down from 37.2 months in fiscal year 2013.[14]

13 The USPTO's fiscal year runs from October of the prior year through the following September.
14 http://www.uspto.gov/dashboards/patents/kpis/kpiTCTotalPendency1.kpixml.

The USPTO has also reduced the unexamined patent application and Request for Continued Examination ("RCE") backlogs. As of November 2014, the unexamined patent application backlog was 606,710 applications. *See* USPTO Dashboard. Although this number is higher than the recent low of 584,998 applications in September 2013, the number is down from a recent high of 671,709 applications in October 2011. *See id.* These numbers include utility, plant, and reissue filings, including continuation, continuation-in-part, divisional, and RCE applications, that are awaiting a first office action by the patent examiner. *See id.* The RCE backlog alone—i.e., the number of patent applications awaiting an initial action after an RCE is filed—was 48,099 applications as of November 2014, down from a recent high of 111,924 applications in February 2013. *See id.*

B. Faster and Improved U.S. Examination—USPTO Pilot Programs

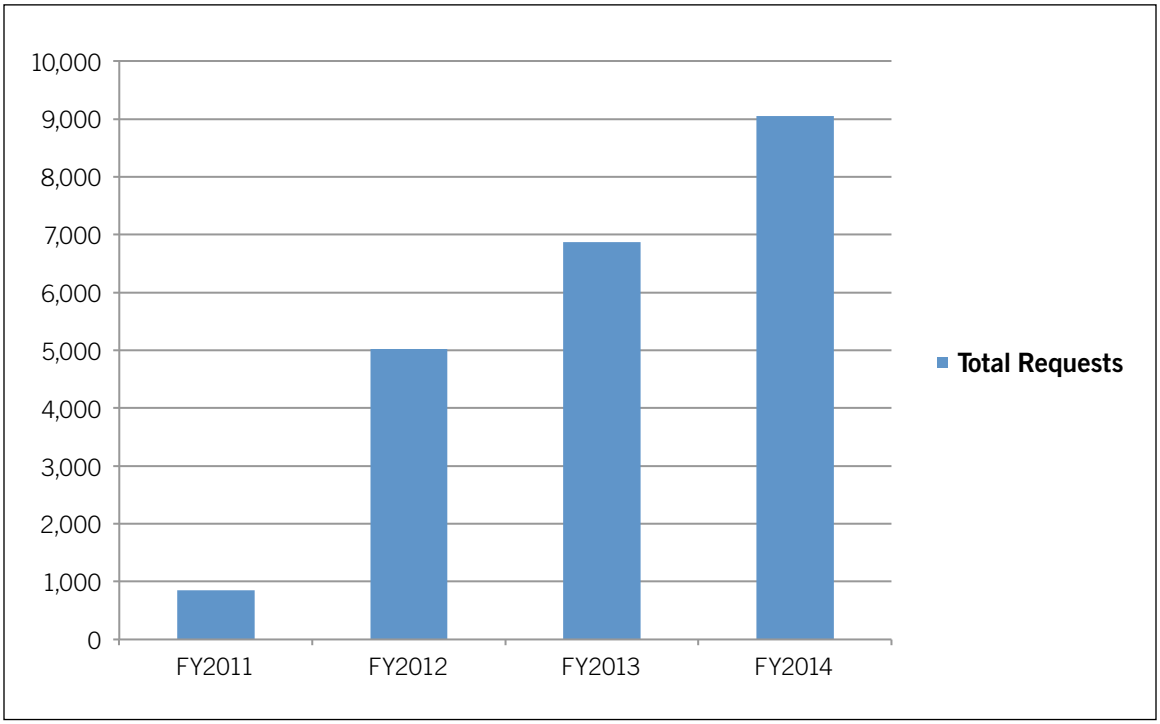
The USPTO has implemented several pilot programs to speed up examination without sacrificing quality, including Track One examination, the First Action Interview Pilot Program, and After Final Consideration Pilot Program 2.0.

1. Track One Examination

Lengthy patent pendency periods pose challenges to applicants developing portfolios in rapidly changing technology areas. Track One examination, established by the AIA in 2011, provides expedited examination with fewer burdens than prior initiatives imposed. So far, the program appears to be working. From its inception through October 9, 2014, Track One applications have, on average, received a first office action and final disposition within 2.4 months and 6.1 months, respectively, of being granted Track One status. *See* USPTO's Prioritized Patent Examination Program (USPTO).[15] As of October 9, 2014, the USPTO reports that there had been 21,805 requests for prioritized examination under Track One, and that it had mailed final dispositions for 10,786 applications, of which approximately 59% were a Notice of Allowance. *See id.*

15 http://www.uspto.gov/patents/init_events/Track_One.jsp.

Total Track One Requests
(USPTO Prioritized Patent Examination Program (USPTO))



To obtain Track One status, an applicant must submit a utility patent application (e.g., an original, continuation, or divisional application) with a request for prioritized examination and a prioritized examination fee of $4,000, which may be reduced for small and micro entities. 37 C.F.R. §§ 1.17(c), 1.102(e). The USPTO may also grant a Track One request submitted concurrently with an RCE and the required fees. *Id.* § 1.102(e)(2).

The USPTO limits applications examined under Track One to no more than four independent claims and thirty total claims, and no multiple dependent claims. *Id.* § 1.102(e). If the Track One request is granted, the USPTO places the application ahead of regular applications, while still affording the applicant the statutory time period for response to USPTO communications. A request for an extension of time, however, will result in the USPTO moving the application from the prioritized docket to the regular prosecution docket. Track One status will likewise be terminated if the application is amended to contain more than the number of claims allowed for Track One.

Prioritized examination under Track One will continue to be an important resource for companies innovating in rapidly changing technical fields, including those related to software, mobile telecommunications, and the Internet.

The Track One program should be considered by applicants in fast-moving technology areas, or by applicants otherwise seeking a rapid final disposition. The expedited examination and disposition of Track One applications may also result in fewer office actions and thus an overall reduction in prosecution costs, despite the higher upfront filing fee. Prioritized examination under Track One will continue to be an important resource for companies innovating in rapidly changing technical fields, including those related to software, mobile telecommunications, and the Internet.

2. First Action Interview Pilot Program

The First Action Interview Pilot Program started in April 2008 and aims to reduce application pendency and the backlog of new applications by entitling an applicant to a first action interview before the first office action on the merits. *See* Full First Action Interview Pilot Program ("FFAIPP Website") (USPTO).[16] The program enhances interaction between the applicant and the patent examiner, and gives applicants an opportunity to facilitate a possible early allowance by resolving patentability issues one-on-one with the examiner at the beginning of the prosecution process. *See* 1347 Off. Gaz. Pat. & Trademark Office 173 (Oct. 20, 2009).[17] Due to its success, the USPTO extended the program in varying forms over the years. In one form, the Enhanced First Action Interview Pilot Program, over 643 applicants participated, with more than 40% being allowed on the first office action. *See* Full First Action Interview (FFAI) Pilot Program ("FFAIPP Slides"), at 15 (USPTO).[18] These promising statistics make the program an important option for applicants interested in quick allowance.

The latest version of the program—the Full First Action Interview Pilot Program ("FFAIPP")—covers all utility applications in all technology areas, irrespective of filing date. *See* FFAIPP Website; 1367 Off. Gaz. Pat. & Trademark Office 42 (June 7, 2011).[19] The program originally expired on November 16, 2012, but the USPTO has extended the program beyond that date.[20] Normally, an interview before the first office action is only available at the examiner's discretion and may require the applicant to submit justification, but under the FFAIPP, such an interview is nondiscretionary.

To be eligible for FFAIPP, an application must be a nonreissue, nonprovisional utility application filed under 35 U.S.C. § 111(a), or an international application that has entered the national stage in compliance with 35 U.S.C. § 371(c). *See* FFAIPP Slides, at 5. The application must also claim only a single invention, have no multiple dependent claims, and contain no more than three independent claims and twenty total claims. *Id.* If the application is directed to more than one invention, the examiner may issue a restriction requirement, and the applicant is allowed to make an election without traverse (i.e., there is no right to challenge the restriction requirement) in order to participate in the program. *See id.* at 8.

16 http://www.uspto.gov/patents/init_events/faipp_full.jsp.
17 http://www.uspto.gov/web/offices/com/sol/og/2009/week42/TOC.htm.
18 http://www.uspto.gov/patents/init_events/faipp_full_overview.ppt.
19 http://www.uspto.gov/web/offices/com/sol/og/2011/week23/TOC.htm.
20 http://www.uspto.gov/patents/init_events/faipp_landing.jsp.

An applicant that complies with these requirements receives the patent examiner's prior art search results, via a Pre-Interview Communication, and has up to 60 days (30 days with a one-month extension available) to request or decline an interview to discuss the cited references. *Id.* at 7. If an interview is conducted, the examiner may issue an Interview Summary, followed by either a Notice of Allowability or a First Action Interview Office Action. *Id.* at 10-11. If the applicant waives the First Action Interview Office Action and submits a proposed amendment, the examiner may issue an Interview Summary followed by a final office action. *See id.* at 11. If an applicant declines an interview or fails to respond to the Pre-Interview Communication, the examiner may issue a First Action Interview Office Action. *See id.* at 10. Alternatively, if an applicant requests not to have the interview and submits a reply under 37 C.F.R. § 1.111, the examiner may issue a final office action. *See id.* at 8. Thus, even if the examiner does not issue a Notice of Allowance, the applicant gets a better understanding of the examiner's position to decide how to proceed, which may result in faster prosecution.

3. After Final Consideration Pilot Program 2.0

In 2013, the USPTO instituted the After Final Consideration Pilot Program 2.0 ("AFCP 2.0") to reduce the RCE backlog.[21] Recently extended through September 30, 2015, the program's goal is to reduce pendency by reducing the number of RCEs and encouraging collaboration between applicants and examiners to advance prosecution. *See* After Final Consideration Pilot Program 2.0, 78 Fed. Reg. 29,117, 29,118 (May 17, 2013). The program gives applicants a tool for accelerating prosecution after a final office action without the extra costs and fees associated with RCEs. This is particularly helpful where the applicant makes a straightforward amendment that should result in allowance.

Like RCEs, AFCP 2.0 allows an applicant to "reopen" prosecution after a final office action. AFCP 2.0, however, is narrower than RCEs. For instance, AFCP 2.0 is available after a final office action, but not after a Notice of Allowance. *See id.* Further, while RCEs allow an applicant to submit substantial amendments, arguments, and other documents, such as an Information Disclosure Statement, AFCP 2.0 only allows applicants to submit straightforward amendments. *See id.* Finally, RCEs require a $1,200 fee for large entities, but AFCP 2.0 requires no additional fee. *See id.*

To participate in AFCP 2.0, the applicant must submit an amendment to at least one independent claim that would make the claim allowable without broadening its scope. *See id.* For example, the amendment may be based on an earlier response to a final office action where the response or claim amendment was not entered into the record. The applicant must also file a request form and indicate an availability to participate in an examiner-initiated interview concerning the response filed with the AFCP 2.0 submission. *See id.*

21 http://www.uspto.gov/patents/init_events/afcp.jsp.

The patent examiner then gets additional time than would otherwise be available to consider the amendment and perform any further prior art searches, as required. If the examiner decides that the allotted time is insufficient for further examination, the examiner will issue an advisory action informing the applicant that the amendment cannot be considered. *See id.* at 29,119. Otherwise, the examiner will determine whether the amendment renders the claims allowable, and will either issue a Notice of Allowance or request an interview to discuss the proposed amendment. *See id.* The interview allows the applicant and the examiner to discuss ways to advance prosecution. Thus, even if the examiner does not issue a Notice of Allowance, the applicant gets a better understanding of the examiner's position to decide how to proceed, which may result in faster prosecution.

4. Functional Claiming and Clarity in Patent Claiming

Based on perceived abuse of software patents among patent assertion entities ("PAEs"), a White House task force in June 2013 directed the USPTO to train its examiners to address functional claims and develop strategies to improve claim clarity, such as using glossaries in patent specifications. *See* Fact Sheet: White House Task Force on High-Tech Patent Issues (June 4, 2013).[22] In response, the USPTO issued new guidelines for the examination of functional claim limitations and launched a Glossary Pilot Program that offers expedited processing for eligible applications with a glossary of claim terms.

Examination of Functional Claim Limitations. Under 35 U.S.C. § 112(f) (or pre-AIA § 112, ¶ 6), patent applicants may recite claim limitations using a means-plus-function format. In this format, the limitation recites a function and is construed to cover the structure the specification describes as performing that function, and equivalents to that structure. Section 2181 of the Manual of Patent Examining Procedure ("MPEP") directs examiners to construe limitations as means-plus-function if they meet the following test: (1) the limitation uses the term "means" or "step," or a term used as a substitute for "means" that is a generic placeholder; (2) the nonstructural term is modified by functional language, typically linked by a linking word or phrase such as "for," "configured to," or "so that"; and (3) the nonstructural term is not modified by sufficient structure for performing the claimed function. MPEP § 2181(I).

While the three-prong analysis itself is not new, the guidelines place a new emphasis on the application of the analysis to software-based claim limitations. For example, the new guidelines note the possible use of "module" as a nonstructural generic placeholder and "configured to" as a transitional phrase, which are commonly used terms in software-based claims. *See id.* Because a means-plus-function limitation is limited to structure described in the specification, the guidelines emphasize that, for a computer-implemented means-plus-function limitation, the disclosed structure must include an algorithm for performing the claimed function, and not merely a general-purpose computer or microprocessor. *See id.* § 2181(II)(B). An algorithm is "a finite sequence of steps for solving

22 http://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues.

a logical or mathematical problem or performing a task," and the specification may describe an algorithm in any understandable terms, such as a mathematical formula, in prose, or a flow chart. *Id.*

Thus, under the definiteness requirement of 35 U.S.C. § 112(b) (or pre-AIA § 112, ¶ 2), the USPTO may reject a claim reciting a computer-implemented means-plus-function limitation if the specification discloses no corresponding algorithm. *See id.* Merely describing "software" without providing detail about the means to accomplish a specific software function would not be adequate disclosure. *See id.* Nor would merely referencing a specialized computer (e.g., a "bank computer") or some undefined component of a computer system, or elements that are essentially a black box designed to perform the recited function, be sufficient; there must be some explanation of how the computer performs the claimed function. *See id.* The disclosed algorithm must also be sufficient to perform the entire claimed function, so that a person of ordinary skill in the art can implement the disclosed algorithm to achieve the claimed function. *See id.*

These guidelines emphasize the need for patent applicants to consider whether the specification sufficiently discloses the algorithm(s) associated with a claimed invention before filing the application. Without an algorithm or with an insufficient algorithm, the applicant may lose the opportunity to use means-plus-function language or risk claims being found invalid if the patent with unsupported means-plus-function limitations issues. In addition, the applicant should tailor the functional limitations of the claims to correspond to a computer or microprocessor programmed with a sufficiently disclosed algorithm.

Glossary Pilot Program. The Glossary Pilot Program started June 2, 2014, and was designed to accept up to 200 applications through December 31, 2014. *See* Glossary Pilot Program, 79 Fed. Reg. 17,137 (Mar. 27, 2014); USPTO Glossary Initiative (USPTO).[23] The program aims to study whether the inclusion of a glossary would improve the clarity of issued claims and otherwise benefit the examination process, e.g., by reducing the number of rejections based on an overly broad reading of the claims. To qualify, an application must be originally filed with a petition, be assigned to one of four Technology Centers—2100, 2400, 2600, or 3600—that examine software or business method patents, and include a formal glossary of claim terms. *See* Guidelines for Applicants Under the Glossary Pilot Program (USPTO).[24] No fee is required. The USPTO gives applications in the program expedited processing and "special" status up to the issuance of a first office action. As of December 5, 2014, applicants had filed 134 petitions to participate in the Glossary Pilot Program, and the USPTO recently extended the Program to June 2, 2015, or until the USPTO accepts 200 grantable petitions, whichever occurs first.[25]

23 http://www.uspto.gov/patents/init_events/glossary_initiative.jsp.
24 http://www.uspto.gov/patents/init_events/glossary_pilot_guidelines.jsp.
25 http://www.uspto.gov/patents/law/notices/extension_20141201.pdf.

C . Leahy-Smith America Invents Act

As widely reported, the USPTO has also implemented provisions of the AIA aimed at promoting global harmonization, such as the first-inventor-to-file provisions, and at increasing patent quality, such as preissuance submission.[26]

1. First-Inventor-to-File System

The AIA shifted the U.S. patent system from the long-standing "first-to-invent" system to a "first-inventor-to-file" system. 35 U.S.C. § 102(a). This change affects filing strategies for new patent applications by placing an emphasis on filing applications early. Under the new system, the "effective filing date" becomes the most important date in determining whether an invention is patentable. The effective filing date is the earliest priority date or, if no priority is claimed, the actual filing date. Except under a one-year grace-period provision, patent owners can no longer use inventive work to swear behind an earlier-filed application. Thus, applicants must take affirmative steps to quickly and effectively secure patent rights, through filing or disclosing to the public.

To win the race to the USPTO, applicants may find it advantageous to prioritize the application as soon as an innovative concept is formed.

While expediting a patent application at the cost of sacrificing quality is not in the best interest of every applicant, filing early reduces the risk of a competitor establishing an earlier filing date on substantially the same invention. To win the race to the USPTO, applicants may find it advantageous to prioritize the application as soon as an innovative concept is formed. To balance the trade-offs between time, cost, and quality, patent applicants may leverage the relaxed formality requirements for provisional applications to implement a serial filing strategy, where later-filed provisional applications build on prior applications. In this way, early filing dates for sequential improvements can be established at a relatively low cost. Applicants can use this same strategy to improve or correct an initial filing.

The first-inventor-to-file system also significantly enlarges the prior art space. For example, for foreign applications under pre-AIA law, it was usually the publication date rather than the filing date that qualified as the prior art date. Under the AIA, however, the subject matter of applications filed in any country, in any language, may be available as prior art as of the original foreign filing date. For companies with inventors in foreign countries, filing early not

26 The AIA also introduced another procedure aimed at increasing patent quality: supplemental examination. Supplemental examination allows a patent owner to ask the USPTO to consider information relevant to the patent's validity. *See* 35 U.S.C. § 257(a). The procedure was intended to provide patent owners an avenue to strengthen their patents before enforcing them, but to date has been little used. As of August 31, 2014, patent owners requested a total of 84 supplemental examinations since the procedure became available on September 16, 2012. *See* http://www.uspto.gov/aia_implementation/statistics.jsp.

only establishes an advantageous filing date, but may also create prior art against applications filed by competitors.

The first-inventor-to-file system encourages early disclosure through a one-year grace period during which publication of the invention by the inventor or someone who has obtained the invention from the inventor will not negate patentability. *See* 35 U.S.C. § 102(b)(1). Applicants should be cautious, however, about making such public disclosures before filing an application, because doing so involves risks regardless of the grace-period exception. Establishing patentability over intervening disclosures and the extent to which the public disclosure must support the later-filed application remain untested, and will likely remain unclear until adjudicated in court. For inventors seeking global protection, early disclosure may destroy patentability in jurisdictions not recognizing a grace period. Therefore, filing an application before public disclosure remains a good practice.

Although the first-inventor-to-file system creates incentives to file applications early, it does not change the importance of recordkeeping by patent applicants. For example, good recordkeeping can help applicants successfully invoke the allowed grace period to establish patentability over intervening, third-party disclosures by providing evidence that an inventor or joint inventor was the inventor of the subject matter of an earlier disclosure. *See* 35 U.S.C. § 102(b)(1). Good recordkeeping can also provide contemporaneous evidence corroborating the identity of the true inventors.

For More Information:
Don't Throw Away Lab Notebooks: Record-Keeping Under AIA (*Law360*, Nov. 8, 2012).

2. Preissuance Submission

Preissuance submission allows third parties—i.e., anyone except the applicant or someone with a duty to disclose information with respect to the application under 37 C.F.R. § 1.56—to submit prior art patents or printed publications to the USPTO for pending patent applications. 35 U.S.C. § 122(e). The procedure's goal is to increase transparency and improve patent quality by giving examiners access to a wider scope of prior art through third-party input. The procedure provides a way for companies to get relevant prior art in front of an examiner for potential use in the examination of applications that may be related to their business.

27 http://www.uspto.gov/aia_implementation/statistics.jsp.
28 http://www.uspto.gov/blog/aia/entry/message_from_janet_gongola_patent8.

Third parties can submit prior art in any pending nonprovisional utility, design, or plant application, as well as in any continuing application, irrespective of the filing date. Preissuance submissions, however, cannot be filed after a Notice of Allowance, or the later of (1) six months after the date the application is first published by the USPTO, or (2) the date of the first rejection of any claim by the examiner, which occurs on average about nineteen months after the filing date of the application based on recent statistics. 35 U.S.C. § 122(e)(1). For large entities, a preissuance submission also requires a fee of $180 for every ten items, or fraction thereof, the third party submits. 37 C.F.R. §§ 1.17(p), 1.290(f).

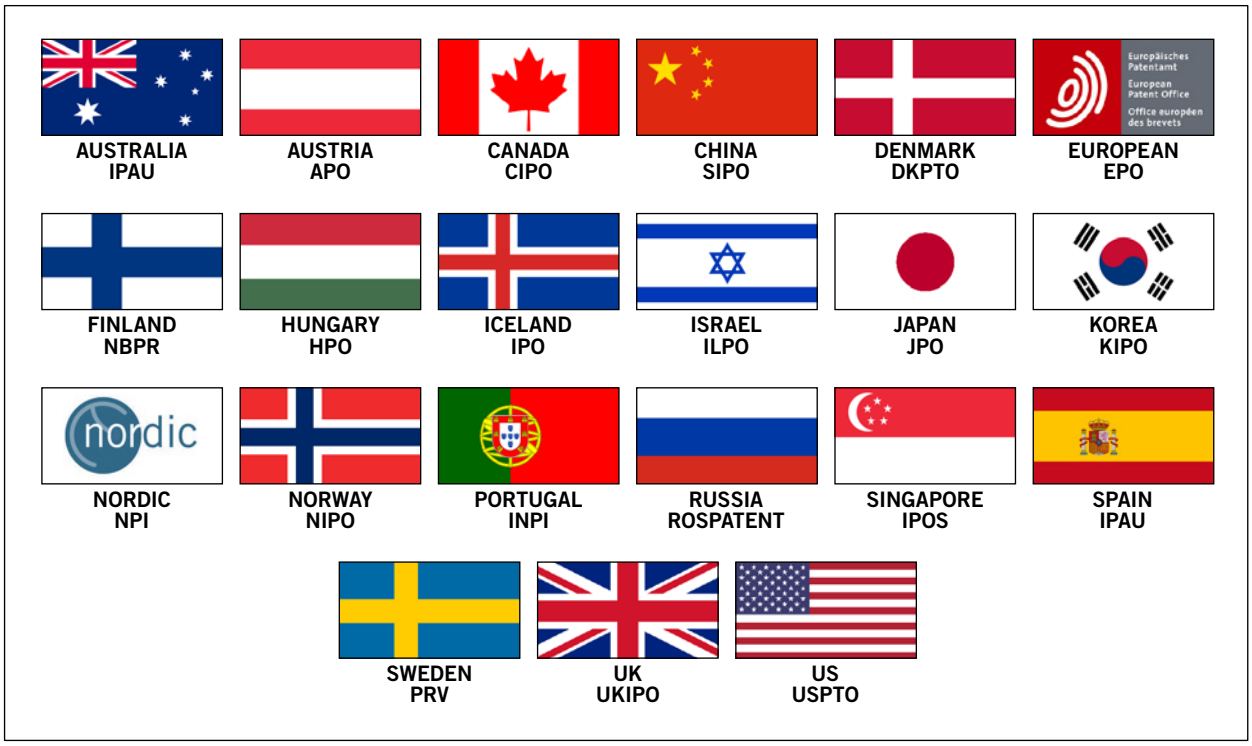
As of August 31, 2014, third parties had filed about 1,896 preissuance submissions since the procedure was established on September 16, 2012. *See* AIA Statistics (USPTO).[27] As of February 2014, the most popular technology centers based on the number of submissions included chemical and materials engineering (TC 1700), mechanical engineering (TC 3700), biotechnology and organic chemistry (TC 1600), and semiconductors, electrical, and optical systems and components (TC 2800). *See* Message from Janet Gongola (AIA Blog Feb. 24, 2014).[28] The centers with the fewest applications were computer architecture, software, and information security (TC 2100), and computer networks, multiplex communication, video distribution, and security (TC 2400). *See id.* Although the examiner must consider properly submitted information, examiners relied upon the third-party submission to make a rejection in only about 12.5% of the impacted applications for submissions made as of January 17, 2014. *See id.*

D. Global Patent Prosecution Highway Pilot Program

Since July 2006, the USPTO has partnered with other patent offices in Patent Prosecution Highway ("PPH") programs to enable applicants who receive an allowance on patent claims in one participating office to request accelerated prosecution of corresponding claims in another participating office. The PPH promotes efficiency by allowing the examiner in the office of the later examination ("OLE") to reuse the search and examination results from the office of the earlier examination ("OEE"). Although work-sharing benefits were realized, the PPH programs became cumbersome as different offices implemented the programs in different ways. In January 2014, the USPTO and other offices started the Global PPH and IP5 PPH pilot programs to make the programs more uniform.

The Global PPH and IP5 PPH pilot programs are equivalent, except for their respective participating offices. Participants in the IP5 PPH program include the European Patent Office, Japan Patent Office, Korean Intellectual Property Office, and State Intellectual Property Office of the People's Republic of China. The longer list of participants in the Global PPH program is shown below. The trial periods for the Global and IP5 PPH programs run through January 5, 2015, and January 5, 2017, respectively.

Participants in the Global / IP5 PPH Pilot Programs
(PPH-Fast Track Examination of Applications (USPTO))[29]



To be eligible for the Global/IP5 PPH program at the USPTO, the following requirements must be met:

(1) the U.S. application has the same earliest effective filing date as the corresponding application filed with another office participating in the program;

(2) the corresponding application has at least one claim indicated in the OEE as allowable/patentable;

(3) all claims in the U.S. application sufficiently correspond to the allowable claims in the corresponding application, i.e., claims that are similar in scope or narrower and that do not introduce a new/different category of claims (e.g., product claims do not sufficiently correspond to process-of-manufacture claims); and

(4) substantive examination of the U.S. application has not begun.

See PPH Portal Site.[30]

30 http://www.jpo.go.jp/ppph-portal/globalpph.htm.

When the applicant requests to participate in the Global/IP5 PPH program, the USPTO examines the U.S. application on an accelerated basis. Any claims amended or added after grant of the request must sufficiently correspond to the allowed claims in the OEE application. The special accelerated status will carry over to an RCE, but not to a continuing application. *See* Implementation of the Global and IP5 PPH Pilot Programs with Participating Offices, at 4 (USPTO Feb. 10, 2014).[31]

The PPH program is attractive for U.S. applicants with claims granted outside the United States. PPH applications tend to achieve significantly higher allowance rates—about 88% for PPH applications compared to 53% for all applications (including PPH and non-PPH) at the USPTO. PPH Portal Site—Statistics.[32] Also, the pendency rate is much lower, at 14 months average pendency from PPH request to a final decision for PPH applications versus 29 months for all applications (including PPH and non-PPH). *See id.* Another benefit is that the USPTO charges no fees to participate in the PPH program. In comparison, Track One accelerated examination in the USPTO costs $4,000 for a large entity.

One potential downside to filing a PPH request is leaving valuable subject matter unclaimed as a result of claims that do not "sufficiently correspond" to the allowed claims in the OEE application. This can be an issue for patent applicants seeking to protect inventions in the computer and software fields, where examination standards differ across the globe. One option to overcome this potential downside is to file a continuation application in the USPTO with broader claims than those in the PPH application. Given the potential benefits the Global/IP5 PPH program offers, patent owners with claims allowed in other countries should consider whether the program will benefit their particular situation.

E. Obtaining Valid Claims

1. Section 101: Patent Subject Matter Eligibility of Business Methods—*Alice Corp. v. CLS Bank Int'l* (Supreme Court)

On June 19, 2014, the Supreme Court of the United States attempted once again to clarify patent eligibility under 35 U.S.C. § 101, unanimously holding in *Alice Corp. v. CLS Bank International*, 134 S. Ct. 2347 (2014), that claims for a computer-implemented technique of mitigating "settlement risk" in financial transactions were directed to nonstatutory subject matter. In so doing, the Court applied the two-step framework for determining patent eligibility from *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012). So far, the utility of this framework for business methods and computer-implemented inventions has not been thoroughly tested in the courts, making the ultimate impact of *Alice* unclear.

31 http://www.uspto.gov/patents/law/notices/global-ip5.pdf.
32 http://www.jpo.go.jp/ppph-portal/statistics.htm.

Established exceptions to patent eligibility under § 101 include laws of nature, natural phenomena, and abstract ideas. *Alice*, 134 S. Ct. at 2354. The Supreme Court cautioned, however, against an overly broad application of these exceptions, because at some level, all inventions "embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas." *Id.* The Court explained that a proper application of these exceptions requires distinguishing between inventions that merely claim "building blocks" of human ingenuity and those inventions that "integrate the building blocks into something more." *Id.*

_In_ Alice Corp. v. CLS Bank International, _the Supreme Court unanimously held that claims for a computer-implemented technique of mitigating "settlement risk" in financial transactions were ineligible for patenting under 35 U.S.C. § 101._

To make this differentiation, the Supreme Court applied the two-step framework grounded in its prior decisions, *Mayo* and *Bilski v. Kappos*, 561 U.S. 593, 130 S. Ct. 3218 (2010). Under this framework, courts first assess whether an invention is directed to one of the judicial exceptions—laws of nature, natural phenomena, or abstract ideas. If the invention falls within one of these exceptions, courts then consider whether the invention involves an "inventive concept," which is an element or combination of elements "sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself." *Alice*, 134 S. Ct. at 2355 (alteration in original).

Under the first step, the Supreme Court found that Alice's claims were "drawn to the concept of intermediated settlement, *i.e.*, the use of a third party to mitigate settlement risk." *Id.* at 2356. The Court likened the concept of intermediated settlement to risk hedging in *Bilski* and found that it is "'a fundamental economic practice long prevalent in our system of commerce,'" and that using a third-party intermediary is the "building block of the modern economy." *Id.* (quoting *Bilski*, 130 S. Ct. at 3231). Thus, the Court concluded that intermediated settlement is an abstract idea beyond the scope of § 101. *Id.*

Applying the second step of the *Mayo* framework, the Supreme Court found that Alice's claims did not involve an "inventive concept," because the claims do no more than "simply instruct the practitioner to implement the abstract idea of intermediated settlement on a generic computer." *Id.* at 2359. Thus, the Court found that Alice's claims, including those directed to methods, systems, and computer-readable media, are patent ineligible under 35 U.S.C. § 101.

Although the *Alice* opinion provides guidance on the analytical framework for applying the judicial exception to patent eligibility, the Supreme Court expressly declined to provide the precise contours for determining when claims are directed to an "abstract idea." *See id.* at 2357. Thus, patent owners and applicants should expect a period of uncertainty regarding the status of business methods and computer-implemented inventions under § 101, as courts

and the USPTO struggle to define the boundaries of not only abstract ideas, but also of the inventive concepts that render abstractions patent eligible.

Before the close of 2014, the Federal Circuit started to provide guidance on the application of *Alice*, affirming a finding of invalidity under § 101 in several decisions. *See, e.g., Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709 (Fed. Cir. 2014); *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350 (Fed. Cir. 2014); *Planet Bingo, LLC v. VKGS LLC*, 576 F. App'x 1005 (Fed. Cir. 2014); *Digitech Image Techs., LLC v. Elecs. for Imaging, Inc.*, 758 F.3d 1344 (Fed. Cir. 2014). Most recently, in *DDR Holdings, LLC v. Hotels.com, L.P.*, No. 2013-1505 (Fed. Cir. Dec. 5, 2014), the Federal Circuit upheld a finding of validity under § 101, because the claimed solution amounted to an "inventive concept" for resolving a particular Internet-centric problem. *Id.*, slip op. at 23. While the court cautioned that "not all claims purporting to address Internet-centric challenges are eligible for patent," the court distinguished the *DDR* claims from invalid claims because the *DDR* claims "do not broadly and generically claim 'use of the Internet' to perform an abstract business practice (with insignificant added activity)." *Id.* at 22. Instead, the *DDR* claims "specify how interactions with the Internet are manipulated to yield a desired result—a result that overrides the routine and conventional sequence of events ordinarily triggered by the click of a hyperlink." *Id.*

The USPTO has also taken steps in response to the *Alice* decision. On June 25, 2014, the USPTO issued preliminary examination instructions to assist examiners when evaluating computer-implemented abstract ideas.[33] The USPTO also reviewed certain applications that were indicated as allowable prior to the *Alice* decision, and withdrew notice of allowances for some applications due to the presence of at least one claim having an abstract idea.[34] More recently, on December 16, 2014, after receiving some initial comments from patent stakeholders, the USPTO published its 2014 Interim Guidance on Patent Subject Matter Eligibility, which explains the USPTO's current interpretation of subject matter requirements in view of the *Alice* decision.[35] This guidance provides a more detailed analysis of the two-step framework from *Mayo*, as well as numerous sample analyses based on Supreme Court and Federal Circuit decisions. The USPTO is seeking written comments on the Interim Guidance on or before March 16, 2015, and held a public forum on January 21, 2015, to discuss the guidance and next steps.[36]

For More Information:

IP Update: *Alice Corp. v. CLS Bank*: The Supreme Court Weighs In on Patent Eligibility (Jun. 20, 2014)

Rule Review: New Subject Matter Eligibility Interim Guidance After *Alice*, *Mayo*, and *Myriad* (*Full Disclosure*, January 2015)

33 http://www.uspto.gov/patents/announce/alice_pec_25jun2014.pdf.
34 http://www.uspto.gov/blog/director/entry/update_on_uspto_s_implementation.
35 https://www.federalregister.gov/articles/2014/12/16/2014-29414/2014-interim-guidance-on-patent-subject-matter-eligibility.
36 http://new.livestream.com/uspto/SubjectMatterForum2015.

2. Indefiniteness—*Nautilus v. Biosig Instruments* (Supreme Court)

On June 2, 2014, the Supreme Court of the United States issued a decision, *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (2014), on the standard for determining whether claims are indefinite under 35 U.S.C. § 112. Before *Nautilus*, for claims to satisfy the definiteness requirement, the Federal Circuit required only that a claim be "amenable to construction" and not "insolubly ambiguous." *Id.* at 2124 (citing *Biosig Instruments, Inc. v. Nautilus, Inc.*, 715 F.3d 891, 898-99 (Fed. Cir. 2013)). The Supreme Court rejected this standard and replaced it with a "reasonable certainty" standard. *Id.* Specifically, the Court held that "a patent is invalid for indefiniteness if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention." *Id.*

The claims in *Nautilus* were directed to a heart-rate monitor in a hollow cylindrical bar that a user could grasp during exercise, thereby contacting two electrodes. *Id.* at 2125. Claim 1 recited that the electrodes are "mounted . . . in spaced relationship with each other." *Id.* at 2126. Biosig argued that "spaced relationship" referred to "the distance between the live electrode and the common electrode in each electrode pair," while Nautilus maintained that it must be a distance "greater than the width of each electrode," or else the claims would be open to multiple interpretations reflecting vastly different understandings of the patent's scope. *Id.* at 2127. Applying the "insolubly ambiguous" standard, the Federal Circuit held that the claim was not indefinite. *See id.*

A unanimous Supreme Court noted several points not in dispute. First, like other § 112 issues, definiteness is to be evaluated from the perspective of someone of ordinary skill in the art. *Id.* at 2128. Second, claims are read in light of the specification and prosecution history. *Id.* And third, definiteness is measured at the time of filing. *Id.* The dispute in *Nautilus* centered on how much imprecision § 112, ¶ 2 (§ 112(b) under the AIA amendments) tolerates before a claim is rendered invalid. *See id.*

The answer, according to the Supreme Court, requires a "delicate balance." *Id.* On the one hand, some degree of uncertainty is inevitable because of the inherent limitations of language. *See id.* On the other hand, the public-notice function of patents requires "clear notice" of what is claimed and what is still open to the public. *Id.* at 2129. This tension led the Supreme Court to reject the Federal Circuit's "insolubly ambiguous" and "not amenable to construction" tests, and to impose a flexible "reasonableness" test instead, as it has done elsewhere in patent law:

> Cognizant of the competing concerns, we read § 112, ¶ 2 to require that a patent's claims, viewed in light of the specification and prosecution history, inform those skilled in the art about the scope of the invention with reasonable certainty. The definiteness requirement, so understood, mandates clarity, while recognizing that absolute precision is unattainable.

Id. According to the Court, the ability to ascribe at least some meaning to a claim term does not meet the statutory test for precision; rather, "the definiteness inquiry trains on the understanding of a skilled artisan at the time of the patent application." *Id.* at 2130.

Although *Nautilus* changes the standard, it will take time to determine its practical implications. The Supreme Court recognized that the Federal Circuit's application of the "insolubly ambiguous" standard may come closer to the statutory prescription than the phrase itself suggests. *See id.* However, because the Supreme Court recognized that "imprecision just short of that rendering a claim 'insolubly ambiguous'" is not sufficient to meet the definiteness requirement, *id.*, patent applicants should carefully consider the *Nautilus* opinion when choosing claim language to define their inventions.

For More Information:
IP Update: The Supreme Court's *Nautilus* Decision Defines the Test for Indefiniteness (Jun. 4, 2014)

3. Computer-Readable Medium Claims—*Ex parte Mewherter* (PTAB)

In May 2013, the Patent Trial and Appeal Board ("PTAB") issued a rare precedential opinion on whether certain computer-readable medium ("CRM") claims were directed to nonstatutory subject matter under 35 U.S.C § 101. *See Ex parte Mewherter*, Appeal No. 2012-7692, Decision on Appeal (May 8, 2013).[37] Specifically, the PTAB considered whether the patent examiner erred in concluding that claims directed to a "machine readable storage medium" encompass transitory media, such as signals or carrier waves, and thus are directed to nonstatutory subject matter. The PTAB agreed with the examiner's conclusion.

The Patent Act enumerates four categories of patent eligible subject matter: "process, machine, manufacture, or composition of matter." 35 U.S.C. § 101. The Federal Circuit held that transitory forms of signal transmission, such as radio broadcasts, electrical signals through a wire, and light pulses through a fiber-optic cable, are not directed to any of the four statutory categories. *See In re Nuijten*, 500 F.3d 1346, 1353 (Fed. Cir. 2007). In 2010, the USPTO published guidance on the subject matter eligibility of computer-readable media, stating:

> The broadest reasonable interpretation of a claim drawn to a computer readable medium (also called machine readable medium and other such variations) typically covers forms of non-transitory tangible media and transitory propagating signals per se in view of the ordinary and customary meaning of computer readable media, particularly when the specification is silent.

37 http://www.uspto.gov/ip/boards/bpai/decisions/prec/fd2012_007692_precedential.pdf.

Subject Matter Eligibility of Computer Readable Media, 1351 Off. Gaz. Pat. & Trademark Office 212 (Feb. 23, 2010).[38] In 2012, the USPTO further advised that adding "non-transitory" to modify computer-readable media was acceptable, but if the specification is silent, then merely adding "physical" or "tangible" is not sufficient to overcome the presumption that CRM claims cover transitory embodiments. *See* Evaluating Subject Matter Eligibility Under 35 U.S.C. § 101: August 2012 Update, at 14 (USPTO).[39]

In *Mewherter*, the patent owner argued that the use of "storage" in the claim necessarily excludes transitory media, but the PTAB rejected this argument based on the silence of the specification and extrinsic evidence—largely in the form of published applications—that refers to transitory media when using the term "machine-readable storage medium." *Mewherter*, Decision on Appeal, at 6-12. Although the PTAB affirmed the examiner's rejection of the claims, the PTAB suggested that the patent owner could amend the claims to overcome the rejection by adding "non-transitory." *See id.* at 14.

To protect their products effectively, companies will need to divide the user experience into characteristics or interactions and use the appropriate IP right to protect each part. This concept—known as layering of IP rights—is essential to protecting the total user experience and differentiating one product from another in the eyes of the consumer.

In general, the PTAB uses four factors to consider when determining whether CRM claims encompass a nonstatutory signal. *See id.* at 7 n.5. The first factor is the extrinsic evidence relevant to the meaning as would be understood by one skilled in the art at the time of the effective filing date of the patent application. The second factor is whether there is express intent in the specification to limit the term, i.e., the specification is not silent. The third and fourth factors are whether the claim expressly or implicitly limits the medium to "non-transitory" embodiments. The claim may implicitly limit the medium, for example, by using means-plus-function elements that limit the claim to corresponding structure in the specification and equivalents thereof. Patent applicants should consider *Mewherter* and these four factors when crafting CRM claims.

F. Patenting the User Experience—Combining Utility and Design Patents

In the past decade, manufacturers have become aware of the pressing need to protect their user's total experience with their products in addition to the innovative functions. But what is the "total user experience"? According to

38 http://www.uspto.gov/web/offices/com/sol/og/2010/week08/TOC.htm.
39 http://www.uspto.gov/patents/law/exam/101_training_aug2012.pdf.

industrial designer, Charles L. Mauro, the total user experience is the set of "highly engaging features which combine to create an experience which is greater than the sum of its parts." Charles L. Mauro, *Apple v. Samsung: Impact and Implications for Product Design, User Interface Design (UX), Software Development and the Future of High-Technology Consumer Products* (PulseUX Blog Nov. 27, 2012).[40] In other words, the total user experience is the collection of everything that the user sees, feels, and experiences when looking at, holding, and interacting with the product. It includes all the "little things" that help differentiate one product from another and allows users to identify the product without necessarily seeing the name of the product.

Typical consumers do not see popular products, such as the Apple iPhone or the Nike+ FuelBand, as component parts. While the Nike+ FuelBand system has multiple parts (the band itself, the software on the band to display information, the software running on a smartphone that calculates performance based on this information, and the user interface to control this software), users do not see it that way. Instead, users see and evaluate the success of the entire system as a single product. When comparing other activity-tracking products, such as those made by Fitbit, MyBasis, Jawbone, or Misfit, the consumer will likewise compare the entire system as a whole. Perhaps recognizing this trend, Nike has invested heavily in protecting these types of products. In 2013, 16% of the patents issued to Nike (about 86 patents) were related to its fitness monitoring products. *See* Andria Cheng, *Nike Was Awarded 540 Patents in 2013: Here's What That Means for Investors* (The Wall Street Journal Marketwatch: Behind the Storefront Apr. 17, 2014).[41]

The IP-protection regime makes protecting a total user experience somewhat challenging. Most of the world's IP systems are designed to protect a specific right—function (utility patents), look and feel (design patents), creative expression (copyrights), and source identification (trademark and trade dress). To protect their products effectively, companies will need to divide the user experience into characteristics or interactions and use the appropriate IP right to protect each part. This concept—known as layering of IP rights—is essential to protecting the total user experience and differentiating one product from another in the eyes of the consumer.

A product may be covered by several forms of protection. For example, utility patents can protect inventions related to materials, electronics, functional product design, and methods of operation and manufacture. Design patents can protect the shape of a product and its packaging, a new typeface or font, and software user-interface appearance and animation. Trademarks can protect elements that identify the source of the product, including product and feature names, word marks, and logos, and trade dress can protect nonfunctional product design and packaging. Copyright registrations can protect product descriptions used in advertisements, as well as instruction manuals and related websites. Finally, companies may also protect elements of the backend of their user experience, such as source code and algorithms, as trade secrets. While there are pitfalls in applying for multiple rights on the same product, they can

40 http://www.mauronewmedia.com/blog/apple-v-samsung-implications-for-product-design-user-interface-ux-design-software-development-and-the-future-of-high-technology-consumer-products/.

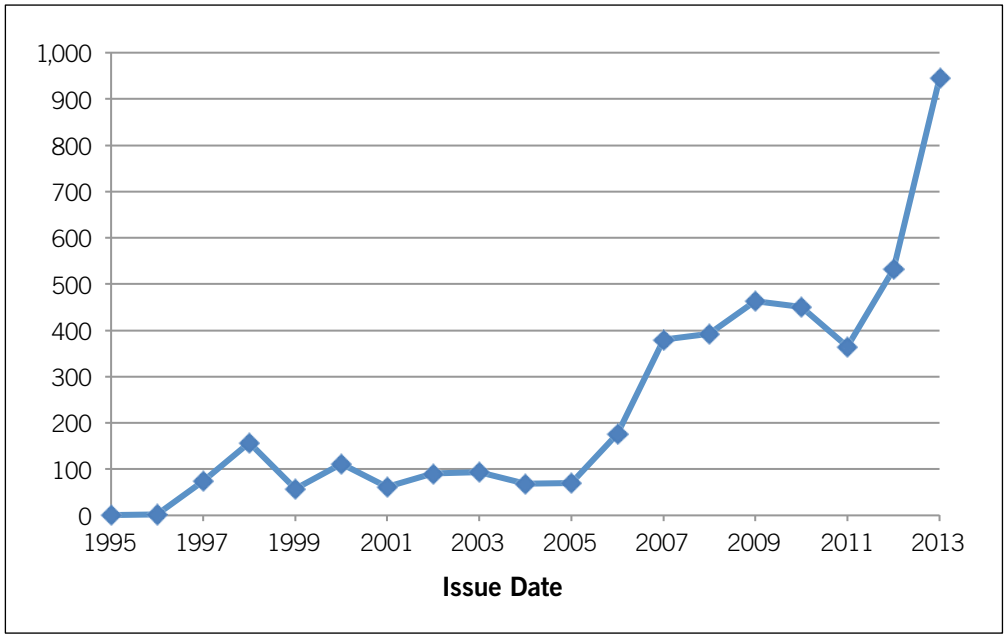
41 http://blogs.marketwatch.com/behindthestorefront/2014/04/17/nike-was-awarded-540-patents-in-2013-heres-what-that-means-for-investors/.

generally be avoided by carefully coordinating efforts and having a strategic plan for layered IP protection. The overall idea is to catch a potential competitor coming and going, with different forms of IP, forcing them to adopt a different total user experience to avoid infringement of the layers of rights. If customers prefer your total user experience, then they will stay with your product—because no other product will "feel" right.

The challenge is that the engineers developing the total user experience may have difficulty identifying the component parts that contribute to that experience. Oftentimes, innovative features may seem minor in isolation, but contribute heavily to the user experience, in part because of the ubiquity of the interaction in the scheme of the larger user interface. One example is Apple's "rubber-banding patent,"[42] which Apple argues covers the "bounce back" when a user overscrolls the interface in any one direction. Another example is Apple's "pinch-to-zoom" patent.[43] One commentator noted that while similar techniques could be used without infringing these claims, the resulting user experience would pay a price, and thus would likely not be confusingly similar to the original total user experience. *See* Florian Mueller, *Apple Insists That Samsung's Purported Workaround Still Infringes Pinch-to-Zoom API Patent* (Foss Patents Nov. 27, 2012).[44]

Perhaps others have also noticed the increased importance of protecting these elements with design patents. As shown below, since 2005, there has been a marked increase in U.S. design patents covering graphical user interfaces:

U.S. Design Patents for Graphical User Interfaces by Issue Date



42 U.S. Patent No. 7,469,381 (filed Dec. 14, 2007).
43 U.S. Patent No. 7,844,915 (filed Jan. 7, 2007).
44 http://www.fosspatents.com/2012/11/apple-insists-that-samsungs-alleged.html.

When it comes to asserting your IP to protect your product, layered IP covering your total user experience has some distinct advantages over piecemeal protection and enforcement schemes. For instance, in the worldwide *Apple v. Samsung* battle, individual IP rights were not so much at stake as Apple's argument that Samsung had taken its entire user experience. Also, a story about the user experience can be more digestible and accessible to a jury than a story about discrete copying of a single technology. And arguments based on pictures, such as trade dress and design-patent infringement, may play well in preparing the jurors to hear the more technical arguments based on utility patents.

II. Post-Grant Proceedings

A. Introduction

The ability to challenge the patentability of issued patent claims through administrative proceedings at the U.S. Patent and Trademark Office ("USPTO") has existed since 1981, when Congress created ex parte reexamination. Any person could file a request for ex parte reexamination, and if the USPTO determined that a substantial new question of patentability existed, it would reexamine the patent following a procedure similar to regular examination of a patent application. In 1999, Congress introduced inter partes reexamination, which allowed third parties to participate in a contested proceeding before the USPTO. With the enactment of the Leahy-Smith America Invents Act ("AIA") in 2011, Congress once again changed how patents may be challenged at the USPTO.

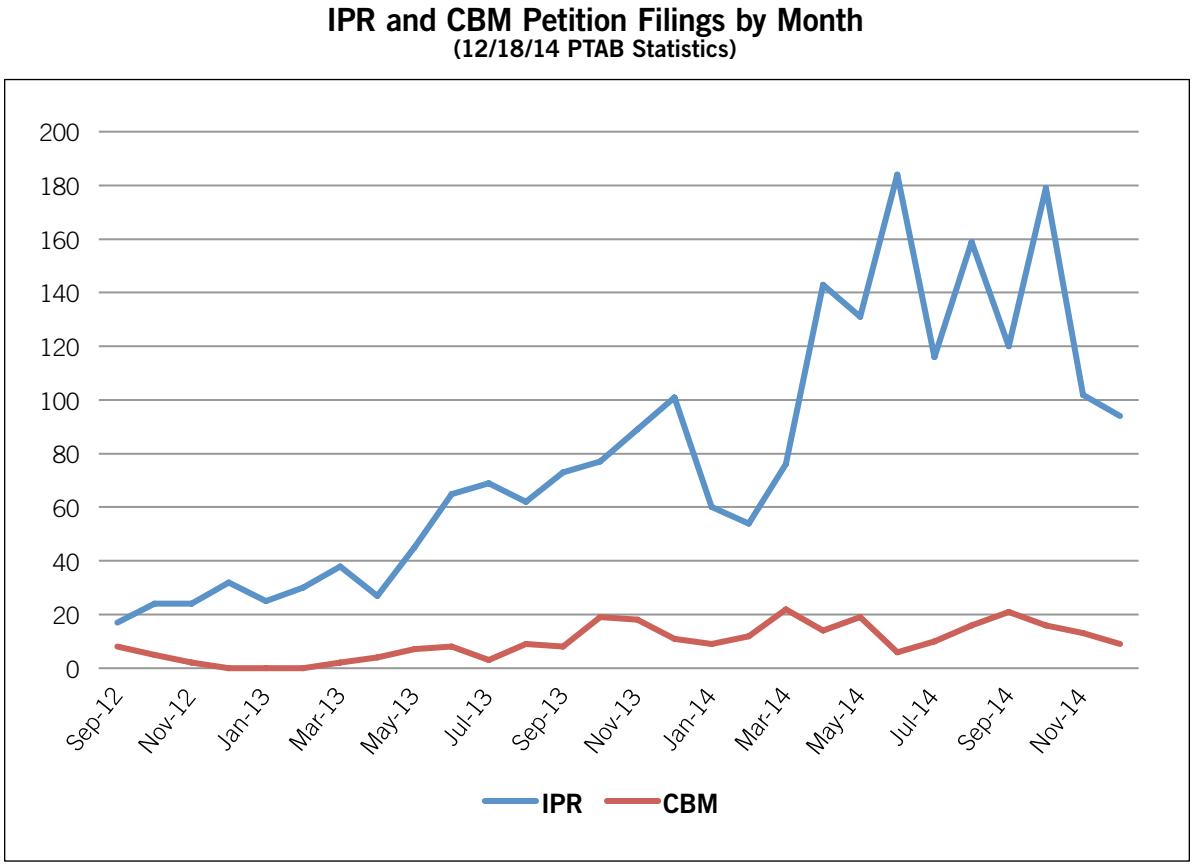
The AIA replaced inter partes reexamination with a new proceeding called inter partes review ("IPR") and created three other new proceedings: post-grant review ("PGR"), covered business method ("CBM") review, and derivation. A new entity, the Patent Trial and Appeal Board ("PTAB"), conducts these proceedings and renders decisions. Congress intended these new proceedings to provide a cost-effective alternative to litigating patents in federal district court or the U.S. International Trade Commission ("ITC"), and early experience suggests that these proceedings are achieving that goal. Factors such as speed, high success rates, and lower cost have rapidly made these proceedings fixtures of modern patent practice. In addition to these new procedures, ex parte reexamination remains available.

B. Early Trends

Since IPR and CBM review became available on September 16, 2012, their use has increased dramatically. Because PGR is available only for certain patents filed on or after March 16, 2013, PGR petitions have been later to arrive, with the first being filed on August 5, 2014. As PGR-eligible patents are continuing to issue, however, it is anticipated that more PGR petitions will be seen in the near future. The chart below identifies the number of IPR and CBM petitions filed by month, through December 18,

Petitions for post-grant review are being filed at a higher rate than anticipated, supported by win rates on unpatentability that are substantially higher than win rates on invalidity in federal district courts.

2014. *See* Patent Trial and Appeal Board AIA Progress, Statistics (as of 12/18/14) [hereinafter, "12/18/14 PTAB Statistics"].[45] IPR and CBM review only became available at the end of fiscal year 2012, but petition filings accelerated in 2013 and 2014. *See id.*

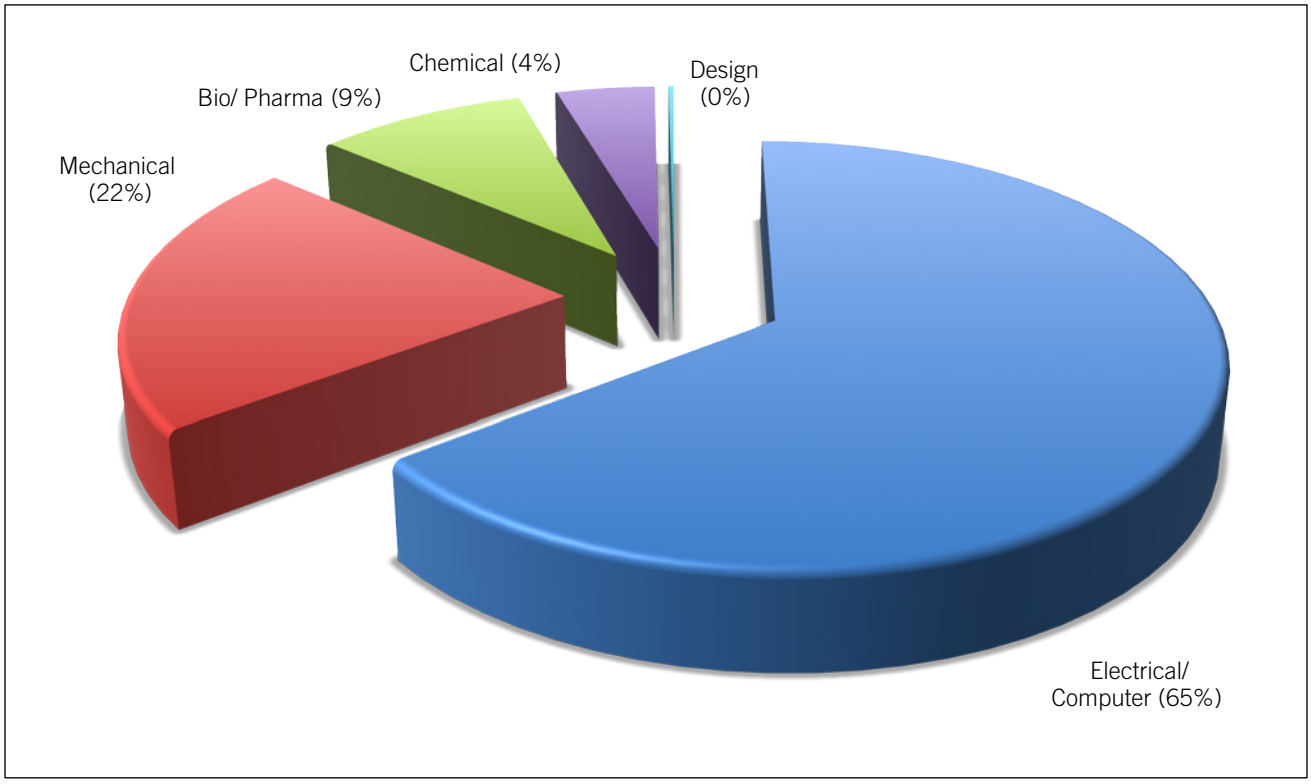


The number of AIA petitions filed surpassed most expectations. While the number of petitions filed in the first year (September 2012 to September 2013) was roughly in line with USPTO estimates,[46] filings accelerated in 2014, as shown in the chart above. Supporting this trend, petitioners have won AIA proceedings at relatively high rates. As discussed below, claim cancellation rates are generally higher than in pre-AIA administrative validity challenges.

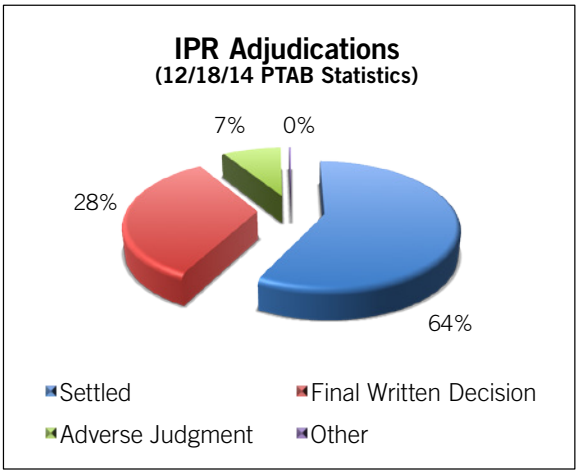
The electrical/computer field is the most prevalent among IPR and CBM petitions, making up about 65% of petitions filed thus far in fiscal year 2015. Petitioners have directed the remaining petitions to patents in the mechanical, bio/pharma, chemical, and design-patent fields.

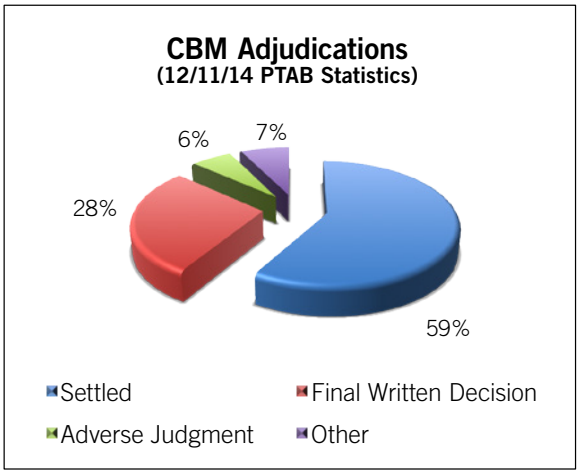
45 http://www.uspto.gov/ip/boards/bpai/stats/aia_statistics_12_18_2014.pdf.
46 The USPTO forecasted 460 IPR petitions and 50 CBM petitions filed in the first year. *See* 77 Fed. Reg. 48,680, 48,724 (Aug. 24, 2012).

Technology Breakdown for Petitions—FY2015 through December 18, 2014
(12/18/14 PTAB Statistics)



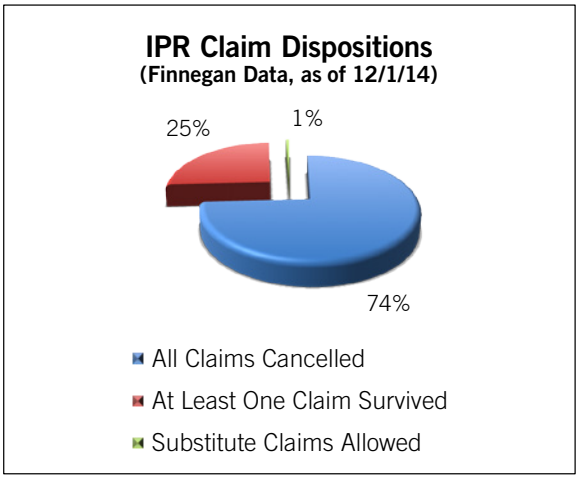
Like patent litigation, IPR and CBM proceedings allow the parties to settle before a final decision on the merits. When the PTAB institutes an IPR or CBM review, it typically explores the status of any settlement negotiations during the initial teleconference with the parties. Although the majority of IPR and CBM proceedings end with a settlement, the settlement rate for these proceedings, at about 63% of IPR and CBM proceedings that have reached a resolution, is lower than in district court litigation. The charts below show the percentage for each type of final disposition in IPR and CBM proceedings, including settlement, final written decisions, adverse judgments (i.e., final decisions after institution but before a final written decision, e.g., where the patent owner disclaims all instituted claims), or other disposition (e.g., dismissal).

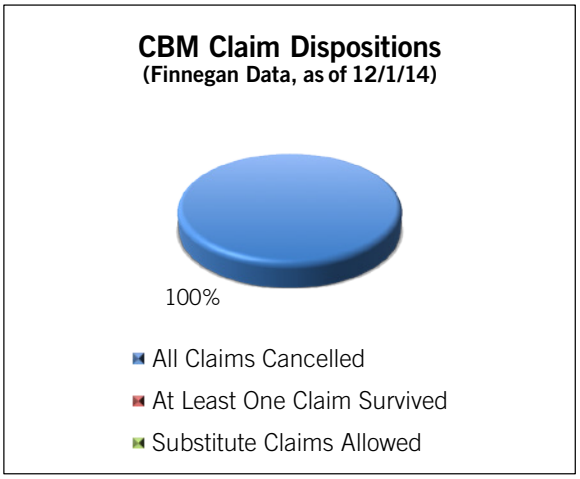




The win rate for petitioners in IPR and CBM proceedings is relatively high. In the first several months after the proceedings became available, the win rates for petitioners were significantly higher than in reexamination proceedings, which made the proceedings very attractive to parties accused of infringement. In part, this contributed to the rise in petition filings in 2013 and 2014. Over time, the win rates have dropped somewhat, but still remain above reexamination levels.

As the charts below indicate, as of December 1, 2014, the PTAB cancelled all instituted claims, and denied all proposed substitute claims, in 74% of cases.[47] Notably, as of December 1, 2014, there had been no final written decision in a CBM proceeding that confirmed instituted claims, in either original or amended form. Nevertheless, subsequent to this data, the Board has issued final written decisions in CBM proceedings confirming the patentability of at least some challenged claims.





47 The latest statistics are available at http://www.aiablog.com/claim-and-case-disposition/.

IPR Petitioner	IPR Patent Owner	CBM Petitioner	CBM Patent Owner
Samsung Electronics Co., Ltd. (60)	Zond, Inc. (123)	Apple Inc. (17)	Smartflash LLC (22)
Apple Inc. (44)	VirnetX, Inc. (40)	eBay Inc. (11)	Progressive Casualty Insurance Company (10)
Microsoft Corporation (44)	Magna Electronics, Inc. (37)	Liberty Mutual Insurance Company (10)	Maxim Integrated Products, Inc. (10)
Google Inc. (36)	Intellectual Ventures II LLC (33)	Google Inc. (10)	Intellectual Ventures I LLC (8)
The Gillette Company (33)	American Vehicular Services, LLC (33)	Samsung Electronics America, Inc. (9)	Versata Development Group, Inc. (7)
Intel Corporation (32)	Clouding IP, LLC (27)	DealerSocket, Inc. (8)	DataTreasury Corporation (6)
Taiwan Semiconductor Manufacturing Company, Limited (31)	Intellectual Ventures I LLC (23)	Callidus Software, Inc. (6)	Protegrity Corporation (6)
Medtronic, Inc. (29)	PersonalWeb Technologies, LLC (18)	Fidelity National Information Services, Inc. (6)	AutoAlert, LLC (5)
Oracle Corporation (27)	Bonutti Skeletal Innovations, LLC (17)	Groupon, Inc. (6)	Blue Calypso, LLC (5)
TRW Automotive U.S. LLC (27)	Cypress Semiconductor Corporation (17)	PNC Bank, N.A. (5)	Pi-Net International, Inc. (5)
			Trading Technologies International, Inc. (5)

Certain petitioners and patent owners have already established themselves as more frequent participants in PTAB proceedings. The table above, based on PTAB data analyzed by Finnegan, lists the top ten participants in each proceeding as of October 23, 2014, according to the number of petitions that name them as petitioner or patent owner. As the table shows, the majority of the top petitioners are in the electrical and computer technology fields.

C. Stays

1. District Court Stays

Because PTAB petitions often arise in the context of litigation, a common consideration is whether the district court should stay the litigation pending the outcome of the PTAB proceeding. District courts have generally favored granting such a stay, particularly for CBM reviews. As of June 2014, the win rate for contested motions to stay was

65.6% for stays pending an IPR and 68.4% for stays pending a CBM review.[48] The stay rates are uneven across districts, however, with some courts being more likely to stay litigation pending a post-grant challenge than others. For example, according to the June 2014 LegalMetric report, the stay rates for IPRs in the District of Delaware and the Northern District of California are each three times higher than in the Eastern District of Texas.

Courts have been supportive of stays pending IPRs and CBM reviews, granting contested motions to stay 66% and 68% of the time, respectively.

The AIA introduced the concept of "automatic" stays in certain circumstances. In particular, if the petitioner or a real party-in-interest files a civil action challenging the validity of a patent on or after the date it files a petition challenging the patent, the action is automatically stayed. 35 U.S.C. §§ 315(a)(2), 325(a)(2). The stay may be lifted, however, at the request of the patent owner, upon the filing of an infringement claim or counterclaim by the patent owner, or when the petitioner files a request to dismiss the civil action.

For CBM reviews, the AIA provides a four-factor test to determine whether a stay of litigation is warranted. These factors include whether: (1) a stay will simplify the issues in question and streamline the trial, (2) discovery is complete and a trial date has been set, (3) a stay would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party, and (4) a stay will reduce the burden of litigation on the parties and the court. *See* AIA § 18(b)(1). The pre-AIA stay analysis included the first three factors, and the AIA added the fourth factor to make it easier to demonstrate the need for the stay. As a result, courts generally view stays pending CBM review in a favorable light.

2. ITC Stays

It has been said among practitioners that "nothing stops the ITC train." While this saying is not always true, Administrative Law Judges ("ALJs") at the ITC have been reluctant to issue stays at least partly because the ITC is under a statutory mandate to conduct investigations expeditiously. 19 U.S.C. § 1337(b)(1); 19 C.F.R. § 210.2. In a pre-AIA opinion reversing an ALJ's decision to stay an investigation pending reexamination, the Commission set forth the following factors for determining whether to grant the stay: (1) the state of discovery and the hearing date, (2) whether a stay will simplify the issues and hearing of the case, (3) the undue prejudice or clear tactical disadvantage to any party, (4) the stage of the USPTO proceedings, (5) the efficient use of Commission resources, and (6) the availability of alternative remedies in federal court (only sometimes considered). *See Certain Semiconductor*

48 LegalMetric Nationwide Report, Stay Pending Inter Partes Review in Patent Cases, August 2012-June 2014 (June 2014); LegalMetric Nationwide Report, Stay Pending Covered Business Method Review in Patent Cases, December 2012-June 2014 (June 2014).

Chips with Minimized Chip Package Size and Products Containing Same, Inv. No. 337-TA-605, Comm'n Op. at 3 & n.2 (May 27, 2008).

In a more recent, but still pre-AIA, decision weighing those factors, ALJ Gildea denied a motion to stay pending an inter partes reexamination, and his analysis suggests that denials of motions to stay pending post-AIA inter partes review are also likely. *See Certain Microelectromechanical Systems ("MEMs Devices") and Products Containing the Same*, Inv. No. 337-TA-876, Order No. 6 (May 21, 2013). According to ALJ Gildea, stays result in "intangible cost to the Commission . . . [since] it is under a statutory mandate to proceed expeditiously." *Id.* at 6. ALJs are also less willing to grant a stay since doing so may not speed up the overall procedure. ITC investigations proceed from complaint to hearing in about twelve to fifteen months, which is less than the seventeen to eighteen months from petition to decision in a post-grant proceeding.

While stays are unlikely, they stand the most chance of being granted where (1) the request for a stay is filed before institution or early in the investigation, (2) the post-grant proceeding involves all asserted patents and claims, and (3) the USPTO is likely to quickly complete the post-grant proceeding. Given the ITC's reluctance to grant stays, the forum remains an appealing venue for patentees.

D. Initiating a Proceeding

To initiate an IPR, CBM, or PGR proceeding, the party seeking to challenge a patent files a petition, which sets forth the specific grounds of alleged unpatentability, as well as other required statements and certifications. An IPR petition generally costs $9,000 to file and another $14,000 upon institution of a trial. 37 C.F.R. § 42.15(a). A CBM or PGR petition generally costs $12,000 to file and another $18,000 upon institution. *Id.* § 42.15(b). In comparison, an ex parte reexamination involves only a one-time fee of $12,000 upon filing. *Id.* § 1.20(c).

1. Eligible Patents and Scope of Review

An IPR or CBM petition may be filed against pre-AIA and post-AIA patents, regardless of the patent's filing date. PGR, however, is available only for post-AIA patents with an effective filing date of March 16, 2013, or later. Like reexamination, IPRs are limited to grounds that could be raised under 35 U.S.C. §§ 102 and 103 based on prior art consisting solely of patents and printed publications. *See* 35 U.S.C. § 311(b). In contrast, CBM review and PGR allow for any additional ground that could be raised under 35 U.S.C. § 282(b) relating to invalidity of the patent or any claim, such as unpatentable subject matter, lack of enablement or written description, and indefiniteness. *See id.* § 321(b).

Further, while an IPR or PGR petition may challenge a patent regardless of the patent's subject matter, a CBM petition is limited to "covered business method" patents. AIA § 18(a)(1)(D). A "covered business method patent"

must have at least one claim for "performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions." *Id.* § 18(d)(1). In practice, the PTAB broadly interprets "covered business method patent" to encompass patents "claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity." 77 Fed. Reg. 48,734, 48,735 (Aug. 14, 2012) (response to comment 1). Thus, CBM review is not limited to banks and other financial institutions. Indeed, the first CBM petition was filed by SAP America, Inc. and SAP AG on September 16, 2012 (the first day CBM review became available), which resulted in a final written decision finding the challenged claims unpatentable under 35 U.S.C. § 101.[49]

In *CRS Advanced Technologies, Inc. v. Frontline Technologies, Inc.*, CBM2012-00005, Paper No. 17 (Jan. 23, 2013), the PTAB elaborated on which types of patents recite "covered business methods" and are available for review. The PTAB considered whether a patent related to a human resource management system that involved assigning a replacement worker to substitute for a regular, permanent worker during a temporary absence, was a CBM patent. *Id.* at 6-9. The PTAB decided that it was, finding that some of the patent claims were directed to activities at retail banks, and, thus, the patent as a whole was at least incidental or complementary to a financial activity. *See id.*

2. Eligible Petitioners

Unlike ex parte reexamination, a petition for IPR, CBM review, or PGR may not be filed by the owner of the challenged patent. 35 U.S.C. §§ 311(a), 321(a). A party is also estopped from filing a petition after filing a civil action challenging the validity of the patent. *Id.* §§ 315(a)(1), 325(a)(1). A counterclaim challenging validity, however, does not constitute a civil action challenging validity for purposes of this estoppel. *Id.* §§ 315(a)(3), 325(a)(3). A civil action for declaratory judgment of noninfringement is also not a civil action challenging the validity of a patent. *Ariosa Diagnostics v. ISIS Innovation Ltd.*, IPR2012-00022, Paper No. 20 (Feb. 12, 2013). In addition, for CBM review, petitioners must have been charged with or sued for infringement before filing the petition. AIA § 18(a)(1)(B). Petitioners must also name all "real parties-in-interest" in the petition and certify that they also are not barred or estopped from filing the petition. If a real party-in-interest or privy of the petitioner would be barred from filing the petition, the petitioner is likewise barred.

3. Multiple Proceedings

The PTAB has discretion to manage multiple USPTO proceedings involving the same patent, such as by staying, transferring, consolidating, or terminating proceedings. The PTAB often decides to stay an ongoing reexamination pending an IPR or CBM review. The PTAB has also joined two or more IPR or CBM trials into a consolidated

49 *SAP Am., Inc. v. Versata Dev. Grp., Inc.*, CBM2012-00001.

proceeding, with special arrangements for briefing, discovery, and the oral hearing. A patent owner or petitioner may file a request for joinder, which allows the PTAB to consider a petition and join it with another petition before the PTAB. 35 U.S.C. §§ 314(c), 325(c). As of December 18, 2014, the PTAB has granted ninety-three joinders for IPRs and one for CBM review. *See* 12/18/14 PTAB Statistics, at 2.

Over time, the PTAB has applied increased scrutiny to petitions at the institution stage, and denied institution when petitions lack sufficient analysis or explanation. This has encouraged challengers to file multiple petitions when, for example, many claims of a patent must be challenged or the technology at issue is complex. The PTAB has been more receptive to this approach, preferring for the requisite analysis and explanation to be spread between multiple petitions rather than forced into a single petition, which is limited to 60 pages. For example, Intel recently filed five IPR petitions against the same patent, and the PTAB instituted each petition. *See Intel Corp. v. Zond Inc.*, IPR2014-00443, -00444, -00445, -00446, -00447.

Another factor to consider when filing multiple petitions is estoppel. If the petitions are filed at different times, a final written decision in the first may lead to estoppel in the second, which would be problematic for the petitioner. Nevertheless, if the petitions are filed simultaneously, the Board may institute based on grounds from each petition, and consolidate the instituted proceedings, which is usually helpful for the petitioner. Petitioners, therefore, should consider the issue of timing when considering filing multiple petitions against the same patent. 35 U.S.C. §§ 315(e)(1), 325(e)(1); *See infra* Part II.G.

4. Time Bars

A PGR petition must be filed within nine months after the patent issues. 35 U.S.C. § 321(c). An IPR or CBM petition may be filed anytime, except that for post-AIA patents, IPR or CBM review is only available nine months after the patent issues, when the time for filing a PGR petition has expired. *Id.* § 311(c); AIA § 18(a)(2). Because PGR is available for only post-AIA patents, the AIA created a post-grant "dead zone" by requiring IPR petitioners to wait nine months after issuance to file IPRs on pre-AIA patents. On January 14, 2013, Congress eliminated this "dead zone" in H.R. 6621 by making the nine-month bar inapplicable to pre-AIA patents.

In addition, a petitioner may not file an IPR petition more than one year after the petitioner—or a real party-in-interest or privy of the petitioner—is served with a complaint in a civil action alleging infringement of the patent. 35 U.S.C. § 315(b). In *Cyanotech Corp. v. Board of Trustees of the University of Illinois*, IPR2013-00401, Paper No. 17 (Dec. 19, 2013), however, the PTAB decided that a civil action that was dismissed without prejudice did not trigger the bar. As further guidance, in *Accord Healthcare, Inc., USA v. Eli Lilly & Co.*, IPR2013-00356, Paper No. 13 (Oct. 1, 2013), the PTAB found that service of a second complaint did not nullify the effect of service of a first complaint for purposes of the one-year bar, and, thus, the time bar is measured one year from service of the first complaint. The PTAB, however, has found that an action dismissed without prejudice may still trigger the bar if the action is immediately

continued in a consolidated action. *See Apple Inc. v. Rensselaer Polytechnic Inst.*, IPR2014-00319, Paper No. 12 (June 12, 2014).

5. Common Rejections

As of December 11, 2014, the PTAB issued institution decisions in 1,241 IPRs and in 159 CBM reviews. *See* 12/11/14 PTAB Statistics, at 2. The PTAB granted institution in 876 cases for IPRs, or 71% of the time, and in 86 cases for CBM review, or 76% of the time. *See id.* Where the PTAB denied institution, several issues have frequently appeared.

For IPRs, the PTAB denied petitions based on the one-year time bar discussed above, where the patent owner had served a complaint on the petitioner or a real party-in-interest more than one year before the petition.[50] The PTAB also denied several IPR and CBM petitions for inadequate explanation of the grounds of unpatentability, or for substantive deficiencies in the asserted prior art.[51] In these cases, the PTAB found that the petitioner failed to meet the threshold for institution, which requires, for IPRs, "a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged," or for CBM reviews, that "it is more likely than not that at least 1 of the claims challenged . . . is unpatentable." 35 U.S.C. §§ 314(a), 324(a). Other reasons for denying petitions include violations of other statutory or rule-based requirements, such as relying on prior art under 35 U.S.C. § 102(e) in a CBM review, which the AIA does not permit,[52] or raising the same or substantially the same prior art and arguments raised in a prior IPR petition.[53]

When the PTAB institutes review, it may do so based on some, but not all, of the grounds the petition raises. The PTAB often denies proposed grounds based on redundancy, where the petitioner does not demonstrate why the denied grounds are not redundant of the instituted grounds. In practice, petitioners may avoid findings of redundancy by explaining in the petition the relative strengths and weaknesses of the asserted references.[54]

E. PTAB Proceedings

Once an IPR, CBM, or PGR proceeding is instituted, the PTAB arranges a conference call with the parties to discuss the case schedule, discovery, the status of settlement negotiations, and any other administrative matters that the

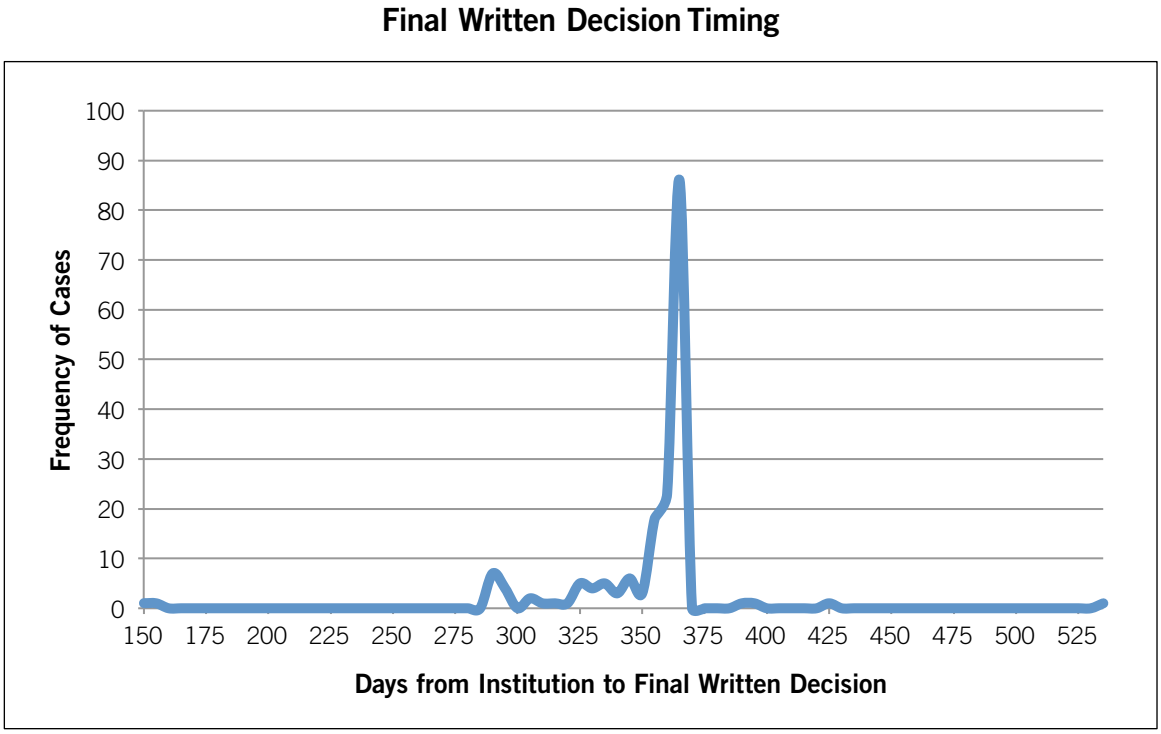
50 *See, e.g., Apple Inc. v. VirnetX, Inc.,* IPR2013-00348, Paper No. 14 (Dec. 13, 2013) (denying institution where petitioner was served with complaint alleging infringement more than one year before filing the petition, and rejecting argument that service of another complaint within the one-year period nullifies the effect of the earlier complaint).

51 *See, e.g., CaptionCall, LLC v. Ultratec, Inc*., IPR2013-00549, Paper No. 20 (Apr. 28, 2014) (denying institution of IPR where petitioner did not adequately explain grounds for unpatentability).

52 *See, e.g., eBay, Inc. v. Advanced Auctions LLC*, CBM2014-00047, Paper No. 15 (June 25, 2014). Congress is considering legislation that would expand the scope of prior art in CBM review to include prior art under 35 U.S.C. § 102(e). *See, e.g.*, Innovation Act, H.R. 3309, 113th Cong. § 9(d) (2013).

53 *See, e.g., Intelligent Bio-Systems, Inc. v. Illumina Cambridge Ltd*., IPR2013-00324, Paper No. 19 (Nov. 21, 2013) (citing 35 U.S.C. § 325(d)).

54 *See, e.g., EMC Corp. v. Personal Web Techs*., LLC, IPR2013-00087, Paper No. 25 (June 5, 2013) (explaining how petitioners may avoid findings of redundancy).



parties or the PTAB wish to address. Common matters include the scope of permissible discovery, claim construction, amendments to the instituted claims, and settlement.

With few exceptions, the Board has met the one-year statutory deadline to issue a final written decision after institution of an AIA post-grant challenge. As the chart below shows, as of December 1, 2014, the majority of final written decisions have issued just before the one-year deadline. The outliers have involved unusual sets of facts, such as joinder of multiple proceedings.

1. Discovery

Discovery is allowed in IPR, CBM, and PGR proceedings, but on a much narrower basis than litigation in district court or the ITC. The principal forms of discovery include expert declarations and depositions of experts. Petitioners commonly file expert declarations with their petitions. Patent owners may file previously existing testimony with their preliminary response, but may not present new testimony evidence, i.e., testimony evidence prepared specifically for the purpose of the IPR proceeding. 37 C.F.R. §§ 42.107(c), 42.207(c). Patent owners, however, may file an expert declaration with their formal response to the petition after trial is instituted. When a party submits an expert declaration, the other side may depose the expert.

In addition to expert discovery, a party must serve relevant information that is inconsistent with a position advanced

by the party, concurrently with the filing of documents that contain the inconsistency. *See id.* § 42.51(b)(1)(iii). Examples of information that may contain such inconsistencies include pleadings, expert reports, or deposition testimony from litigation.

If a party seeks to request or produce additional evidence, it must obtain approval from the PTAB to file a motion for such discovery. *See id.* § 42.51(b)(2)(i). Parties have sought to obtain or produce information concerning issues such as real parties-in-interest or privies, secondary considerations of nonobviousness, and developments in concurrent or prior litigation. Parties seeking such additional discovery should address the five factors set forth in *Garmin International, Inc. v. Cuozzo Speed Technologies LLC*, IPR2012-00001, Paper No. 26 (Mar. 5, 2013), which the PTAB continues to apply in evaluating such requests:

1. "More Than a Possibility and Mere Allegation"—The party requesting discovery should already have evidence tending to show beyond speculation that something useful will be uncovered–the mere possibility or allegation that something useful will be found is insufficient.

2. "Litigation Positions and Underlying Basis"—A party may not attempt to alter the PTAB's trial procedures under the pretext of discovery by asking for the other party's litigation positions and the underlying basis for those positions.

3. "Ability to Generate Equivalent Information by Other Means"—The PTAB wants to know the ability of the requesting party to generate the requested information, i.e., whether the party can reasonably figure out or assemble the information without a discovery request.

4. "Easily Understandable Instructions"—The questions should be easily understandable—ten pages of complex instructions are prima facie unclear.

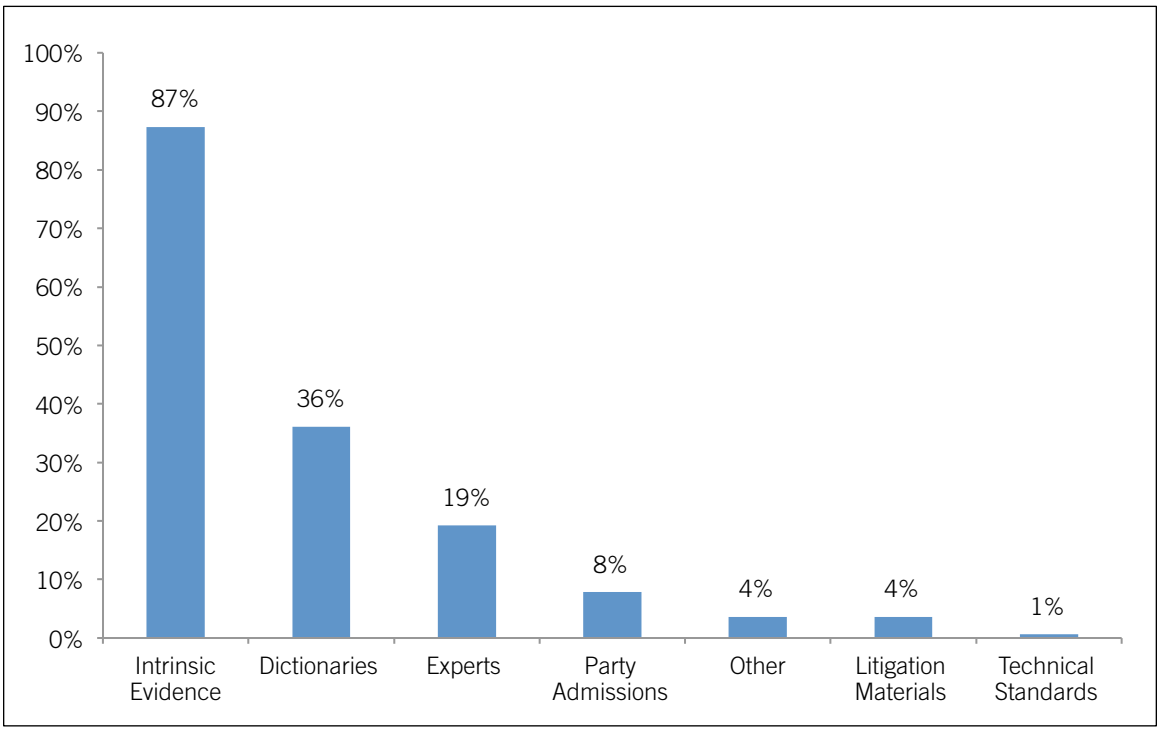
5. "Requests Not Overly Burdensome to Answer"—The requests must not be overly burdensome to answer, including financial burden, burden on human resources, and burden on meeting the expedited time schedule of the PTAB proceeding.

Id. at 6-7. These factors make it substantially more challenging to obtain discovery in the PTAB than in district court or the ITC.

2. Claim Construction

The claim construction standard that applies in post-grant proceedings may provide an advantage to petitioners. District courts and the ITC construe claims in accordance with the "plain and ordinary meaning" standard set forth in *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005) (en banc). Although the PTAB applies the same standard

Evidentiary Sources for Claim Construction



for expired patents in post-grant challenges, the PTAB applies the broadest reasonable construction in light of the specification for unexpired patents, which can result in a broader interpretation for purposes of determining patentability. 37 C.F.R. §§ 42.100(b), 42.200(b).

The chart above shows the types and frequency of evidence the Board has relied on in construing claims in final written decisions, as of December 1, 2014. Notably, the Board often cites both technical and general-purpose dictionary definitions in construing claim terms. In some cases, the Board relied on its own dictionary definition, even if one was not proposed by the parties.

Trying to invoke the *Phillips* standard, one patent owner filed a terminal disclaimer to cause the patent to expire before the PTAB issued a final written decision, but the PTAB disapproved of this tactic, holding that the "broadest reasonable construction" standard still applies. *Amkor Tech., Inc. v. Tessera, Inc.*, IPR2013-00242, Paper No. 129 (May 22, 2014). Congress has considered legislation that would require the PTAB to apply the same *Phillips* standard used in district court. *See, e.g.*, Innovation Act, H.R. 3309, 113th Cong. § 9(b) (2013).

3. Claim Amendments

Like ex parte reexamination, IPR, CBM, and PGR proceedings allow the patent owner to amend the challenged claims.

See 37 C.F.R. §§ 42.121, 42.221. Unlike reexamination, however, the patent owner in these proceedings is not entitled to have the amendments entered. Instead, the patent owner must file a motion to amend. Before filing the motion, the patent owner must hold a teleconference with the PTAB and the petitioner. *See id.* §§ 42.121(a), 42.221(a). As the moving party, the patent owner carries the burden of proof in establishing its right to amend the claims. Usually, the deadline for filing a motion to amend is the same as the deadline for the patent owner's response to the petition.

A motion to amend must cancel existing claims and set forth proposed substitute claims, rather than simply amend existing claims. Motions to amend may not seek to broaden the claims or introduce new matter. In addition, the PTAB allows the patent owner to propose only a "reasonable" number of substitute claims, with a rebuttable presumption that only one substitute claim would be needed to replace each challenged claim. 35 U.S.C. §§ 316(d), 326(d); 37 C.F.R. §§ 42.121(a)(3), 42.221(a)(3). The motion to amend must identify support in the patent for the amendments and explain how the amendments distinguish not only the prior art asserted in the petition, but also other known and relevant prior art.

4. Settlement

Recognizing that settlement is generally a desirable outcome, the AIA provides opportunities for the parties to an IPR, CBM, or PGR proceeding to settle their dispute and avoid a final written decision on the merits. This can be advantageous for the petitioner to avoid estoppel based on an unfavorable final written decision. It can also be desirable for a patent owner to avoid a decision of unpatentability. For both parties, settlement can also save costs and potentially lead to the resolution of related litigation or other disputes.

One unique requirement of settlement in these proceedings is that the parties' settlement agreement must be reduced to writing and filed with the PTAB. 35 U.S.C. §§ 317(b), 327(b). The parties may keep the agreement confidential. If the parties settle, the PTAB can terminate the trial without issuing a final written decision. But if the PTAB has already decided the merits of the proceeding by the time the parties request termination, the PTAB may still proceed to a final written decision. *Id.* §§ 317(a), 327(a).

F. Appeal

In post-grant proceedings, either party dissatisfied with a final written decision of the PTAB may appeal the decision directly to the Federal Circuit. 35 U.S.C. §§ 319, 329. The party seeking appeal must file a notice of appeal within

55 *In re Dominion Dealer Solutions, LLC*, Misc. Dkt. No. 109 (Fed. Cir. Apr. 24, 2014).
56 *In re Procter & Gamble Co.*, Misc. Dkt. No. 121 (Fed. Cir. Apr. 24, 2014).

sixty-three days after the date of the final PTAB decision. *Id.* § 142; 37 C.F.R. § 90.3(a)(1). The AIA makes the PTAB's decision whether to institute a review final and nonappealable. 35 U.S.C. §§ 314(d), 324(e). The only recourse for a party dissatisfied with a decision on institution is to file a request for rehearing, which the PTAB reviews under an "abuse of discretion" standard. *See* 37 C.F.R. § 42.71.

The Federal Circuit has considered and denied appellate review of decisions on institution. In *St. Jude Medical, Cardiology Division, Inc. v. Volcano Corp.*, No. 2014-1183 (Fed. Cir. Apr. 24, 2014), the Federal Circuit dismissed an appeal from a PTAB decision not to institute a trial. In two other opinions, the Federal Circuit denied mandamus requests, seeking to compel institution in one case [55] and noninstitution in the other.[56] Unlike appeals, mandamus claims constitute original actions, but the Federal Circuit denied the petitions, reasoning that the petitioners failed to show a "clear and indisputable" right to challenge institution decisions in light of the analysis set forth in *St. Jude*.

Appeals from post-grant patentability challenges can also present important issues of timing. For example, if a district court finds that patent claims are not invalid, but the USPTO later finds the claims unpatentable in a post-grant proceeding, a question may arise as to whether a damages award in the litigation can be enforced. This situation arose recently in *Fresenius USA, Inc. v. Baxter International, Inc.*, 721 F.3d 1330 (Fed. Cir. 2013). There, the district court entered a damages award of $24 million, but later the Federal Circuit affirmed an ex parte reexamination finding the claims-at-issue unpatentable. On appeal from the district court litigation, the Federal Circuit held that, because the district court case was pending to determine a proper royalty rate, and thus not yet "final," the finding of unpatentability constituted an intervening legal development, which was given effect and negated the damages award. *See id.* at 1347.

G. Estoppel

Final written decisions in PTAB proceedings are important not only to the availability of appeal, but also because of the estoppel effects for the petitioner. When the PTAB issues a final written decision in an IPR or PGR, the petitioner is estopped from maintaining a USPTO, ITC, or district court proceeding against a challenged patent claim on any ground that the petitioner "raised or reasonably could have raised" in the proceeding. 35 U.S.C. §§ 315(e), 325(e). For PGRs, this could potentially include any ground of invalidity. *See id.* § 321(b). The possible estoppel is narrower in IPRs, because the prior art in IPRs is limited to patents and printed publications. *See id.* § 311(b). For CBM review, a petitioner may not request or maintain a subsequent proceeding within the USPTO with respect to any claim on any ground that it "raised or reasonably could have raised," like IPRs and PGRs, but with respect to district court and ITC actions, the CBM estoppel applies only to those grounds actually "raised" in the CBM review. AIA § 18(a)(1)(D).

The USPTO, district courts, and ITC have not yet addressed the "raised" or "reasonably could have raised" estoppel that derives from final written decisions. It thus remains to be seen what exact scope of prior art will be subject to the estoppel and what prior art parties will be free to pursue after an unsuccessful post-grant proceeding.

III. District Court Litigation

In addition to post-grant USPTO proceedings, Congress has proposed and enacted additional provisions to address what it considers excessive or abusive litigation, including, for example, new joinder rules in the AIA that make it more difficult for a plaintiff to join multiple defendants with tenuous connections in a single patent infringement action. Congress is also continuing to consider other bills to address perceived abuses, such as requiring more detailed infringement complaints and making it easier for prevailing parties to recoup attorneys' fees. Some of these bills have stalled in Congress due to the lack of consensus on what measures are needed, but other bills have been recently introduced or are anticipated as we head into 2015. States too have been active in considering and passing laws that prohibit misleading demand letters that include patent infringement allegations made in bad faith.

Filings of patent infringement cases hit another record in 2013, with a total of 6,238 cases, although 60% of those cases were filed in the top five districts, including in order the Eastern District of Texas, the District of Delaware, and the Central, Northern, and Southern Districts of California.

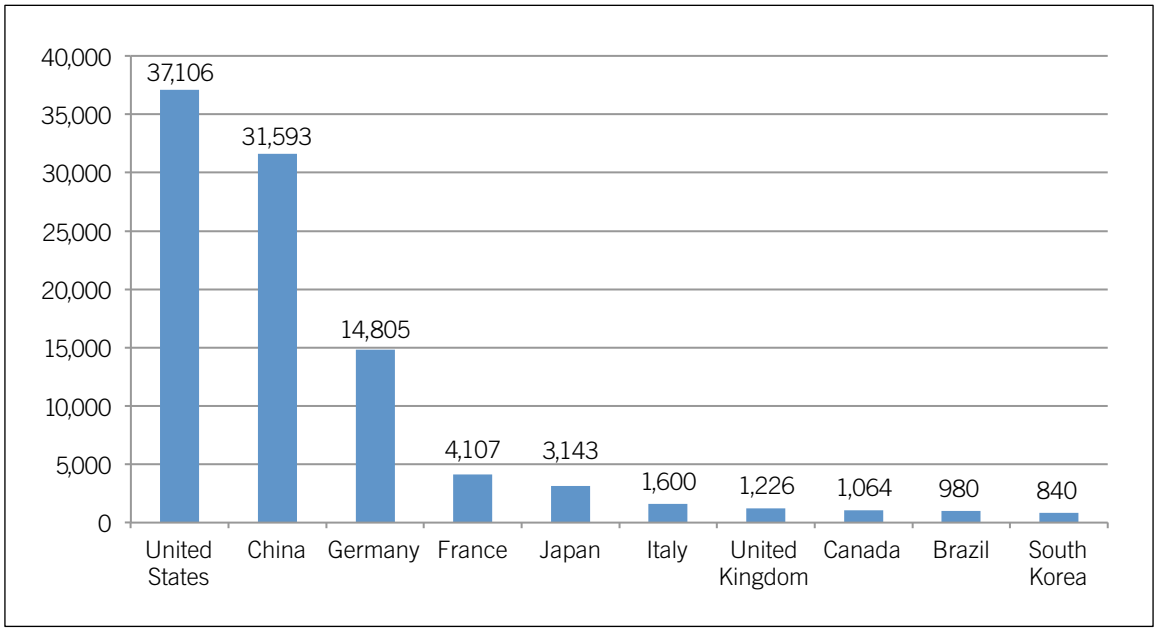
The courts have also been active trying to bring clarity and efficiency to patent litigation. For example, the Supreme Court recently issued decisions on divided infringement, indefiniteness of patent claims, awards of attorneys' fees, and the standard of review for claim construction. The Federal Circuit is also active and has addressed, for example, the availability of interlocutory appeals before a trial on damages or willfulness and of injunctions against infringement of patents subject to fair, reasonable, and non-discriminatory ("FRAND") terms. District courts are also doing their part to streamline patent litigation with more districts introducing local patent rules. The Eastern District of Texas also recently introduced a new "Track B" fast-track schedule for patent infringement actions.

A. Trends in Patent Litigation

Around the world, patent suits are being filed frequently and often. The trend is evident not only in the United States, but other countries with significant markets. The global trend towards creating specialized intellectual property

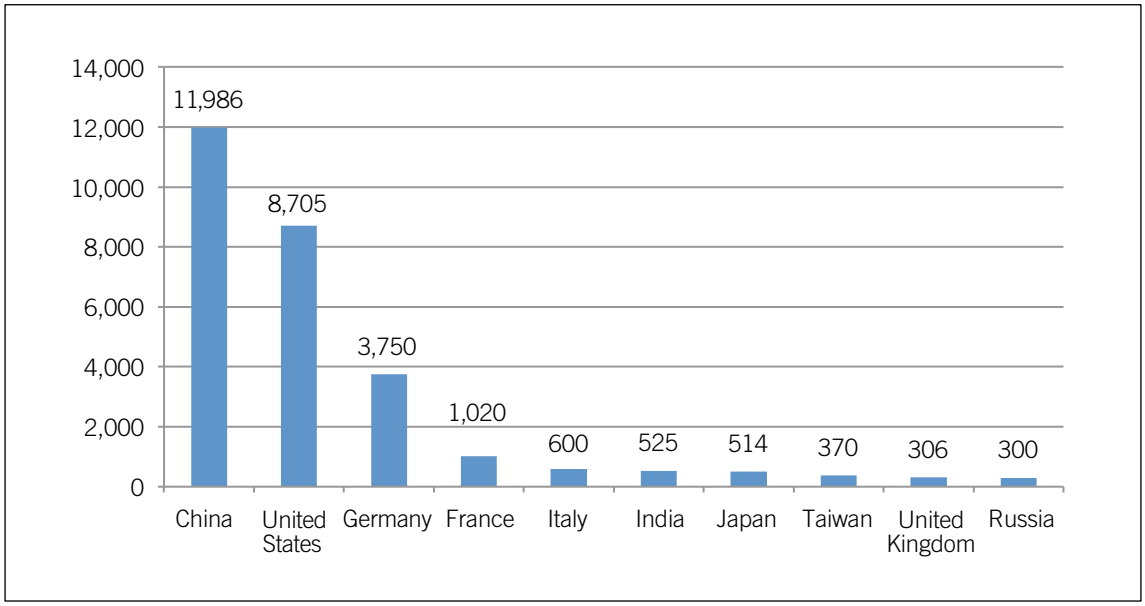
("IP") courts for patent infringement cases also means that companies may start filing more in non-U.S. forums. The IP panel on the Intermediate People's Court handles all Chinese IP cases and has been handling increasingly more patent infringement suits—4,684 new cases filed in 2013 alone. *See* 2013 IPR Law Enforcement Report (SIPO).[57] Likewise, Europe is developing a Unified Patent Court ("UPC") for litigating pan-European unitary patents.[58] Rather than requiring the patentee to file and litigate separate lawsuits for the same invention in each European country, the UPC would allow infringement to be litigated all at once. Whether Europe's proposed UPC will fulfill its promise is still in debate as the agreement to create that court will not be ratified until 2015. The United States' long history of high damages awards and deep discovery process still make it a top choice for filing suit.

Top 10 Patent Litigation Active Countries by Infringement Litigation Filings (1997-2010)[59]



57 http://www.sipo.gov.cn/zlgls/zfgl/zftjyfx/201404/t20140423_937714.html.
58 http://www.epo.org/law-practice/unitary/patent-court.html.
59 *See* C. Gregory Gramenopoulos et al., *Global Patent Litigation: How and Where to Win*, at 13 (Bloomberg BNA 2014).

Top 10 Patent Litigation Active Countries by Infringement Litigation Filings (2008-2010)[60]

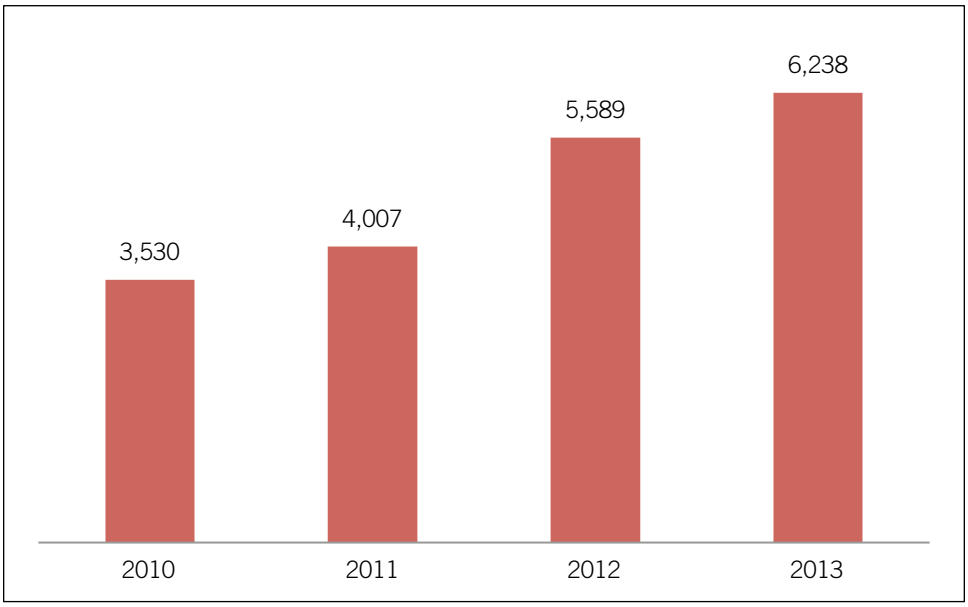


According to PACER,[61] new U.S. patent litigation filings increased in 2013 to 6,238 filings, from 5,589 filings in 2012. A recent study shows, however, that the raw number of filings may be misleading. *See* Christopher A. Cotropia et al., Unpacking Patent Assertion Entities (PAEs) (June 29, 2014).[62] For example, between 2010 and 2012, the number of filings jumped dramatically because of new AIA joinder rules implemented in 2011. *See id.* at 2. When the effects of the new joinder rules are accounted for, the number of patent owners filing suit remained substantially the same between 2010 and 2012. *See id.*

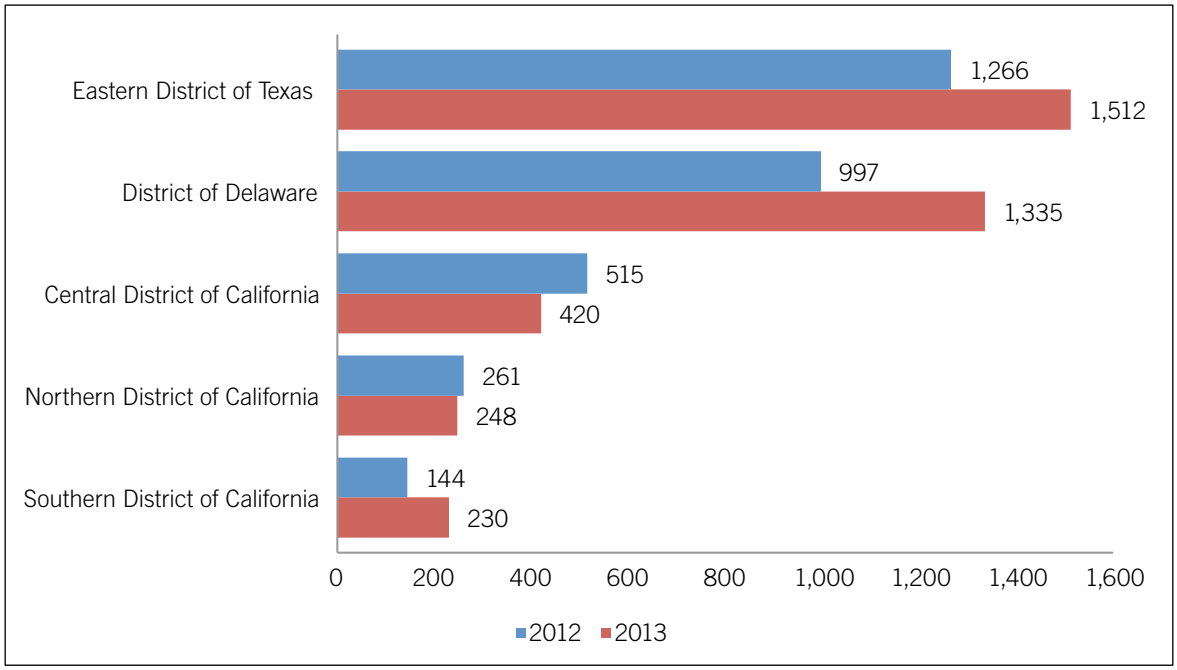
60 *See id.*
61 http://www.pacer.gov.
62 http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2346381.

The bellwether districts with the most U.S. patent litigation filings have not changed from 2012 to 2013. The Eastern District of Texas remains the most-sought-after venue for patent suits, especially for plaintiff patent owners. The District of Delaware does not trail far behind at second place, and the Central, Northern, and Southern Districts of California make up the remaining top five. In fact, just these five districts made up 60% of all patent infringement cases filed in 2013.

Annual U.S. Patent Litigation Filings
(PACER)



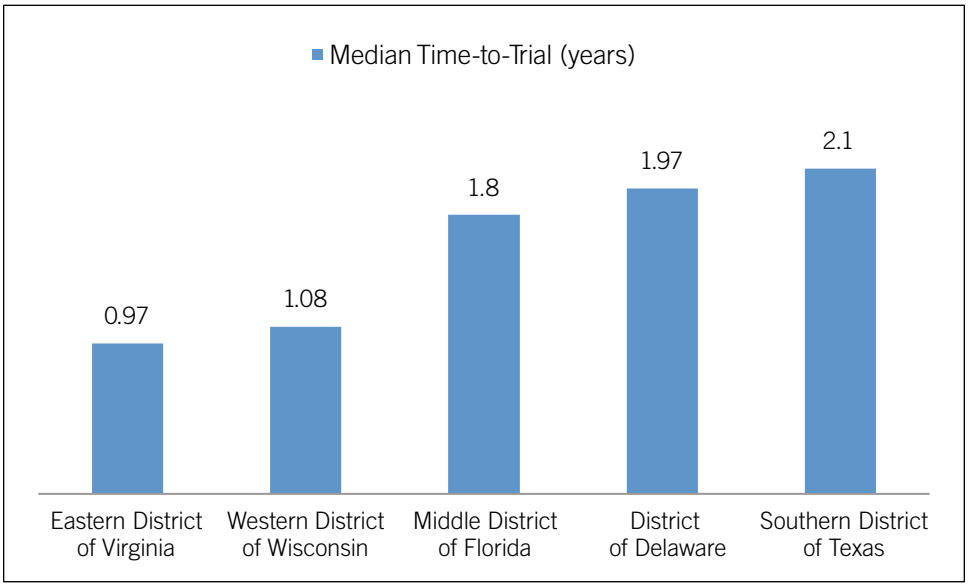
Top Five District Courts Based on Patent Litigations Filed
(PACER)



According to the PwC 2014 Patent Litigation Study,[63] of the fifteen most active districts for patent litigation, the Eastern District of Virginia remains the fastest, followed closely by the Western District of Wisconsin. Both districts have a median time-to-trial close to one year. *See* PwC 2014 Patent Litigation Study, at 17. Rounding out the top five are the Middle District of Florida, the District of Delaware, and the Southern District of Texas, which are all close to two years. *See id.* These jurisdictions compare to an overall median time-to-trial of about 2.5 years among all districts. *See id.* at 16.

63 http://www.pwc.com/us/en/forensic-services/publications/2014-patent-litigation-study.jhtml.

Five District Courts for Fastest Median Time-to-Trial
(PWC 2014 Patent Litigation Study)



Electrical and software-technology companies filled the 2013 top spots for most-named defendants in patent suits—with Apple, Amazon, and AT&T being sued the most often. *See* LexMachina—2013 Patent Litigation Year in Review.[64]

Top 10 Defendants Named in 2013 U.S. Patent Litigation Filings
(LexMachina—2013 Patent Litigation Year in Review)

Defendant	Patent Cases
Apple	59
Amazon	50
AT&T	45
Google	39
Dell	38
HTC	38
Samsung	38
Microsoft	35
LG	34
HP	34

64 https://lexmachina.com/2013review.

Damages awards for U.S. patent cases increased significantly from 2012 to 2013. The average award increased 28%, from $27.2M in 2012 to $34.7M in 2013, and the median award increased 22%, from $1.03M to $1.26M. *See id.* The top five 2013 damages awards in the electrical and computer technology area spanned a wide range as the *Apple v. Samsung* awards greatly exceeded all others.

Top Five Patent Damages Awards in 2013—Electrical and Software Patents
(LexMachina—2013 Patent Litigation Year in Review)

Case	Damages (millions)	Against
Apple v. Samsung	$599	Samsung
Apple v. Samsung	$290	Samsung
Two-Way Media v. AT&T	$28	AT&T
Pact XPP v. Xilinx	$23	Xilinx
Tomita v. Nintendo	$15	Nintendo

B. Federal and State Legislation and Executive Reports

1. Joinder Under the America Invents Act

One consideration when enforcing a patent is whether different defendants may be joined in a single lawsuit. Before passage of the AIA in 2011, Federal Rule of Civil Procedure 20 governed issues of joinder and was generally interpreted to allow a plaintiff to join multiple defendants, even if the only fact common among the defendants was their alleged infringement of the same patent. Combining multiple, unrelated defendants into one lawsuit oftentimes limited opportunities for the defendants to present their individualized positions on issues such as infringement and damages. In the AIA, Congress addressed this concern by allowing joinder only if any right to relief is asserted against the defendants jointly, severally, or with respect to the same transaction, occurrence, or series of transactions or occurrences relating to making, using, importing, offering for sale, or selling the same accused product or process. 35 U.S.C. § 299(a). Joinder now also requires that questions of fact common to all defendants will arise in the action. *See id.*

While courts have interpreted the AIA as precluding consolidation for trial, they have ordered pretrial consolidation of cases under Federal Rule of Civil Procedure 42(a) for cases in the same district, and the U.S. Judicial Panel on Multidistrict Litigation routinely relies on 28 U.S.C. § 1407(a) for pretrial consolidation of cases in different districts. Thus, parties still have a mechanism to streamline pretrial proceedings, such as claim construction and summary judgment, among different defendants. Because few cases go to trial, pretrial consolidation may accomplish the

parties' objectives in many cases. While unrelated defendants in post-AIA cases may find it harder to avoid consolidation for pretrial proceedings, they may find it easier to avoid joinder, which may offer a better opportunity to present their unique issues to a jury.

For More Information:

Reconciling Joinder and Consolidation Under the Federal Rules of Civil Procedure and Under the America Invents Act (*BNA's Patent Trademark & Copyright Journal*, Dec. 7, 2012)

2. Federal Legislation

The primary patent reform legislation considered by Congress this past year was the Innovation Act, H.R. 3309,[65] which the House passed in December 2013 to address what it considers to be abuses in the patent litigation system. Congress referred the bill to the Senate Judiciary Committee, but the Committee chair, Sen. Patrick Leahy, removed the bill from the agenda because stakeholders on both sides of the issues in the bill could not come to an agreement. Sen. Leahy expressed particular concern for universities that rely on the patent system to protect their inventions. The bill's bipartisan support in the House and support by the President, however, suggest that future reform will likely include at least some aspects of the bill.

Main aspects of the Innovation Act affecting patent litigation include:

Fee Shifting for the Prevailing Party. If the accused infringer is successful, then the patent owner is responsible for the accused infringer's legal costs, unless it is shown that the case was reasonably justified or there are special circumstances, such as economic hardship to an inventor.

Heightened Pleading Standards. The patent owner's complaint must specify details concerning the claims infringed, how the claims are infringed, the principal business of the patent owner, related litigation, and whether a standard-setting body has declared the asserted patent essential or potentially essential.

Transparency of Patent Ownership. Upon filing the complaint, the patent owner must identify the true owner of the patent or any entity having a specified financial interest in the patent, so that the accused infringer knows the real party-in-interest.

65 http://thomas.loc.gov/cgi-bin/bdquery/z?d113:h.r.3309:.

Limited Discovery. The Act requires the Judicial Conference to develop rules that (1) define core documentary evidence that the producing party pays for, (2) provide for discovery of electronic communications only if appropriate after the exchange of initial disclosures and core evidence, and (3) bar additional discovery unless the parties agree otherwise, or the requesting party pays for it.

Customer Stays. The Act requires courts to grant motions to stay an infringement action against a customer when the manufacturer is involved in an action on the same patent and the customer agrees to be bound by any issues in common with the manufacturer.

The Innovation Act is one of numerous other bills introduced in Congress this past year. Other bills, with their sponsor and key provisions, include:

Transparency in Assertion of Patents Act, S. 2049 (Sen. McCaskill)—demand-letter requirements.

Patent Transparent and Improvements Act, S. 1720 (Sen. Leahy)—patent ownership transparency, customer stays, demand-letter requirements.

Patent Litigation Integrity Act, S. 1612 (Sen. Hatch)—fee shifting to prevailing party.

Patent Abuse Reduction Act, S. 1013 (Sen. Cornyn)—heightened pleading standards, patent ownership transparency, limited discovery, fee shifting to prevailing party.

Demand Letter Transparency Act, H.R. 3540 (Rep. Polis)—demand-letter requirements.

Patent Litigation and Innovation Act, H.R. 2639 (Rep. Jeffries)—heightened pleading standards, limited discovery, customer stays.

End Anonymous Patents Act, H.R. 2024 (Rep. Deutch)—patent ownership transparency.

Saving High-Tech Innovators from Egregious Legal Disputes Act, H.R. 845 (Rep. DeFazio)—fee shifting to prevailing party.

For More Information:

H.R. Rep. No. 113-279 (2013)

U.S. Patent Litigation System Is Undergoing Major Changes (*CIPA Journal*, December 2013)

3. Patent Assertion and U.S. Innovation, a Report from the Executive Office of the President (June 2013)

In June 2013, the Executive Office of the President issued a report that looks at patent assertion entities ("PAEs") and found that the evidence suggests that, on balance, PAEs have had a negative impact on innovation and economic growth. *See* Patent Assertion and U.S. Innovation, at 2 (Executive Office of the President June 2013).[66] The report found that software patents create particular challenges because of rapid technological changes and characteristics of software that make it difficult to define clear boundaries for patents and set an appropriate bar for nonobviousness. *See id.* The report avoids any proposal to ban PAEs, finding that patent intermediaries can play a useful role in helping inventors find buyers of patents in what is normally an illiquid market. *See id.* at 2, 13. Instead, it recommends three areas for improvement: "clearer patents with a high standard of novelty and non-obviousness, reduced disparity of litigation costs between patent owners and technology users, and greater adaptability of the innovation system to challenges posed by new technologies and new business models." *Id.* at 13.

4. Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality, a Report from the GAO (August 2013)

Section 34 of the AIA required the U.S. Government Accountability Office ("GAO") to conduct a study on the consequences of patent litigation by non-practicing entities ("NPEs"), and particularly patent monetization entities ("PMEs"). PMEs are NPEs that buy patents from others to assert them for profit, as distinguished from other NPEs, such as universities and research institutions. Published in August 2013, the report discusses, among other things, the significant increase in the number of patent infringement lawsuits between 2000 and 2011, key factors contributing to these recent lawsuits, and new initiatives in the judicial system to improve the handling of patent cases in federal courts. *See* Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality (GAO August 2013).[67]

The GAO found that the number of patent infringement lawsuits was relatively steady from 2000 to 2010, and then increased by over 30% in 2011. *See id.* at 14. The GAO attributes this increase to the AIA. *See id.* at 15. By prohibiting the joinder of unrelated defendants in a single lawsuit, the AIA caused plaintiffs to file more lawsuits at the end of 2011 when the AIA went into effect. The number of defendants in patent lawsuits increased by about 129% from 2007 to 2011, from about 4,000 to 9,000. *See id.* at 15-16. While most of the patent infringement lawsuits were brought by operating companies, PMEs brought 17% of lawsuits in 2007 and 24% of lawsuits in 2011. *See id.* at 17. The GAO also found that, because PMEs sued more defendants per lawsuit, PMEs sued close to one-third of the overall defendants, accounting for about half of the increase in the number of defendants from 2007 to 2011. *See id.* at 18.

66 http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf.
67 http://www.gao.gov/assets/660/657103.pdf.

With respect to the types of patents involved in patent infringement litigation from 2007 to 2011, the GAO found that, on average, about 46% of the lawsuits involved software patents, and 64% of defendants were sued over software patents. *See id.* at 21. In addition, software patents accounted for about 89% of the increase in defendants over this period. Software patents were particularly prevalent in PME lawsuits, of which about 84% involved software patents, versus only about 35% for lawsuits filed by operating companies. *See id.* at 21-22. The GAO also noted that about 39% of suits involving software patents were against companies in nontechnology sectors, such as the retail sector. *See id.* at 23. For these reasons, the GAO concluded that improving software-related patents and associated litigation may deserve more focus than the identity of the litigants. *See id.* at 45.

The GAO report discusses three key factors, according to stakeholders the GAO spoke with, contributing to the many recent patent infringement lawsuits. *See id.* at 28. The first factor is a prevalence of patents with unclear property rights, particularly software patents. *See id.* The second factor is the potential for large damages awards that do not reflect the value of the patent or the patent's contribution to the product as an incentive for litigation, particularly before the 2011 *Uniloc* decision[68] by the Federal Circuit that eliminated the 25% rule for damages. *See id.* at 33. As the third factor, the report notes the increasing recognition over the last ten years of the value and importance of patents to the corporate strategy of technology companies. *See id.* at 34.

The report recognized initiatives in the courts that may affect patent litigation, such as the Patent Cases Pilot Program and the Federal Circuit's model order for e-discovery to streamline discovery in patent cases. *See id.* at 36. The report also recognized USPTO initiatives, such as supplemental guidelines on software-related patents and a cooperative effort with the software industry to improve the quality of software patents, as well as implementation of the AIA post-grant review proceedings. *See id.* at 39. The report's ultimate recommendation for executive action is to have the USPTO consider examining trends in patent infringement litigation and linking this information to internal data on patent examination to improve the quality of issued patents and the patent examination process. *See id.* at 46.

5. State "Patent Troll" Laws

Although state courts have no jurisdiction over claims for relief arising under U.S. patent law under 28 U.S.C. § 1338, state lawmakers have recently passed bills designed to stop bad-faith patent assertions based on consumer protection laws. In 2013, Vermont enacted the first state law specifically prohibiting bad-faith assertion of patent infringement. *See* Vermont Consumer Protection Act ("VCPA"), 9 V.S.A. §§ 4195-4199.[69] Other states followed by adopting similar bills, including Alabama, Georgia, Idaho, Louisiana, Maine, Maryland, Oklahoma, Oregon, South Dakota, Tennessee, Utah, Vermont, Virginia, and Wisconsin. And more states have introduced similar bills, such as Connecticut, Illinois,

68 *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011).
69 http://www.leg.state.vt.us/statutes/sections.cfm?Title=09&Chapter=120.

Kansas, Kentucky, New Hampshire, New Jersey, Missouri, North Carolina, Ohio, Pennsylvania, Rhode Island, and South Carolina.

The VCPA identifies several factors as evidence of a bad-faith assertion, such as a demand letter that (1) does not provide the patent number, name and address of the patent owner, and factual allegations concerning the specific areas in which the target's products infringe; (2) demands a payment or response within an unreasonable short period of time; and (3) makes a claim or assertion of patent infringement that is meritless or deceptive. As evidence of no bad faith, the law identifies, for example, providing the information in (1) above in the demand letter or within a reasonable period of time upon request, engaging in a good-faith effort to establish the target has infringed and to negotiate a proper remedy, and making a substantial investment in the use of the patent. Another factor of no bad faith is where the person asserting the patent is the inventor, the original assignee, or an institution of higher education, or has successfully enforced the patent in litigation.

If the court finds a reasonable likelihood that a person has made a bad-faith assertion, then the person must post a bond in an amount equal to an estimate of litigation costs and the amount to be recovered, up to $250,000. The VCPA authorizes the Attorney General, a target, or a person aggrieved by a violation of the statute to bring a civil action in Vermont state court, and allows a prevailing target or person aggrieved to recover equitable relief, damages, costs and attorneys' fees, and exemplary damages up to the greater of $50,000 or three times the total of damages, costs, and fees. A target includes not only a person who receives a demand letter or has been threatened with litigation alleging patent infringement, but also a person whose customers have received a demand letter asserting that use of the person's product or technology infringes the patent.

On May 8, 2013, Vermont filed a complaint under the VCPA against MPHJ Technology Investments, LLC ("MPHJ") on the grounds that MPHJ engaged in unfair and deceptive business practices in Vermont by sending demand letters allegedly containing false and misleading statements to Vermont businesses and nonprofit organizations. *See* Opinion and Order at 1, *State of Vermont v. MPHJ Tech. Invs*., LLC, No. 2:13-cv-170 (D. Vt. Apr. 14, 2014), Dkt. No. 61. MPHJ removed the case to federal district court on June 7, 2013, asserting federal question under 28 U.S.C. § 1331 and diversity jurisdiction under 28 U.S.C. § 1332(a). *See id.* Vermont filed a motion to remand the case back to state court, which the court granted for lack of jurisdiction. *See id.* at 1-2. MPHJ appealed the district court's ruling to the Federal Circuit, which recently dismissed the appeal for lack of jurisdiction under 28 U.S.C. § 1447(d). *State of Vermont v. MPHJ Tech. Invs*., LLC, 763 F.3d 1350 (Fed. Cir. 2014).

C. Significant Court Decisions Impacting Litigation

1. Divided Infringement of Method Claims in Induced-Infringement Cases—*Limelight Networks, Inc. v. Akamai Technologies, Inc.* (Supreme Court)

The state of the law governing divided infringement in induced-infringement cases with method claims continues to change. In *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, No. 12-786 (June 2, 2014), the Supreme Court considered whether a defendant can be liable for inducing infringement under 35 U.S.C. § 271(b) when no one has directly infringed the patent under § 271(a) or any other statutory provision. In a unanimous opinion, the Court held that a defendant cannot be liable for inducing infringement under these circumstances. Specifically, there can be no finding of inducement if there is no underlying direct infringement.

Akamai was the exclusive licensee of a patent that claims a method of delivering electronic data using a content delivery network ("CDN"). Limelight operated a CDN and carried out some, but not all, of the claimed steps. Limelight's customers were charged with carrying out the remaining claimed steps. After a jury found Limelight guilty of infringement, the judgment was set aside based on the Federal Circuit's subsequent decision in *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (2008). In *Muniauction*, the court recognized that when multiple parties perform the steps of a patented method, there can be no direct infringement unless a single defendant "exercises 'control or direction' over the entire process such that every step is attributable to the controlling party." *Id.* at 1329. Applying *Muniauction*, the district court concluded that Limelight could not be liable for direct infringement. On appeal, a panel of the Federal Circuit affirmed the district court, but an en banc Federal Circuit later reversed.

In its en banc decision, the Federal Circuit did not revisit the principles of divided infringement as it applies to liability for direct infringement under 35 U.S.C. § 271(a). *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301, 1307 (Fed. Cir. 2012) (en banc). Nor did the court resolve the question of "whether direct infringement can be found when no single entity performs all of the claimed steps of the patent." *Id.* at 1306. Instead, the court reconsidered liability for induced infringement and overruled its prior holding in *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007), that, for a party to be liable for induced infringement, another single entity must be liable for direct infringement. 692 F.3d at 1306.

In contrast to *BMC*'s single-entity rule, the en banc Federal Circuit in *Limelight* ruled that while "all the steps of a claimed method must be performed in order to find induced infringement, … it is not necessary to prove that all the steps were committed by a single entity." *Id.* As a result, the court concluded that even though no one was liable for direct infringement under § 271(a), "Limelight would be liable for inducing infringement if the patentee could show that (1) Limelight knew of Akamai's patent, (2) it performed all but one of the steps of the method claimed in the patent, (3) it induced the content providers to perform the final step of the claimed method, and (4) the content providers in fact performed that final step." *Id.* at 1318.

The Supreme Court unanimously reversed, holding that a defendant is not liable for inducing infringement under § 271(b) when no one has directly infringed under § 271(a) or any other statutory provision. *Limelight*, slip op. at 1. In reaching its decision, the Supreme Court, like the Federal Circuit, declined to review whether the *Muniauction* rule for direct infringement under § 271(a) is correct. *See id.* at 6, 10. The Supreme Court noted, however, that the Federal Circuit will have the opportunity to review the merits of *Muniauction* on remand. *See id.* at 10.

Given the Supreme Court's *Limelight* decision, the Federal Circuit may be emboldened to reconsider the single-actor rule for direct infringement. Until then, the current law may make it more difficult to prove induced infringement of method claims that recite steps performed by multiple actors. Companies seeking patent protection should continue to consider alternative claim coverage directed to steps that a single entity performs.

2. Burden of Proof on Infringement in Declaratory Judgment Action—*Medtronic, Inc. v. Mirowski Family Ventures, LLC* (Supreme Court)

In *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843 (2014), the Supreme Court was asked to decide whether the burden of proving infringement remains on a patentee when the patentee is a defendant in a declaratory judgment action brought by a licensee in good standing. In contrast to the general rule of the patentee bearing the burden, the Federal Circuit below had held that a different rule applies. Specifically, the Federal Circuit ruled that, when the patentee is a declaratory judgment defendant and is foreclosed from asserting an infringement counterclaim by the continued existence of a license, the patent licensee bears the burden of persuasion. *See Medtronic Inc. v. Boston Scientific Corp.*, 695 F.3d 1266, 1272, 1274 (Fed. Cir. 2012). Upon review, the Supreme Court came to the opposite conclusion, unanimously holding that when a licensee seeks a declaratory judgment of noninfringement, the burden of proving infringement remains on the patent owner. *See* 134 S. Ct. at 843, 846, 849.

Medtronic and Mirowski had entered into an agreement that permitted Medtronic to practice certain Mirowski patents related to implantable heart stimulators in exchange for royalty payments. Notwithstanding the agreements, a dispute arose over whether the licensed Mirowski patents covered new Medtronic products. In 2007, while continuing to pay royalties, Medtronic filed a declaratory judgment action in district court seeking a ruling of noninfringement and invalidity. The district court decided that the patentee, even as the defendant, bore the burden of proving infringement, and sided with Medtronic in finding that Mirowski did not meet its burden of proving infringement. *See id.* at 847.

On appeal, the Federal Circuit vacated the district court judgment, holding that the district court relied on a legally incorrect allocation of the burden of proof to find noninfringement. *See* 695 F.3d at 1269. The Supreme Court reversed the Federal Circuit, holding that the burden of proving infringement remains on the patentee, even when a licensee seeks a declaratory judgment of noninfringement. In support, the Court reasoned that: (1) the burden of proving infringement typically rests on the patentee; (2) the Declaratory Judgment Act is only procedural, with no substantive impact; and (3) the burden of proof is a substantive aspect of the claim. *See* 134 S. Ct. at 849. These reasons led the Court to conclude that the burden of proving infringement does not shift in a licensee's declaratory judgment action.

The Supreme Court also raised several practical considerations. Among those, the Court explained that shifting the burden could cause post-litigation uncertainty regarding the scope of the patent where, due to inconclusive evidence, a licensee cannot show noninfringement and the patentee fails to prove infringement. *See id.* at 849-50. The Court also noted that burden shifting would "create unnecessary complexity by making it difficult for the licensee to understand upon just what theory the patentee's infringement claim rests." *Id.* at 850. Unlike the patentee, the licensee "may have to work in the dark, seeking, in his declaratory judgment complaint, to negate every conceivable infringement theory." *Id.*

The *Medtronic* decision appears to benefit licensees, who, at a time and forum of their choosing, may force the patent owner to prove that its patents cover the licensee's products. As such, the decision may further embolden licensees to challenge the patents that they license.

3. Interlocutory Appeal of Infringement Before Determinations on Damages and Willfulness—*Robert Bosch, LLC v. Pylon Manufacturing Corp.* (Fed. Cir.)

In the Federal Circuit's recent en banc decision in *Robert Bosch, LLC v. Pylon Manufacturing Corp.*, 719 F.3d 1305 (Fed. Cir. 2013) (en banc), the court addressed the issue of certain interlocutory appeals in patent infringement cases. The question before the court was whether a liability determination in a patent infringement case could be appealed to the Federal Circuit when a trial on damages and willfulness had not yet occurred. Under 28 U.S.C. § 1292(c)(2), a case can be appealed to the Federal Circuit from a judgment in a patent infringement action as long as that case is "final except for an accounting." Thus, the issue to be decided was whether a trial on damages and a determination on willfulness could be considered part of an "accounting" for purposes of § 1292(c)(2).

As to whether an "accounting" could include a determination of damages, the court acknowledged that, historically, an accounting was originally limited to basic accounting principles and was not so broad as to encompass a damages determination. 719 F.3d at 1309-10. But the court noted that the 1870 Patent Act authorized the award of damages, and that, after that enactment, courts regularly used the terms "account" and "accounting" to refer to a special master's determination of damages. *See id.* at 1310-11. In view of this precedent and legislative history, the court held that "accounting" was meant to be given its judicially settled meaning, which included a determination of a plaintiff's damages. *See id.* at 1313.

The court also analyzed whether such an "accounting" would apply to both trials on damages (as opposed to a determination by a special master) and determinations of willfulness. Like the question of damages generally, the court found that precedent and legislative history supported a broader interpretation of an "accounting," and held that an "accounting" could include both a trial on damages and a determination of willfulness. *See id.* at 1313, 1317.

This ruling provides an interesting twist for complex cases that may warrant bifurcation. In those bifurcated suits, the parties may have the opportunity to appeal an underlying liability determination without the need to first wait for

a decision on damages or willfulness. In cases like *Robert Bosch*, where the underlying damages discovery was stayed pending the outcome of the liability appeal, this may lead to increased clarity for the parties before entering into costly and complex damages discovery.

4. Royalty Payments After Patent Expiration—*Kimble v. Marvel Enterprises Inc.* (9th Cir.)

In *Kimble v. Marvel Enterprises Inc.*, 727 F.3d 856 (9th Cir. 2013), the U.S. Court of Appeals for the Ninth Circuit affirmed a district court's order precluding royalty payments beyond the expiration date of the patent-at-issue. In 2001, Kimble and Marvel Enterprises, Inc. agreed to settle a case involving claims of patent infringement and breach of contract. *See id.* at 858. As part of the agreement, Marvel bought a patent from Kimble and paid him a royalty of 3% of "net product sales." *See id.* The patent Marvel purchased expired in May 2010, but the agreement requiring Kimble to pay 3% of net sales did not have an expiration date. *See id.* at 858-59. Relying on *Brulotte v. Thy Co.*, 379 U.S. 29 (1964), the Ninth Circuit held that a license for inseparable patent and nonpatent rights involving royalty payments extending beyond life of the patent is unenforceable for the post-expiration period, unless the agreement provides a discount for the nonpatent rights from the patent-protected rate. *See Kimble*, 727 F.3d at 863.

On December 12, 2014, the Supreme Court granted Kimble's petition for a writ of certiorari to decide whether the Court should overrule *Brulotte*, which held that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se." *Brulotte*, 379 U.S. at 32. The Supreme Court heard the case on March 31, 2015, and a decision is expected later this year.

5. Standards for Awarding Attorneys' Fees—*Octane Fitness, LLC v. ICON Health & Fitness, Inc.* (Supreme Court) and *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.* (Supreme Court)

The law governing fee shifting in patent cases was refined in two cases decided by the Supreme Court in 2014. In *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, No. 12-1184 (Apr. 29, 2014), the Court rejected the framework previously set by the Federal Circuit for determining whether a case qualifies as "exceptional" under 35 U.S.C. § 285 and thus warrants an award of attorneys' fees to the prevailing party. On the same day that the Court decided *Octane*, the Court also decided *Highmark Inc. v. Allcare Health Management System, Inc.*, No. 12-1163 (Apr. 29, 2014), which overturned the Federal Circuit's prior standard of review on appeal for a § 285 determination.

Under the Federal Circuit's *Brooks Furniture* framework, a case could be deemed exceptional under § 285 when: (1) "there has been some material inappropriate conduct," or (2) the litigation is both "brought in subjective bad faith" and "objectively baseless." *Octane*, slip op. at 1 (quoting *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005)). In *Octane*, however, the Supreme Court found that the only constraint § 285 imposes on awarding attorneys' fees in patent litigation is that the case must be "exceptional," which is "simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing

law and the facts of the case) or the unreasonable manner in which the case was litigated." *Id.* at 1, 7-8. The Supreme Court also advised that courts may determine whether a case qualifies as "exceptional" in the "case-by-case exercise of their discretion, considering the totality of the circumstances." *Id.* at 8.

Before *Octane and Highmark*, the Federal Circuit also required litigants to establish their entitlement to attorneys' fees under § 285 by clear and convincing evidence, and reviewed the district court's exceptional case determination de novo, meaning without deference to the district court. *See Brooks Furniture*, 393 F.3d at 1382; *Highmark*, slip op. at 3. In *Octane*, the Supreme Court rejected the "clear and convincing" standard and decided that litigants need only show entitlement to attorneys' fees by a preponderance of the evidence. *See Octane*, slip op. at 11. In *Highmark*, the Supreme Court rejected the de novo standard and decided that the proper standard of review for all aspects of a § 285 determination is abuse of discretion. *Highmark*, slip op. at 5. Under the "abuse of discretion" standard, a court will affirm unless the decision rests on an error of law or clearly erroneous factual findings, or manifests clear error of judgment. *See Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1350 (Fed. Cir. 2001).

As the *Octane* decision lowers the threshold for what constitutes an "exceptional" case, litigants may see a rise in the award of attorneys' fees to prevailing parties in patent cases. Whereas the prior *Brooks Furniture* framework permitted fee shifting in circumstances that largely extended into independently sanctionable conduct, *Octane* suggests that fee shifting may be appropriate for unreasonable conduct that is not independently sanctionable. Moreover, *Highmark's* change in the standard of review for § 285 decisions to abuse of discretion will likely make it more difficult to overturn awards for attorneys' fees on appeal.

6. Standard of Review for Claim Construction—*Lighting Ballast Control LLC v. Philips Elecs. N. Am. Corp.* (Fed. Cir.) and *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, (Supreme Court)

Recently, the Federal Circuit and the Supreme Court reconsidered an area of law long since thought to have been put to rest—the standard of review for claim construction. In *Lighting Ballast Control LLC v. Philips Electronics North America Corp.*, 744 F.3d 1272 (Fed. Cir. 2014) (en banc), the en banc Federal Circuit reaffirmed that claim construction is a question of law subject to de novo review on appeal. More recently, however, in *Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.*, No. 13-854, 135 S.Ct. 831 (2015), the Supreme Court articulated a new standard for review, applying the "clear error" standard to factual determinations regarding extrinsic evidence in claim construction.

The Federal Circuit accepted en banc review of *Lighting Ballast* to reconsider the holding in *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448 (Fed. Cir. 1998) (en banc), that claim construction is a question of law reviewed on appeal without deference to the trial tribunal. *Lighting Ballast*, 744 F.3d at 1276. The en banc court reaffirmed the de novo standard of review for claim construction under the doctrine of stare decisis. *See id.* at 1272, 1276-77. Thus, rather than assessing the parties' arguments, the court demanded "more than controversy" to overturn the en banc ruling in *Cybor. Id.* at 1283.

In *Teva*, the Federal Circuit reversed the district court's claim construction, applying the de novo standard. *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 723 F.3d 1363, 1368 (Fed. Cir. 2013). Teva then petitioned for a writ of certiorari, which the Supreme Court granted to consider "[w]hether a district court's factual finding in support of its construction of a patent claim term may be reviewed de novo, as the Federal Circuit requires (and as the panel explicitly did in this case), or only for clear error, as Rule 52(a) requires." *Teva Pharm. USA Inc. v. Sandoz Inc.*, No. 13-854 (Jan. 10, 2014). The Supreme Court issued its decision on January 20, 2015, holding that the Federal Circuit "must apply clear error review when reviewing subsidiary factfinding in patent claim construction." Slip op. at 11; *see also id.* at 1-2.

The Supreme Court rooted its decision in Federal Rule of Civil Procedure 52(a)(6), which establishes a "clearly erroneous" standard of review for a district court's finding of fact. *See id.* at 4. The Court determined that practical considerations weighed in favor of the "clear error" standard, because district courts have greater opportunity to gain familiarity with the specific scientific principals at issue in a case than transcript-bound appellate courts. *Id.* at 7. Though the Court recognized fears that deference to district court fact-finding might create non-uniform decisions, it was unconcerned, noting that attorneys may draw a court's attention to previous claim constructions, and that cases involving construction of the same claims can be consolidated for discovery.

Addressing how this new standard should be applied, the Court affirmed that claim construction remains, ultimately, a matter of law to be decided by a judge. *Id.* at 5. Only subsidiary findings—or "evidentiary underpinnings"—of claim construction are subject to the deferential standard. *Id.* at 6-7. The Court instructed the Federal Circuit to apply de novo review to constructions only with respect to the intrinsic evidence, i.e., the patent and its prosecution history. *Id.* at 12. Where the district court uses additional extrinsic evidence, however, such as scientific background or information on the meaning of a term in a particular period, these evidentiary determinations are reviewed for clear error. *Id.* The district court's determination that Teva's expert should be credited over Sandoz's expert was a factual finding. *Id.* at 16. Thus, according to the Supreme Court, the Federal Circuit was obliged to accept it unless the finding was clearly erroneous. *Id.*

Given the more deferential standard, parties in future cases should apply special attention to any district court determinations involving extrinsic evidence, such as crediting one expert over another, since these determinations will be reviewed under the "clear error" standard and thus are less likely to be overturned on appeal.

D. Standard-Essential and FRAND-Committed Patents

1. Standard-Essential Patents

Companies increasingly find themselves embroiled in IP disputes involving industry standards. Fueling this trend, among other things, are companies' quests to monetize patent portfolios through licensing programs. Faced with economic challenges, technology companies are taking a careful look at all assets, including their IP, to determine

whether they can be leveraged to generate additional operating revenue. Maintaining patent portfolios developed at substantial cost during brighter days can now represent a drain on corporate resources.
Companies are mining their patents to determine whether some that were being held for defensive or other strategic purposes should be sold or licensed. Some technology companies are selling patents that no longer relate to core products or patents that may have related to a shuttered business. To create revenue streams, other companies are licensing their patents that relate to sought-after technology where the patentee no longer needs to maintain an exclusive market position. This dynamic has given rise to the frequent assertion of standard-essential patents ("SEPs") in IP disputes.

In many cases, standards by their very nature relate to a high volume of products. Standards provide a way for many different manufacturers to supply products that interoperate and provide a uniform experience for the consumer, which in turn creates network effects that result in mass markets. Examples of high-volume markets fostered by standards include optical media (e.g., CD and DVD), audio compression (e.g., MP3), video compression (e.g., MPEG), mobile telecommunication (e.g., CDMA), and digital television (e.g., ATSC). With so many products at issue, there are often high stakes involved when a patent dispute arises. De facto technology standards may develop without any formal coordination among industry participants. A de facto standard may exist simply based on significant market share of a particular technology within a particular market. De facto standards include well-known standards such as Microsoft Word for word processing or the QWERTY keyboard.

Groups of industry participants may also develop standards, through a private consortium or a standards-setting organization ("SSO"), that others may follow in future product development. Standards set in this manner are called de jure standards. SSOs, such as the Institute of Electrical and Electronics Engineers ("IEEE"), the American National Standards Institute ("ANSI"), and the International Organization for Standardization ("ISO"), typically provide rules for developing standards. These rules govern procedures for submitting and discussing proposals and for voting on aspects of the standard, and procedures for publishing standards and revising or updating the standards. In some cases, an SSO will set disclosure rules relating to IP, such as whether and to what extent participants must disclose their patents and other IP during the development of a standard. Another typical requirement imposed by SSOs is that a company declaring that it holds SEPs must offer those patents for license on terms that are fair, reasonable, and non-discriminatory ("FRAND").

Developing technology according to standards, and in particular de jure standards, confers certain benefits on developers, manufacturers, and consumers alike. Standards promote uniformity, which both simplifies the manufacturing process and increases the compatibility and interoperability of products with systems developed by others. In turn, this increases demand for products and lowers production costs. These benefits increase the value of the product to the consumer, particularly in a network market, in which the value increases as the number of additional consumers of the product increases. Standards can also promote more open communication between industry participants who might otherwise be adversaries, creating a community of development among those participants. In these ways, standards typically result in efficiently designed products and systems that satisfy the

needs of industry participants and consumers, thereby improving product development. Similarly, patents covering inventions that are essential to practicing industry standards potentially convey a monopoly power to their holder that, if abused, could be contrary to public policy. The encumbrance associated with SEPs helps balance the interplay between the patent monopoly right and the economies of scale provided by industry standards. We expect the courts, legislators, and other administrative bodies to be fully engaged in the exploration and definition of the boundaries of SEP rights over the next several years.

2. FRAND Royalty Rates—*Microsoft Corp. v. Motorola, Inc.* (W.D. Wash.), *In re Innovatio IP Ventures, LLC Patent Litigation* (E.D. Ill.), and *Ericsson, Inc. v. D-Link Sys., Inc.* (Fed. Cir.)

The obligation to license on FRAND terms that attaches to licensing SEPs is often the center of dispute when FRAND-committed patents are asserted. While the SSOs impose the FRAND obligation, there are rarely any additional details defined by the SSO or solicited from the patent owners at the time the declaration is made regarding what constitutes FRAND-compliant terms and, therefore, this becomes the subject of debate among the parties and left to the courts to resolve. Recent litigations, including between Motorola and Microsoft, provide guidance on the framework courts may follow to determine the boundaries of FRAND disputes.

In *Microsoft Corp. v. Motorola, Inc.*, No. 2:10-cv-1823, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013), Motorola claimed to have a portfolio of patents essential to WiFi and video-compression standards that were being infringed by Microsoft products, including the Xbox. *See id.* at *1-2. Microsoft filed suit for breach of contract after Motorola sent Microsoft letters offering to license these patents at a 2.25% royalty rate. *See id.* at *2. Microsoft argued that, by sending the letters, Motorola breached its RAND[70] commitments to SSOs and its duty of good faith and fair dealing regarding those commitments, for which Microsoft was a third-party beneficiary. *See id.*

In a series of decisions leading up to a trial, the court held that Motorola's RAND commitments created enforceable contracts between Motorola and the respective SSO to license patents on RAND terms, and that implementers of the standards could enforce these contracts as third-party beneficiaries. *See id.* The court also suggested that implementers are not required to request a license and negotiate to trigger their rights to the RAND obligation. *See Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993, 1002 (W.D. Wash. 2012). In addition, the court interpreted Motorola's commitments to the SSOs as requiring initial offers by Motorola to license its SEPs to be made in good faith, but that the initial offers do not have to be on RAND terms so long as a RAND license eventually issues. *See Microsoft*, 2013 WL 2111217, at *2. The court explained that, to decide whether Motorola's opening offers were in good faith, a fact-finder must be able to compare them with an appropriate RAND royalty rate. *See id.* at *3.

70 Although *Microsoft* involved RAND obligations, the court noted that FRAND and RAND are used interchangeably and have the same meaning. *See id.* at *12 n.7.

To determine an appropriate rate, the court set out a "RAND-modified *Georgia-Pacific* analysis" based on the fifteen factors in *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970). *See Microsoft*, 2013 WL 2111217, at *16-20. Specifically, the court's analysis proceeded in three steps: (1) determine the importance of the patent portfolio to the standard; (2) determine the importance of the patent portfolio as a whole to the alleged infringer's accused products; and (3) examine licensing agreements for comparable patents. *See id.* at *20. Accordingly, the essentiality of the patents was only a threshold issue that opened the door to additional steps of analysis to quantify the value of the essentiality.

Applying the modified set of *Georgia-Pacific* factors, the court determined a RAND rate that amounted to approximately $1.8 million annually, which is substantially lower than the $4 billion that Motorola requested. The court decided, however, that the disparity between the RAND rate and Motorola's initial demand was not dispositive of whether Motorola had breached its duty of good faith and fair dealing, and left the issue for the jury to decide. Ultimately, the jury found that Motorola breached its contractual commitment with the SSOs by the terms of its initial offer letters to Microsoft and by filing lawsuits and seeking injunctive relief against Microsoft in the ITC, U.S. district court, and in Germany, and awarded Microsoft $14.5 million in damages.

In a September 27, 2013 decision, made public on October 3, 2013, with redactions, a second court determined a RAND rate for SEPs using a methodology similar to *Microsoft*. *See* Memorandum Opinion at 7, *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 11-cv-9308 (E.D. Ill. Oct. 3, 2013), Dkt. No. 975. The *Microsoft* and *Innovatio* decisions provide helpful guidance for owners and potential licensees of SEPs in determining a RAND royalty rate. Although the courts' analyses differ in some respects, the decisions provide a RAND-modified *Georgia-Pacific* framework to use when confronting the complex issues associated with determining RAND royalties.

The Federal Circuit also recently addressed the proper role of the *Georgia-Pacific* framework in determining a RAND royalty in *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201 (Fed. Cir. 2014). While the court reiterated that the ultimate royalty rate should be based on the value of the patented article, without regard for any unpatented features or the value added by incorporation in the standard, the trial court's jury instructions were erroneous, and the Federal Circuit vacated and remanded the damages award. *Id.* at 1232.

Ericsson sued D-Link, and others, claiming that the three patents-in-suit were essential to the WiFi standard, and that the defendants infringed by practicing the standard. The parties agreed that Ericsson was required to license WiFi standard patents on RAND terms. *Id.* at 1209. Before trial, D-Link requested a jury instruction on the dangers of patent hold-up and royalty stacking. *Id.* at 1229. The court denied the request with respect to a separate hold-up instruction, but allowed the jury to consider Ericsson's RAND obligations in addition to the fifteen *Georgia-Pacific* factors. A jury found the patents valid and infringed, awarding Ericsson approximately $10 million in damages, or 15 cents per unit. *Id.* at 1213. D-Link appealed, arguing that the jury was inadequately instructed on RAND obligations. *Id.* at 1214.

The Federal Circuit reversed, finding that, while no hold-up or stacking instruction is necessary absent actual evidence of those practices, *id.* at 1234, the district court's inclusion of all fifteen *Georgia-Pacific* factors was incorrect. *Id.* at 1230. Several of the factors, according to the Federal Circuit, are irrelevant in the RAND context, and several more require modification to be of use. For instance, the commercial relationship between licensors and licensees is unimportant in the RAND context, which requires non-discriminatory licensing. *Id.* at 1231. Consequently, a trial court should consider all fifteen factors, determine their relevance, and instruct the jury only on those factors implicated by the case. *Id.* at 1231, 1235. In addition, the court found that the trial court's RAND instruction, which simply noted Ericsson's general obligation, was insufficient. The Federal Circuit explained that the trial court should have instructed the jury as to Ericsson's specific RAND obligation, because RAND promises vary across different standard-setting bodies. *Id.* at 1231.

For More Information:

Owners of Standard-Essential Patents with RAND Obligations Beware When Responding to Infringement (*Westlaw Journal Intellectual Property*, Sept. 18, 2013)

Determining RAND Royalties for Standard-Essential Patents: A Second Court Speaks (*Intellectual Property Today*, December 2013)

3. Injunctions for FRAND-Committed Patents—*Apple Inc. v. Motorola, Inc.* (Fed. Cir.)

In traditional infringement cases, the range of remedies available to patent owners is not restricted to a reasonable royalty to compensate for the infringement; rather, in some cases, injunctive relief is also available. The Federal Circuit recently confirmed that actions based on SEPs are no different. In *Apple Inc. v. Motorola, Inc.*, Nos. 12-1548, -1549 (Fed. Cir. Apr. 25, 2014), the court rejected a per se rule that injunctions are unavailable in actions asserting SEPs. Instead, the court held that SEP cases are like others where the standard dictating whether injunctions are available is set forth in the Supreme Court's decision in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

Apple filed a patent infringement complaint against Motorola, and Motorola counterclaimed, asserting its own patents, including a FRAND-committed patent. *Apple*, slip op. at 4, 71. The district court granted summary judgment that Motorola is not entitled to an injunction for infringement of the FRAND-committed patent. *See id.* at 71. On appeal, the Federal Circuit affirmed the district court's decision to grant summary judgment, but noted that to the extent the district court applied a per se rule that injunctions are unavailable for SEPs, it erred. *See id.* at 71-72. The court explained that, although FRAND commitments are criteria relevant to whether an injunction should issue, it saw no reason to create a separate rule or analytical framework for addressing injunctions for FRAND-committed patents. *See id.* The court stated, "The framework laid out by the Supreme Court in *eBay*, as interpreted by subsequent

decisions of this court, provides ample strength and flexibility for addressing the unique aspects of FRAND committed patents and industry standards in general." *Id.*

The court advised that an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect. *See id.* at 72. The court clarified, however, that an alleged infringer's refusal to accept any license offer does not necessarily justify issuing an injunction, such as, for example, where the license offered may not be on FRAND terms. *See id.* The court found that Motorola was not entitled to an injunction, in part because Motorola's FRAND commitments, which had yielded many license agreements encompassing the patent-at-issue, strongly suggest that money damages are adequate to fully compensate Motorola for any infringement. *See id.*

E. Local Practice

1. Local Patent Rules

Of the ninety-four federal judicial districts, thirty-two have adopted local patent rules for patent infringement cases, including most recently the Western District of New York (adopted January 2014) and the District of Utah (adopted December 2013). Local patent rules typically identify uniform procedures and dates for the exchange of contentions and discovery on issues common to patent cases, such as infringement, invalidity, claim construction, and expert discovery. In some districts, the rules are in the form of default scheduling orders, such as in the District of Delaware, uniform patent-case-management plans, such as in the Southern District of Indiana, or miscellaneous orders, such as in the Dallas Division of the Northern District of Texas, and may also vary by judge. Patent rules benefit courts and parties alike by providing a standard, predictable structure for common issues that arise in patent cases.

Districts with Local Patent Rules			
California Northern	California Southern	Delaware	Georgia Northern
Idaho	Illinois Northern	Indiana Northern	Indiana Southern
Maryland	Massachusetts	Minnesota	Missouri Eastern
Nevada	New Hampshire	New Jersey	New York Eastern

Districts with Local Patent Rules			
New York Northern	New York Southern	New York Western	North Carolina Eastern
North Carolina Middle	North Carolina Western	Ohio Northern	Ohio Southern
Pennsylvania Western	Tennessee Western	Texas Eastern	Texas Northern Dallas Division
Texas Southern	Utah	Washington Eastern	Washington Western

Infringement Contentions. Most local patent rules set the due date for infringement contentions between 14 and 45 days after the case-management conference. Faster jurisdictions include the Eastern District of Texas (10 days after the conference), the Northern District of Ohio (15 days after an answer or response to the complaint), and the Western District of Tennessee (7 days after an answer or response to the complaint). Slower jurisdictions among those with local patent rules include the District of Utah (63 days after an answer or response) and the Southern District of Indiana (150 days after the complaint was filed).

Noninfringement and Invalidity Contentions. The typical due date for noninfringement and invalidity contentions is between 30 and 45 days after service of infringement contentions. The District of Utah and the Western District of Pennsylvania provide the least amount of time at 14 days after infringement contentions, while the Western District of Tennessee and the Northern District of Ohio provide the most, at 83 and 65 days, respectively.

Claim Construction. Although local patent rules diverge more with respect to claim construction, the claim construction process generally starts with the exchange of proposed terms for construction 14 to 21 days after service of invalidity contentions. A joint claim construction statement is typically due 14 to 45 days later, followed by another 21 to 45 days before briefing begins. With respect to the number of claim terms to be construed, some local rules impose a soft limit of ten terms, while others require the parties to meet-and-confer.

2. Eastern District of Texas "Track B" Fast-Track Program

In February 2014, the Eastern District of Texas issued General Order 14-3,[71] implementing a new case-management procedure for patent cases called "Track B." The Eastern District intends for Track B to bring additional efficiencies

71 http://www.txed.uscourts.gov/cgi-bin/view_document.cgi?document=24330.

and cost savings to patent litigation by requiring certain initial disclosures within weeks of all defendants filing an answer. Track B applies either by a joint notice of the parties or by court order. Parties filing a joint notice must do so on or before the date all defendants file an answer or Rule 12(b) motion. The table below shows the Track B deadlines, which will accelerate if a party meets a prior deadline early.

Days after Answer or Rule 12(b) Motion	Track B Deadlines
14	**Patent owner:** serve infringement contentions and accompanying production in compliance with P.R. 3-1 and 3-2; produce all licenses or settlement agreements concerning the patents-in-suit and any related patent.
44	**All parties:** serve Initial Rule 26(a)(1) disclosures. **Accused infringers:** produce the quantity and revenue of products sold in the United States, for accused products and reasonably similar products.
58	**Patent owner:** file a nonbinding, good-faith estimate of damages, including a summary description of the method used to arrive at the estimate.
72	**Accused infringers:** serve invalidity contentions and accompanying production in compliance with P.R. 3-3 and 3-4.
77	**Plaintiff:** file a notice that the case is ready for a management conference.

As indicated above, the patent owner must serve infringement contentions and produce all licenses and settlement agreements concerning the patents-in-suit and related patents only two weeks after the defendant answers, and prepare a damages estimate only two weeks after receiving the accused infringer's summary sales information. The accused infringer must also move quickly, serving sales information on accused products and "reasonably similar" products thirty days after the patent owner serves infringement contentions, and serving invalidity contentions less than three months after filing an answer. Because the local patent rules in the Eastern District of Texas require parties to exchange proposed claim terms for construction no later than ten days after the service of invalidity contentions, Track B also requires claim construction efforts to start less than three months after filing an answer.

3. Fast-Track Considerations

When deciding whether to adopt the Track B schedule in the Eastern District of Texas, or whether to file a patent infringement action in one of the other districts with similarly quick deadlines, there are several considerations for patent owners and accused infringers.

Fast-Track Considerations for Patent Owners

- A fast track gives patent owners first-mover advantage, particularly where the patent owner has time before filing the complaint to prepare infringement contentions in full.
- If the patent owner asserts patent claims with limitations that are difficult to show in accused products without discovery, e.g., software claims with hidden limitations, the patent owner may want to avoid a fast track.
- Track B in the Eastern District of Texas may be attractive to patent owners if calculating damages is straightforward, such as when the patent owner's infringement theory reads claims on a product as a whole.
- For patent owners seeking to avoid a stay pending the outcome of a PTAB proceeding, a fast track's accelerated schedule may be a factor weighing against such a stay.

Fast-Track Considerations for Accused Infringers

- When a patent owner's case appears weak, accused infringers may use Track B in the Eastern District of Texas or file a declaratory judgment action in a faster jurisdiction to get the patent owner's contentions early in the case to put pressure on the patent owner to terminate the case in advance of costly discovery.
- Accused infringers may also seek Track B where the sales information is easy to collect and shows that potential damages are low or, because the patent owner must produce license and settlement agreements early, where there is reason to believe the patent owner has previously licensed the patent or settled for low amounts.
- Because of the quick turnaround time for contentions, accused infringers may seek to avoid a fast track where they expect invalidity contentions will be relatively complex to develop and prepare.
- Fast-track districts may also be attractive to accused infringers for opposite reasons from those above for patent owners.

For More Information:

A Quick Guide to East Texas' Fast Track for Patent Cases (*Law360*, Apr. 15, 2014)

Podcast: Lionel Lavenue and Ben Cassady on the EDTX Fast Track (Apr. 23, 2014)

4. Patent Cases Pilot Program

In early 2011, Congress enacted the Patent Cases Pilot Program, which is a ten-year program to encourage the enhancement of expertise in patent cases among district judges. *See* Patent Cases Pilot Program, Pub. L. 111-349 (Jan. 4, 2011). Under the statute, participating districts designate certain judges to hear patent cases. While these districts still randomly assign patent cases to all judges in the district, a nondesignated judge may decline to hear the case, at which point the case gets randomly assigned to one of the designated judges. In June 2011, the Director of the Administrative Office of the U.S. Courts selected the fourteen districts below for the program, either based on their being one of the fifteen busiest district courts for patent cases or based on their adoption of local patent rules. Being just three years into the ten-year program, the impact of this program and whether it will cause any redistribution of filings among the districts are yet to be seen.

Districts Participating in the Patent Cases Pilot Program	
Central District of California	Northern District of California
Southern District of California	Southern District of Florida
Northern District of Illinois	District of Maryland
District of Nevada	District of New Jersey
Eastern District of New York	Southern District of New York
Western District of Pennsylvania	Western District of Tennessee
Eastern District of Texas	Northern District of Texas

IV. ITC Litigation

The U.S. International Trade Commission ("ITC") is a specialized administrative court in Washington, DC, that hears, among other things, disputes concerning imported goods accused of infringing U.S. patents, trademarks, copyrights, and other intellectual property ("IP") rights, with the vast majority of those cases involving allegations of patent infringement. These proceedings are known as Section 337 investigations. Under a statutory mandate to proceed expeditiously, the ITC moves quickly compared to a typical district court litigation, and rarely grants a stay. ITC investigations often reach trial in less than one year after a complaint. As an administrative court, the ITC cannot award money damages to a successful complainant. Instead, it may issue an exclusion order that U.S. Customs and Border Protection ("Customs") executes to prevent infringing articles from entering the United States. Because the majority of consumer goods are imported from abroad, this remedy is an effective one for patent owners.

The ITC, however, is not available to all owners of IP rights. For example, a complainant asserting a patent infringement claim must demonstrate that a "domestic industry" exists or is in the process of being established with respect to articles protected by the asserted patent. Specifically, a complainant must show that a product practices at least one claim of each asserted patent, an analysis known as the "technical prong," and that it has made significant investment in support of the domestic industry via plant, equipment, labor, or capital, or substantial investment in the exploitation of a patent through engineering, research and development, and, in some cases, patent licensing, an analysis known as the "economic prong."

Administrative Law Judges ("ALJs") preside over the ITC investigation and issue final decisions, called "initial determinations," on the merits. A dissatisfied party may ask the six-member Commission to review an ALJ's decision. A party may subsequently appeal an adverse Commission decision to the U.S. Court of Appeals for the Federal Circuit, similar to patent appeals from district court litigation.

Statistics from the ITC show that the past ten years have seen significant growth in the number of filed investigations, peaking at 70 in 2011 and roughly corresponding with the height of the smartphone wars. More recent statistics show lower numbers of new investigations filed, but on par with numbers in the mid-2000s. Federal Circuit decisions may further curb the total, including rulings in *Suprema* and *ClearCorrect*, but this fast, effective, and technically savvy forum is not to be overlooked by IP owners. The ITC will continue to provide an important means to assert and defend IP rights.

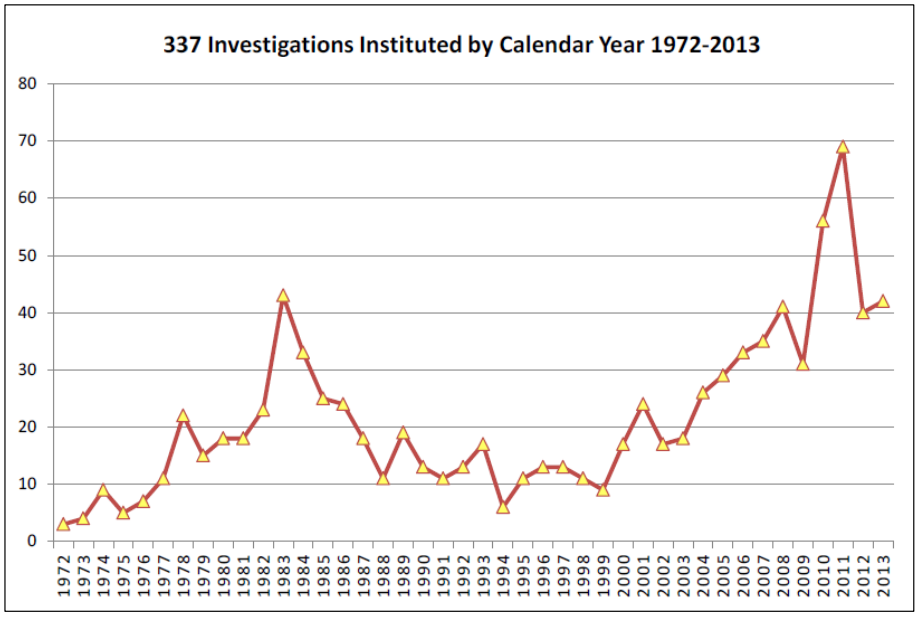
A. Trends in ITC Litigation

Although the ITC was established in 1916 as the U.S. Tariff Commission, the modern ITC came into being in 1975 when its underlying statute, Section 337 of the Tariff Act of 1930, was amended, creating the ITC as a forum with a mandate for speed. After languishing in relative obscurity throughout its initial decades, its popularity took off in the early 2000s.

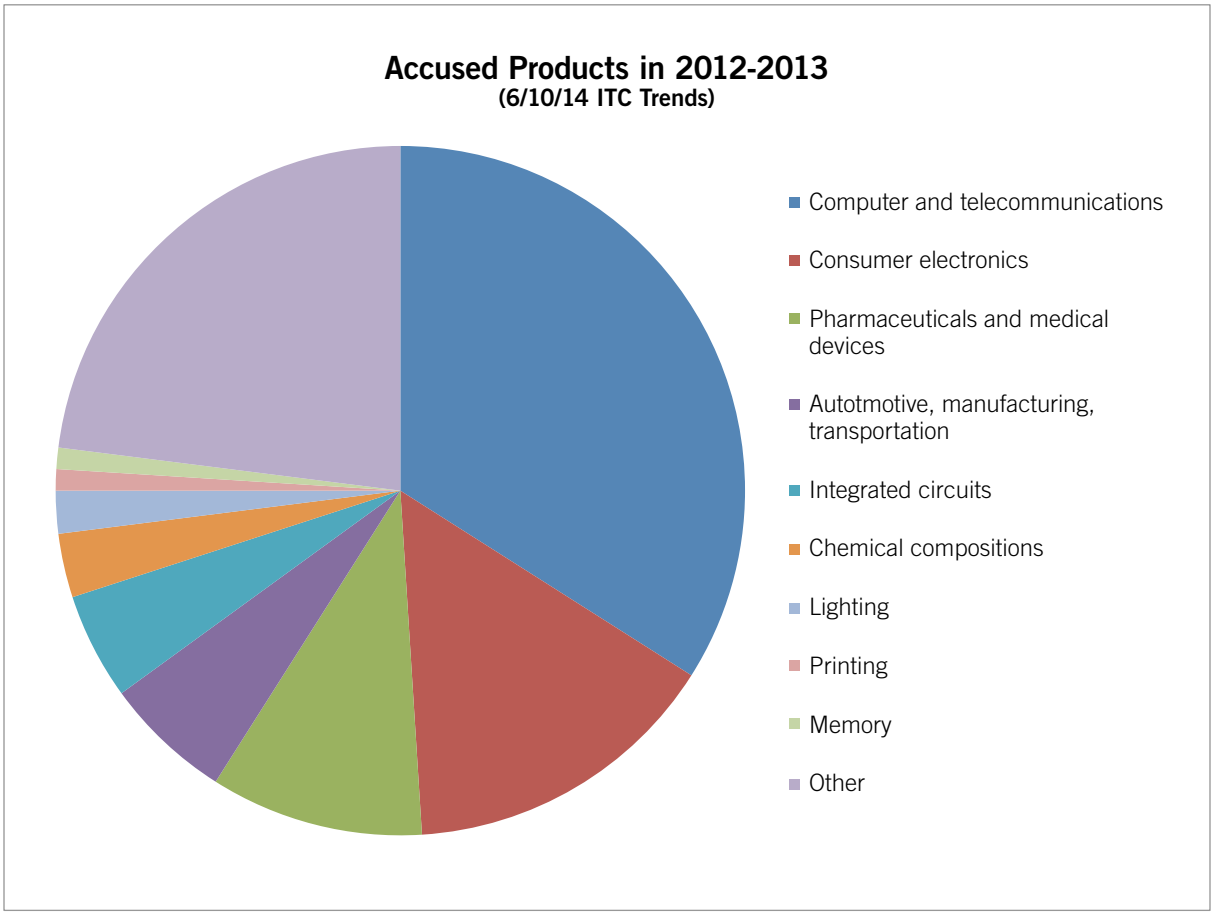
Section 337 investigations at the ITC peaked in 2011 at 70 cases, coinciding with the peak of the smartphone wars, but cases have started dropping toward historical averages as the smartphone wars subside.

Although the number of filings at the ITC has decreased in recent years since its peak in 2011, it still remains well above historical levels, as the chart below shows. *See* USITC Section 337 Investigations—Facts and Trends Regarding Caseload and Parties, at 1 (ITC June 10, 2014) [hereinafter "6/10/14 ITC Trends"].[72] Forty-two investigations were filed or instituted in 2014, and as of April 6, 2015, ten have been filed or instituted in 2015, putting the ITC on track for another year of decreased case load compared to the past few years, but in line with numbers in the late 2000s.

Number of Section 337 Investigations Instituted by Year
(6/10/14 ITC Trends)



72 http://www.usitc.gov/press_room/documents/sec337factsupdate2014.pdf.



In 2012 and 2013, as shown in the chart above, over half of the accused products in the patent infringement investigations handled by the ITC were in the electrical and computer field, including computer and telecommunications products (34%), consumer electronics (15%), and integrated circuits (5%). *See id.* at 2. Other significant categories include pharmaceuticals and medical devices (10%), and automotive, manufacturing, and transportation products (6%). *See id.* Numerous investigations instituted in 2011 and 2012 were a part of the so-called smartphone wars between Apple, Samsung, HTC, Nokia, and related entities.

As with patent litigation in the district courts, non-practicing entities ("NPEs") have filed a number of complaints at the ITC. In response to some suggestions that NPEs were too significant a proportion of ITC complaints, the ITC studied the number and types of NPEs that have filed complaints. *See id.* at 3. The ITC study considered two categories of NPEs: Category 1 NPEs—inventors, startups, universities, and research institutions who may have

73 *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

performed research and development but do not practice the patent; and Category 2 NPEs—entities who purchase and assert patents. *See id.* The study indicates that since May 15, 2006, when the Supreme Court made injunctions subject to a four-factor test in *eBay*,[73] Category 1 and 2 NPEs each accounted for only 10%, or 20% together, of the Section 337 investigations. *See* 6/10/14 ITC Trends, at 4. The study also notes that, since the *eBay* decision, only four NPEs successfully obtained exclusion orders. *See id.* During the same time, settlement rates for Category 1 and 2 NPEs were 30.3% and 50.0%, respectively, compared to 46.4% for all Section 337 investigations. *See id.* at 5.

B. Case Management and Discovery

1. New Limits on Discovery

In 2013, the ITC promulgated new rules designed to cut down the expense of discovery. 78 Fed. Reg. 29,618-24 (May 21, 2013). In particular, the complainant is now limited to five fact depositions per respondent, or a total of twenty, whichever is greater, and respondents are limited to twenty fact depositions. *See* 19 C.F.R. § 210.28. But since the rule only applies to fact depositions and not 30(b)(6) corporate depositions, ITC investigations can still involve many depositions, possibly spread across the globe. The ITC also limits the total number of interrogatories per party to 175. *See id.* § 210.29. The new procedures were designed to "reduce expensive, inefficient, unjustified, or unnecessary discovery practices in agency proceedings while preserving the opportunity for fair and efficient discovery for all parties." 78 Fed. Reg. 29,618.

2. Early Disposition Pilot Program

To further limit unnecessary litigation, the ITC also instituted a pilot program where the Commission will identify, at institution, investigations that are likely to present a potentially dispositive issue and direct the ALJ to rule on that issue within 100 days from institution. *See* Pilot Program Will Test Early Disposition of Certain Section 337 Investigations (ITC).[74] The Commission suggested that this program might be particularly applicable to the economic prong of the domestic-industry requirement, standing, or importation issues. *See id.* The ALJ may limit discovery on issues other than the potentially case-dispositive one during the early disposition phase. *See id.*

The Commission employed this program first in the 874 Investigation. *Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof*, Inv. No. 337-TA-874, Order No. 15 at 2 (July 5, 2013). The Commission, in its Notice of Institution, ordered the ALJ to decide whether the complainant satisfied the economic prong of the domestic-industry requirement. *See id.* The ALJ scheduled expedited fact and expert discovery, briefing, and a two-day hearing, and 99 days after institution, issued an initial determination. *See id.*

74 http://www.usitc.gov/press_room/featured_news/pilot_program_will_test_early_disposition_certain.htm.

The ALJ found that the complainants failed to satisfy the economic domestic-industry prong, but also found that the 100-day pilot program violated the Administrative Procedure Act. *See id.* at 24. The Commission affirmed the ALJ's ruling on lack of domestic industry and terminated the investigation. Inv. No. 337-TA-874, Comm'n Op. at 6-7, 22-23 (Sept. 3, 2013).

On March 12, 2015, the Commission ordered the ALJ in the 949 Investigation to conduct a similar early investigation regarding the issue of standing. *See* Certain Audio Processing Hardware and Software and Products Containing Same, ITC Inv. No. 337-TA-949, 80 Fed. Reg. 14159 (Mar. 18, 2015). The order came after the respondents questioned the complainant's standing and domestic industry, but the Commission ordered the 100-day investigation only as to issues of standing. This is only the second time that the early disposition program has been used at the ITC at all and the first time for issues of standing. It remains to be seen whether the 100-day pilot program will become widely adopted in more ITC investigations.

C. Induced Infringement of Method Claims—*Suprema*

The ITC's power to exclude comes from the statute empowering the ITC to ban articles that infringe a valid and enforceable U.S. patent. *See* 19 U.S.C. § 1337(a)(1)(B). Generally, proving infringement at the ITC proceeds in the same way as in district court. Complainants must show by a preponderance of the evidence that the respondent's imported product practices each element of the asserted claims. The ITC's importation requirement, however, poses particular complications for proving infringement of method claims, because such infringement occurs when the steps of the claim are performed. This leads to the question of whether the statute authorizes the ITC to ban an article where the infringing steps are not performed until after importation. On December 13, 2013, the Federal Circuit addressed this question in a split-panel decision in *Suprema, Inc. v. International Trade Commission*, 742 F.3d 1350 (Fed. Cir. 2013), holding that an ITC exclusion order may not be based on a theory of induced infringement where no direct infringement occurs until after the importation. *See id.* at 1357.

***Things to watch in 2015: The Federal Circuit's en banc decision on induced infringement in* Suprema*, and the Federal Circuit's second consideration of electronic imports in* ClearCorrect.**

The patent owner, Cross Match Technologies, Inc., alleged that Suprema, Inc. induced infringement of a fingerprint-scanning method claim and sought to exclude Suprema's accused scanners from importation into the United States. *See id.* at 1355. The steps of the claim, however, were not performed until Suprema's customer combined the imported scanners with software in the United States *after* importation. *See id.* The Federal Circuit held that an ITC

exclusion order may not be based on a theory of induced infringement where no direct infringement occurs until after the importation. *See id.* at 1360.

The court explained that, unlike direct and contributory infringement, induced infringement focuses on the conduct of the inducer, which is untied to an article. *See id.* Since the statute allows the ITC to ban only "articles … that infringe," the court reasoned that induced infringement could not support a Section 337 violation where additional steps required for infringement take place after importation. *See id.* Writing in dissent, Judge Reyna criticized the majority ruling, because it enables circumvention of a Section 337 exclusion order by "legaliz[ing] the most common and least sophisticated form of circumvention, importation of the article in a disassembled state." *Id.* at 1376-77 (Reyna, J., dissenting).

On May 13, 2014, the Federal Circuit granted the ITC's petition for an en banc rehearing and vacated the panel's decision. In its petition, the ITC argues that the Supreme Court's holding in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), establishes that induced infringement can arise from distribution of the underlying article, and so there is a substantial tie between the article and the inducement. The ITC also argues that *Grokster* establishes that distribution of an article intended for infringing use is a culpable act, and so the importation of an article intended for infringing use establishes a culpable act at the time of importation sufficient for violation of Section 337. According to the ITC, the court also owes due deference to the ITC's interpretation of its own statute to provide a remedy against the importation of articles used to induce patent infringement.

The issue may be partly resolved by the Supreme Court's recent *Limelight* decision. As discussed above, the Supreme Court held in *Limelight* that liability for induced infringement requires a single actor to perform all the steps of a method claim and thereby directly infringe. *See Limelight*, slip op. at 8. This holding affirms the view of the majority opinion in *Suprema* that infringement of the method claims does not occur until after importation. Thus, the en banc court will have to decide how to square the holding in *Limelight* requiring a single user to perform all the steps of a method claim for infringement, with a potential circumvention of Section 337 that Judge Reyna raised in his dissent regarding method claims that require a post-importation step. The en banc hearing took place February 5, 2015. A decision is expected this summer.

On September 10, 2014, the Commission touched on the importation issue in a Notice vacating a portion of a Final Initial Determination ("ID") finding no violation. *See Certain Digital Media Devices, Including Televisions, Blu-Ray Disc Players, Home Theater Systems, and Mobile Phones*, Inv. No. 337-TA-882, Notice of a Commission Determination (Sept. 10, 2014). Complainant Black Hills Media, LLC had accused five large electronics manufacturers of infringement based on applications allegedly installed on their products. ALJ Shaw issued a 492-page Final ID finding no violation in part because the asserted method claims were not performed or the accused systems were not complete until after importation. *Id.*, Inv. No. 337-TA-882, Final ID at 13-22 (July 7, 2014) (public version). The Commission affirmed the ALJ's finding of no violation in part because there was no direct infringement by the accused articles, but vacated the

portion of the Final ID that relied on the Federal Circuit's *Suprema* panel decision. The Commission did not explain its reasoning, but the Commission issued its Notice after the Federal Circuit had vacated the *Suprema* panel decision.

D. Importation Based on Electronic Transmission of Digital Data

A fundamental tenet of ITC jurisdiction is that there must be imported "articles." The statute empowers the ITC to block importation, sale for importation, or sale after importation of articles that infringe a valid and enforceable U.S. patent. *See* 19 U.S.C. § 1337(a)(1)(B). Historically, ITC exclusion orders have been enforced by Customs agents inspecting goods as they arrive, for example, at Long Beach in containers from Lisbon, or at JFK on pallets from Johannesburg. In the era of digital downloads over the Internet, however, the ITC now faces the 21st-century challenge of prohibiting infringing imports of electronic transmissions of 1s and 0s, which might move directly, instantly, and intangibly from Shanghai to St. Louis without passing the watchful eye of a Customs inspector. This scenario presents the question of whether electronic transmissions are "articles" over which the ITC has statutory jurisdiction.

In April 2014, the Commission appeared to answer this "difficult question" in the 833 Investigation. *See Certain Digital Models, Digital Data, and Treatment Plans for Use in Making Incremental Dental Positioning Adjustment Appliances, the Appliances Made Therefrom, and Methods of Making the Same*, Inv. No. 337-TA-833, Comm'n Op. at 21-22 (Apr. 10, 2014). The accused products were digital three-dimensional models of the desired position of a patient's teeth at various stages of orthodontic treatment. *See id.* at 16-17. The models began with a physical impression of a patient's teeth. *See id.* A subsidiary in Pakistan manipulated the models and then electronically transmitted the digital models to the United States. *See id.*

The Commission decided that the digital models are "articles" and that the action of uploading the models from Pakistan to a server in the United States constitutes importation. *See id.* at 34. The Commission reasoned that the overall purpose of Section 337 is to "prevent every type of unfair act in connection with imported articles … and to strengthen protection of intellectual property rights." *Id.* at 37. The Commission recognized the concern that exclusion orders enforced by Customs could not apply to intangible electronic transmissions, but pointed out that the ITC may also issue cease-and-desist orders and may impose civil penalties for violations up to $100,000 per day. *See id.* at 52 (citing 19 U.S.C. § 1337(f)). Perhaps recognizing the issues associated with enforcement of an exclusion order directed to electronic transmissions, the complainant in the 833 Investigation only sought a cease-and-desist order against the respondents, which the Commission issued. *See id.* at 148.

On June 11, 2014, the Commission made an unusual move and stayed its own cease-and-desist order pending the appeal to the Federal Circuit on the issue of whether electronic transmissions are "articles" within the meaning of Section 337, even though the Commission's ruling suggests that it considers the regulation of imported electronic media well within its powers. Inv. No. 337-TA-833, Comm'n Op. at 10 (June 11, 2014).

On July 18, 2014, the Federal Circuit decided a related dispute between the parties which also implicated the ITC's authority to prohibit electronic transmissions. *Align Tech., Inc. v. Int'l Trade Comm'n*, Nos. 2013-1240, -1363 (Fed. Cir. 2014). However, there the panel took no position on the data importation issue and decided the case on other grounds. *See id.* at 10-17 & n.8. The 833 Investigation is currently on appeal to the Federal Circuit and should be decided by early 2015. *See ClearCorrect Operating, LLC v. Int'l Trade Comm'n*, Nos. 2014-1527, -1533 (Fed. Cir. 2014).

E. Licensing-Based Domestic Industry

Section 337 was amended to its current form in 1988 to allow nonmanufacturing activity, such as licensing and research, to satisfy the domestic-industry requirement. The Commission's interpretation of this aspect of the law has changed over the years. As perhaps the clearest example, up to several years ago, complainants relying on licensing for a domestic industry did not have to prove the technical prong of domestic industry or identify a product that was covered by the asserted patent. Those days are now gone, and in recent years, the ITC has fine-tuned how licensing may satisfy the domestic-industry requirement.

In July 2011, in *Certain Multimedia Display and Navigation Devices and Systems, Components Thereof, and Products Containing Same*, the Commission laid out a framework for analyzing a licensing domestic industry. Inv. No. 337-TA-694, Comm'n Op. at 5-16 (July 22, 2011). The investments in licensing must be "substantial" and relate to the asserted patents, and the licensing must occur in the United States. *See id.* For a patent portfolio that includes patents not asserted, a complainant must also show that its licensing activities are focused on the asserted patent or that the asserted patent has relative importance or value to the overall portfolio. *See id.* at 9. And although the Commission confirmed that the statute does not specify that the licensing efforts exploiting the patent must be of a particular character, the Commission noted that licensing designed to encourage adoption of the patented technology and introduce products embodying the technology would be weighed more heavily than licensing designed merely to generate revenue through royalties. *See id.* at 25.

Since that investigation, recent decisions of the Commission and the Federal Circuit have further clarified which investments are sufficient to support a domestic industry. In 2013, the Federal Circuit affirmed that investment in litigation may satisfy the domestic-industry requirement, but only if substantial and directed toward a licensing program. *See Motiva, LLC v. Int'l Trade Comm'n*, 716 F.3d 596, 600 (Fed. Cir. 2013).

In January 2014, the ITC clarified that complainants who rely on licensing to establish their domestic industry must show the existence of articles practicing the patent in the United States. *Certain Computers and Computer Peripheral Devices, and Components Thereof, and Products Containing Same*, Inv. No. 337-TA-841, Comm'n Op. at 40 (Jan. 9, 2014). This reversed a long-standing practice at the ITC that allowed a complainant relying on licensing to avoid the technical prong of the domestic-industry requirement entirely. Reviewing the case law and legislative history,

the Commission held that, indeed, a tie to articles must exist even where complainants rely on licensing to establish domestic industry. *See id.*

Accordingly, a complainant relying on licensing or litigation expenses to support domestic industry should be prepared to show more than simply the amount of expenses spent on its licensing effort—it must also show that a product covered by the asserted patent exists somewhere. And if the licensor is engaged primarily in a revenue-generating licensing business and is not attempting to encourage adoption of its technology and introduce products, there may be additional challenges. Licensors should also monitor whether and how their licensees actually produce articles practicing the patents if they intend to rely on them to support domestic industry. In addition, a complainant should keep in mind that a domestic industry is generally analyzed as of the date that the complaint is filed when deciding what investments to rely on.

F. The Veto, Standard-Essential Patents, and FRAND

In August 2013, for the first time in more than twenty-five years, the President, acting through the U.S. Trade Representative ("USTR"), vetoed a Commission's exclusion order. *See* Letter from Ambassador Michael B.G. Froman, USTR, to The Honorable Irving A. Williamson, USITC Commission Chairman (Aug. 3, 2013) [hereinafter "8/3/13 USTR Letter"].[75] The Commission's order had found that Apple violated two patents Samsung had disclosed as potentially essential to a standards body. *See Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794, Comm'n Op. at 1, 41, 119 (July 5, 2013).

Apple argued that Samsung failed to comply with its obligation to license those patents on fair, reasonable, and non-discriminatory ("FRAND") terms, as Samsung purportedly promised to do in its standards-body declaration. *See id.* at 41. The Commission disagreed, finding that Apple failed to establish its FRAND defense and reiterated Commission precedent that a FRAND obligation does not per se preclude finding a Section 337 violation. *See id.* at 45-46.

The Commission explained that, to establish a FRAND-violation defense, a respondent must show (1) an interpretation of the patentee's standard-essential patent ("SEP") declaration under the appropriate governing law; (2) that the patent was necessary to practice the standard at issue; (3) that the essentiality declaration imposed a legally enforceable obligation; and (4) that the patentee did not offer to grant a FRAND license. *See id.* at 52. The Commission engaged in a lengthy discussion of the license negotiations, concluded that Samsung had not been unreasonable, and held that an exclusion order was proper. *See id.* at 53-64. The 794 Investigation had also raised the question of whether the ITC's consideration of the public interest prohibits actions to enforce an SEP. *See id.* at 111-13. Section 337 *requires* the Commission to consider the exclusion order's effect on the public health and welfare, competition conditions, the production of competitive articles, and consumers. *See* 19 U.S.C. § 1337(d)(1), (f)(1). Indeed, Commissioner

Pinkert dissented and would have found that public interest issues could justify denial of a Commission remedy based on an SEP. *See* Inv. No. 337-TA-794, Comm'n Op. at D1 (Pinkert, Comm'r, dissenting).

In disapproving the ITC decision, the USTR emphasized the public interest requirement. 8/3/13 USTR Letter, at 1. The USTR cited the DOJ and USPTO's January 2013 policy statement, expressing concerns "about the potential harms that can result from owners of standards-essential patents ('SEPs') who have made a voluntary commitment to offer to license SEPs on terms that are fair, reasonable, and non-discriminatory ('FRAND'), gaining undue leverage and engaging in 'patent hold-up', i.e., asserting the patent to exclude an implementer of the standard from a market to obtain a higher price for use of the patent than would have been possible before the standard was set, when alternative technologies could have been chosen." *Id.* at 2. The USTR also noted the potential for technology implementers to engage in "reverse hold-up" by refusing to agree to a FRAND license. *See id.* Without setting forth analysis of the specific merits of the 794 Investigation, the USTR exercised the President's power to disapprove of ITC remedies on policy grounds, effectively ending the investigation. *See id.* at 3. Perhaps to avoid leaving the impression that every SEP-based exclusion order might be vetoed, the USTR stated that "whether public interest considerations counsel against a particular exclusion order depends on the specific circumstances at issue" and encouraged the ITC to develop an appropriate record so that policy considerations can be evaluated. *Id.* at 2-3.

Although some may wonder whether the 794 Investigation signals more frequent Presidential vetoes, and consequently whether an ITC exclusion order has less value, more recent cases suggest little has truly changed. For example, the USTR refused to block a similar exclusion order only months after the Apple veto, when Samsung faced exclusion of its older products. *See* Ambassador Froman's Decision on the USITC's Investigation of Certain Electronic Digital Media Devices (Oct. 8, 2013).[76] There, the USTR noted that there were no SEPs involved, so the case differed from Samsung's case against Apple. *See id.* In addition, Samsung's newer products were found to be outside the scope of the exclusion order due to a design around, and as a result, the USTR found that the exclusion order would not have a significant impact on the economy. *See id.* The unique circumstances in the 794 Investigation suggest that although the Presidential veto is alive and well, it is unlikely to be a frequent player in future ITC investigations.

G. Trade Secret Cases at the ITC

Trade secret litigation at the ITC is not new, but has recently seen a significant uptick. From 2012 to June 30, 2014, six ITC investigations involved trade secret issues, compared to thirty-seven total from 1974 through 2011, or about one per year. Although distinct from patents, trade secrets often form an important part of a company's overall IP strategy. Trade secret investigations often involve circumstances where there is a prior relationship between complainant and respondent, such as when a former employee is alleged to have misappropriated confidential business information and taken it to a competitor. From a technology perspective, the cases filed in 2012 and 2013 involved paper shredders, manufactured toys, and tire chemicals.

In 2011, the Federal Circuit held that a single federal standard should govern trade secret misappropriation under Section 337 and advised the Commission to apply widely recognized authorities such as the Restatement of Unfair Competition and the Uniform Trade Secrets Act. *See TianRui Grp. Co. v. Int'l Trade Comm'n*, 661 F.3d 1322, 1327-28 (Fed. Cir. 2011). As for whether the Commission can apply Section 337 to goods produced through the exploitation of trade secrets where the misappropriation occurred abroad, the Federal Circuit said yes. *See id.* at 1332. Since Section 337 is an international statute designed to regulate goods imported into the United States, the court held that the statute sets the requirements for goods entering the United States and empowers the Commission to block their importation where they were produced through a misappropriated trade secret. *See id.* at 1329. The court also found that the legislative history of Section 337 supports the notion that the Commission has broad and flexible powers to remedy unfair competition arising in the context of imported goods. *See id.* at 1330-31.

TianRui and other more recent examples have shown the ITC to be a favorable forum for domestic entities who have experienced misappropriation of their trade secrets abroad and are facing competition against imported goods manufactured using those trade secrets. Potential litigants should consider the ITC as a fast and effective forum for enforcing trade secret rights.

V. Additional Resources

America Invents Act Blog
http://www.aiablog.com/

***Full Disclosure* Patent Newsletter**
http://www.finnegan.com/publications/updatenewsletters/FullDisclosureLanding.aspx

***IP Marketplace* Newsletter**
http://www.finnegan.com/publications/updatenewsletters/IPMarketplaceLanding.aspx

***Last Month at the Federal Circuit* Newsletter**
http://www.finnegan.com/publications/updatenewsletters/LastMonthFederalLanding.aspx

IP Articles
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IP Updates
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IP Webinars
http://www.finnegan.com/resources/webinars/

Patent App[eals] App
https://itunes.apple.com/us/app/patent-app-eals/id623855865

Patent Trial and Appeal Board
http://www.uspto.gov/ip/boards/bpai/index.jsp

Unified Patent Court
http://unified-patent-court.org/

United States Court of Appeals for the Federal Circuit
http://cafc.uscourts.gov/

United States International Trade Commission
http://usitc.gov/

United States Patent and Trademark Office
http://www.uspto.gov/