Intellectual Property Outlook:
Cases and Trends to Follow in 2014

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I. Introduction

Over the past several months, the United States Supreme Court has taken an unprecedented interest in intellectual property law, already granting certiorari in five cases. The impact of these Supreme Court cases as well as additional upcoming Federal Circuit decisions will undoubtedly change the way we advise our clients on intellectual property matters. This article highlights cases we are monitoring that present, in our view, significant issues relating to various aspects of intellectual property law. Most of these cases are pending appeal at some level, and each has the potential for considerable impact on the landscape of U.S. intellectual property law. We will also take a look at continuing trends in the intellectual property marketplace and review key legislation, including Representative Goodlatte’s Innovation Act.

A. Cases to Watch in 2014

1. § 101 Patentable Subject Matter Post-Bilski

Section 101 of the Patent Act provides that any new and useful “process, machine, manufacture, or composition of matter” may be patented. While the machine-or-transformation test remains the presumptive starting point in any analysis, following Bilski, the Federal Circuit has increasingly looked to whether the processes claimed in a disputed patent are too “manifestly abstract” to be patentable. But neither the Supreme Court nor the Federal Circuit has been able to articulate a clear objective test to make this determination. Federal Circuit jurisprudence post-Bilski has been complicated by the court’s inconsistencies in deciding cases involving similar patents with comparable claim language.1

The May 2013 en banc Federal Circuit decision in CLS Bank Int’l v. Alice Corp., No. 11-1301, demonstrates yet another sharply divided decision. Alice asserted patents relating to a computerized trading platform for exchanging obligations in which a trusted third party settles obligations between a first and second party so as to eliminate “settlement risk” against CLS Bank. The district court granted summary judgment of invalidity on the basis that the patents did not claim patent-eligible subject matter. When overturning the district court’s decision, the Federal Circuit, in its July 2012 opinion, did not attempt to define the concept of “abstract” either, instead implementing a new heightened standard for holding that a claim is not patent-eligible under Section 101. On October 9, 2012, the Federal Circuit vacated the July 2012 decision and ordered a rehearing en banc.
In its May 2013 opinion, although the Federal Circuit affirmed the district court’s grant of summary judgment of invalidity, the decision did little, if anything, to clarify what an abstract matter is or how to make that determination. No majority of judges agreed as to the legal rationale leading to the ultimate finding. In addition, the Federal Circuit split evenly as to the issue of whether the patent system claims recited patent-eligible subject matter.

The Supreme Court granted certiorari and will be considering the issue of “[w]hether claims to computer-implemented inventions—including claims to systems and machines, processes, and items of manufacture—are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101 as interpreted by this Court.” The Supreme Court has a prime opportunity to provide guidance and clarity on patentable subject matter, particularly as it relates to computer related inventions.

2. **35 U.S.C. § 285—Award of Attorney Fees in Exceptional Cases**

At the end of February 2014, the Supreme Court will hear argument on two cases dealing with fee shifting in patent litigation: *Highmark, Inc. v. Allcare Health Management Systems*, No. 12-1184, and *Octane Fitness v. Icon Health and Fitness*, No. 12-1163. Together, the two cases deal with the proper standard for determining when a prevailing party is entitled to attorney fees under Section 285 and the proper standard of review for such determinations. By granting certiorari in these two cases, the Supreme Court is poised to provide trial courts with more power to award attorney fees in situations where a patentee brings a frivolous claim.

*Octane Fitness* presents the issue of fee shifting without the baggage of non-practicing entity “troll” behavior. Rather than a small non-practicing entity suing a large corporation, in *Octane*, the Court is presented with a large company that manufactures competing goods—albeit ones that do not practice the claimed invention—suing a smaller “innovator” company. Icon Health and Fitness sued Octane Fitness for patent infringement related to Octane’s elliptical exercise machine. The district court granted summary judgment of non-infringement in favor of Octane, but declined to award attorney fees under Section 285. On appeal to the Federal Circuit, Octane argued that the standard for awarding attorney fees should be relaxed. The Federal Circuit dismissed Octane’s arguments, finding that the court has “no reason to revisit the settled standard for exceptionality.”

Under 35 U.S.C. § 285, a prevailing party may only be awarded attorney fees in “exceptional cases.” The Federal Circuit has interpreted this as requiring evidence that the losing party made a frivolous claim, engaged in inequitable conduct before the United States Patent and Trademark Office, or committed litigation misconduct. Because the trial court was not presented with evidence of litigation misconduct or inequitable conduct, the trial court focused on whether the losing party’s case was frivolous, analyzing it according to the Federal Circuit’s rigid two-part test, which requires determinations that the case was (1) objectively baseless and (2) pursued with subjective bad faith. Documents produced in the course of litigation cast Icon’s decision to initiate suit in an unfavorable light, suggesting that Icon was bullying its smaller competitor and that Icon was not expecting to win. Nevertheless, the court found that this was insufficient to show litigation misconduct or subjective bad faith.

Octane now asks the Court to reject the rigid two prong test requiring a finding of objective baselessness and subjective bad faith in favor of a more flexible approach where the court is encouraged to consider traditional equitable factors guided by the purposes of patent law. In short, the Supreme Court is asked to determine whether a district court may exercise its discretion and analyze the totality of the circumstances to determine if the losing party acted in a way contrary to
the purposes of patent law. This would provide district courts with the flexibility to award attorney fees in situations where the interests of justice and equity deem appropriate.

After the Supreme Court granted certiorari in Octane, the Federal Circuit issued an opinion in Kilopass Technology, Inc. v. Sidense Corp.\(^2\) that sought to “clarify” existing Section 285 jurisprudence. The Federal Circuit substantially reduced the significance of the “subjective bad faith requirement,” holding that a finding of objective baselessness itself can create an inference of subjective bad faith. The court explained that the focus of the fee shifting inquiry should be on the objective merits of the claim, not on identifying “smoking gun” evidence of subjective bad faith. Instead, the subjective bad faith element can be shown by circumstantial evidence such as “the failure to conduct an adequate pre-suit investigation, vexatious or unduly burdensome litigation tactics, misconduct in procuring the patent, or an oppressive purpose.” While not eliminating the subjective bad faith requirement, Kilopass appears to relegate it to an afterthought. Given the great shift in application of the exceptional case doctrine, it is likely that this case will be addressed by the court en banc, unless the Supreme Court’s decision in Octane renders that unnecessary.

As a corollary to the issue of whether to afford trial courts greater discretion to award attorney fees, the Supreme Court will also decide the proper standard of review for exceptional case determinations. In Highmark, the Federal Circuit departed from its previous jurisprudence and held that a district court’s “objectively baseless” determination is subject to de novo review despite its factual underpinnings. The district court’s determination regarding the subjective bad faith element, however, is still entitled to deference. This issue is particularly important given the Federal Circuit’s recent opinion in Kilopass, diminishing the significance of the subjective bad faith inquiry. Thus, under Highmark, it is likely that most attorney fee awards will be reviewed de novo. Highmark has petitioned the Court to restore deference to a trial court’s decisions and is advocating for a simple abuse of discretion standard of review for Section 285 determinations. The PTO and DOJ filed a joint brief advocating the reversal of Highmark and the adoption of a “unitary abuse-of-discretion standard of review” on appeal. Importantly, the Government’s brief highlights that although the district court’s Section 285 determinations should be reviewed under the abuse of discretion standard, this does not prevent the Federal Circuit from correcting a pure legal error such as application of the wrong standard or applying an incorrect claim construction.

Recognizing the interplay between the issues in Highmark and Octane, the Supreme Court has set both cases for argument on the same day in February. The cases have garnered significant amicus attention, several filing briefs addressing the two issues together. Further, as described in more detail below, a major component of the patent litigation reform agenda has been the pushing for a rebalancing of litigation costs. Should the Supreme Court overrule the Federal Circuit’s rigid two part test in favor of a more liberal equitable discretion standard, it is possible that the prevailing party will be awarded attorney fees in a greater number of cases. This, coupled with a ruling in Highmark forcing the Federal Circuit to give greater deference to trial court determinations on the subject, may help reduce abusive patent litigation.

3. **Joint and Induced Infringement**

Direct infringement under 35 U.S.C. § 271(a) generally requires that a single actor perform, make, use, and/or sell every element of an asserted claim. Similarly, a single party who induces another to infringe a patent is liable for induced infringement under 35 U.S.C. § 271(b). However, where there are two or more entities or individuals who operate jointly to infringe a patent claim or where one party performs some steps and induces another to perform the other steps, courts have held the
inducing party liable only if it “directed and controlled” the actions of the second party.3 In the Federal Circuit’s en banc opinion in Akamai v. Limelight, No. 2009-1372, -1380, -1416, -1417; McKesson v. Epic Systems Corp., No. 2010-1291, the Federal Circuit changed the landscape for such divided infringement.

In Akamai, the Federal Circuit held that an inducement finding’s underlying direct infringement does not need to be performed by a single actor. Rather, all that is required is a showing that all of the claimed process steps are performed by one or more parties.4 Specifically, “[r]equiring proof that there has been direct infringement as a predicate for induced infringement is not the same as requiring proof that a single party would be liable as a direct infringer.” Rather, the Court found that “[n]othing in the text [of § 271(b)] indicates that the term “infringement” … is limited to “infringement” by a single entity[,] and that] ‘infringement’ in this context appears to refer most naturally to the acts necessary to infringe a patent, not to whether those acts are performed by one entity or several.” Thus, a party may be liable if it: (1) knew of the patent; (2) induced the performance of the steps of the method or performed some steps and induced the performance of the rest of the steps, and (3) those steps were in fact performed. This holding has great implications as it greatly expands the scope of parties liable for induced infringement. By also disengaging the necessary direct infringement from § 271(a), the Akamai holding has the potential to expand the extraterritorial jurisdiction of patent enforcement.

Both parties filed petitions with the Supreme Court on similar issues. Limelight presented the question of “[w]hether the Federal Circuit erred in holding that a defendant may be held liable for inducing patent infringement under 35 U.S.C. § 271(b) even though no one has committed direct infringement under Section 271(a).” Akamai’s conditional cross-petition posed the questions as “[w]hether a party may be liable for infringement under either section of the patent infringement statute, 35 U.S.C. §271(a) or § 271(b), where two or more entities join together to perform all of the steps of a process claim.” The Supreme Court granted certiorari for Limelight’s petition—but not Akamai’s—perhaps seeking to limit the scope of their review to Limelight’s slightly narrower question.

4. 35 USC §112 ¶2 Indefiniteness

A recurring theme in the patent litigation reform movement is the notion that the system is being abused by those who assert vague patents with unclear boundaries. The Supreme Court has taken notice and agreed to hear Nautilus, Inc. v. Biosig Instruments, Inc., No. 13-369, which will decide the proper standard for finding a patent claim indefinite under Section 112 ¶2. Section 112 ¶2 requires a patent to include claims that particularly point out and distinctly claim the subject matter which the applicant regards as his invention. In the context of an invalidity defense, the Federal Circuit has long interpreted this statute as requiring the movant to show that the claim term is “not amenable to construction” or is “insolubly ambiguous.” Under Federal Circuit precedent, a claim term is insolubly ambiguous only if “reasonable efforts at claim construction result in a definition that does not provide sufficient particularity and clarity to inform skilled artisans of the bounds of the claims.” This flexible standard may not be met even if reasonable persons disagree over the meaning of the claim term. This is exactly what happened in Nautilus—four judges (the district court and the three judge Federal Circuit panel) construed the disputed term three different ways.

Nautilus and several amici argue that this standard runs contrary to the language of the statute and conflicts with the PTO’s interpretation of Section 112 ¶2, which provides that if “a person having ordinary skill in the relevant art would read [the claim term] with more than one reasonable interpretation, then a rejection under §112 ¶2 is appropriate.” Perhaps, more importantly they argue,
a strict interpretation of Section 112 ¶2 may better serve the public notice function of patents by discouraging patent drafters from obfuscating their inventions. Permitting the patentee to operate in a “zone of uncertainty” where market players cannot reasonably discern the scope of the claimed invention without resorting to costly claim construction has the potential to hinder innovation and unjustly deter market entry. That being said, substantially reducing the burden on the defendant to show indefiniteness could result in an influx of motion practice and disrupt the settled expectations of patentees. It could also reduce the scope of existing patents, result in the invalidation of countless more, and reduce investment in patented technologies. Nevertheless, it appears the Supreme Court is poised to once again reverse the Federal Circuit and to continue its recent trend of chipping away at patent rights.

5. **Revisiting Cybor: Standard of Review for District Court Claim Construction**

In September of 2013, the Federal Circuit sat *en banc* in *Lighting Ballast Control, LLC v. Philips Electronics North America Corp.*, No. 2012-2014, to hear argument on one seemingly simple question: should a district court’s claim construction be afforded any deference? In its 1998 *en banc* decision in *Cybor Corp. v. FAS Technologies*, the Federal Circuit relied on the Supreme Court’s decision in *Markman* to hold that claim construction, as a purely legal issue, is subject to *de novo* review on appeal. In recent years, there has been a growing contingent of practitioners and jurists who believe that claim construction should be entitled to at least some deference because, as the Supreme Court held in *Markman*, it is a “mongrel” practice, combining both factual and legal inquiries. While it remains to be seen just how the court will rule, the Federal Circuit is at least poised to put the issue to rest.

The court was presented with three alternatives for interpreting a district court’s claim construction: (1) afford deference to the entirety of the district court’s claim construction; (2) afford deference to a district court’s determination of issues of “historical fact”; or (3) afford no formal deference and review *de novo*.

It seems unlikely that the Federal Circuit will adopt the first approach because it runs contrary to the Supreme Court’s guidance in *Markman* that treating claim construction as a pure issue of law “will promote (though it will not guarantee) intra-jurisdictional certainty through the application of *stare decisis* on those questions not yet under the authority of the single appeals court.” This argument was pressed by Judge Lourie at the *en banc* hearing, where he emphasized that the Federal Circuit has a mandate to ensure uniformity in patent law—a mandate that will become increasingly difficult if the court is required to defer to competing district court constructions.

The second option is the most likely possibility, although it remains to be seen what constitutes a question of historical fact. The parties and the court struggled at the *en banc* hearing to come up with a workable definition of “historical fact.” Counsel for the appellant argued that a question of historical fact is simply one that falls outside of the patent, *e.g.*, a factual question related to extrinsic evidence. Counsel for the PTO noted that the question of what a term meant to a person having ordinary skill in the art is not a question of historical fact but the question of whether the disputed term is, in fact, a term of art in the industry is a question of historical fact that would be entitled to deference. Thus, the dividing line is unclear and how it would be determined in other contexts is up for debate.

The last option is the simplest: maintain the status quo and review all claim construction determinations *de novo*. This avoids the problems of unsettling litigants’ expectations and avoids the potential for satellite litigation over whether a determination is a question of fact deserving of
deference or simply a legal determination. Importantly, Judge Lourie emphasized that despite the court’s formal use of de novo review, the court often employs an “informal deference,” where the court is free to defer to well-reasoned claim construction opinions where appropriate.

Based on the judges’ questioning at oral argument in September, it seems likely that the court will either maintain the status quo of de novo review or establish a standard where deference is afforded to certain determinations of fact.

6. **Good Faith Belief of Invalidity as Negation of Specific Intent**

The Federal Circuit’s June 2013 decision in *Commil USA, LLC v. Cisco Systems, Inc.*, No. 2012-1042, created a new standard for the intent prong for induced infringement wherein “a good-faith belief of invalidity is evidence that may negate the specific intent to encourage another’s infringement, which is required for induced infringement.” Under the circumstances where one knows of a patent and induces another to perform the steps of the patent claim, but has a good-faith belief that the patent is not valid, such a party could not have intended to induce infringement because one cannot infringe an invalid patent. *Id.*

Commil filed a petition for a rehearing *en banc*, but this was denied October 25, 2013. It is likely Commil will petition the Supreme Court for certiorari. As it stands, the Commil decision broadly expands the defenses to induced infringement and we will see how district courts handle evidence regarding good faith belief of invalidity.

7. **The Proper Role of Forum-Selection Clauses in Venue Disputes**

*Broadcom Corp. v. USDC EDTX*, No. 12-1475, and *Atlantic Marine Construction Co v. United States Dist. Court for Western Dist. Of Texas*, No. 12-929, are two Supreme Court cases that deal with how courts should handle forum-selection clauses in venue disputes. In *Atlantic Marine Construction*, the Supreme Court reversed a Fifth Circuit opinion denying a petition for mandamus. The Court held that a forum-selection clause may be enforced by a motion to transfer for convenience under Section 1404(a) and upon filing such a motion, the “district court should transfer the case unless extraordinary circumstances unrelated to the convenience of the parties clearly disfavor a transfer.” In other words, “Section 1404(a) requires that a forum-selection clause be ‘given controlling weight in all but the most exceptional cases.’” A valid forum-selection clause shifts the burden to the plaintiff to prove that the clause’s preferred forum is unwarranted. But the plaintiff may do so only by relying on the public interest factors because a valid forum selection clause presupposes that the private interest factors favor that forum, i.e., it was a bargained for clause. In *Broadcom*, the Federal Circuit denied a petition for mandamus to transfer a case from the Eastern District of Texas where a forum-selection clause was at issue. The Supreme Court granted, vacated, and remanded the Federal Circuit’s opinion for consideration in light of *Atlantic Marine*.

A valid forum-selection clause should, in most cases, dictate where a patent infringement suit is litigated. Thus this ruling is important for both licensees who are accused of breaching patent licenses and for those who may be drafting such licenses. It would appear likely that we will see fewer licensee/licensor disputes in plaintiff-friendly forums moving forward.

8. **Shifting of Burden of Proof in the Case of a DJ Action**

The Supreme Court is expected to rule sometime this year in *Medtronic, Inc. v. Boston Scientific Corp.*, No. 2012-1128, wherein the Court will consider if the burden of proof for infringement is shifted when a declaratory judgment action is brought by a licensee to challenge whether a new
product is not infringed. Specifically, the issue submitted to the Court was “whether, in a declaratory judgment action brought by a licensee under *MedImmune, Inc. v. Genentech, Inc.*, the licensee has the burden to prove that its products do not infringe the patent, or whether (as is the case in all other patent litigation, including other declaratory judgment actions), the patentee must prove infringement.”

Medtronic is a leading manufacturer in the medical device arena. In 1991, Medtronic entered a license to certain defibrillator patents assigned to Mirowski Family Ventures, LLC (“MFV”), and this license allowed Medtronic to challenge the patent’s validity, enforceability, and scope via a declaratory judgment action. In 2003, Medtronic challenged the validity of the patent despite beginning to pay royalties pursuant to this license. Medtronic and MFV ultimately entered into a Litigation Tolling Agreement (“LTA”) that tolled the 2003 litigation and obligated MFV to inform Medtronic of which products MFV deemed were covered by its patents, and therefore subject to royalty payments. If Medtronic disagreed with MFV’s assessment, Medtronic was obligated to seek a declaratory judgment of non-infringement. In 2007, MFV identified certain products it alleged practiced the patents, and Medtronic brought this suit. Because Medtronic was still MFV’s licensee, MFV could not counterclaim for infringement.

Throughout litigation, the parties disagreed on which party bore the burden of proving infringement/non-infringement. The district court relied on *Under Sea Industries, Inc. v. Dacor Corp.*, 833 F.2d 1551, 1557 (Fed. Cir. 1987) to find that the burden of proof was on the patentee to show infringement by a preponderance of the evidence. The Federal Circuit disagreed, finding that “in the limited circumstance when an infringement counterclaim by a patentee is foreclosed by the continued existence of a license, a licensee seeking a declaratory judgment of non-infringement and of no consequent liability under the license bears the burden of persuasion.”

Oral arguments before the Supreme Court were held on November 5, 2013. During the oral arguments, the justices seemed unwilling to change the default rule that the burden of proving infringement lies with the patent owner. Furthermore, a precedent of shifting the burden of proof in a declaratory judgment action could affect non-patent related DJ actions in ways not fully explored.

9. **Effect of Cancellation of Claims During Reexamination**

Reexaminations before the PTO initiated in response to litigation have become commonplace. But the timing of decisions in such parallel proceedings can lead to conflicting opinions (i.e. one finds the patent valid and the other holds the patent invalid). In *Fresenius v. Baxter*, No. 2012-1334, -1335, the Federal Circuit finally provided some necessary guidance: the PTO’s invalidity decisions trump any prior court decisions.

In 2003, Fresenius filed a declaratory judgment suit of invalidity and non-infringement against Baxter of three patents: the ‘434 patent, the ’027 patent and the ’131 patent; Baxter counterclaimed for infringement. After claim construction, Fresenius stipulated to infringement of the ‘434 patent, but maintained that the asserted claims-in-suit were invalid. The jury agreed, finding claims from all three patents invalid. However, in February 2007, the district court granted Baxter’s motion for judgment as a matter of law, finding that Fresenius provided insufficient evidence to support the jury’s invalidity verdict and therefore all three patents remained valid. The case proceeded to a jury trial on damages later that year, and the jury awarded $14 million to Baxter for infringement of the three asserted patents. In September 2009, the Federal Circuit, *inter alia*, reversed-in-part the district court’s
decision, finding the asserted claims of two of the patents (‘027 and ‘131 patents) invalid, but that Fresenius had failed to present sufficient evidence that the ‘434 patent was invalid as obvious.

Concurrent to this litigation, in 2005, Fresenius requested ex parte reexamination of the ‘434 patent. By December 2006, the PTO examiner reached an initial determination that the claims of the ‘434 patent were invalid as obvious, a determination finalized in December of 2007. The Board of Patent Appeals and Interferences affirmed this determination in March 2010. The Federal Circuit affirmed this determination in May 2012. Meanwhile, on remand from the September 2009 Federal Circuit decision finding the ‘434 patent not invalid, the district court entered judgment against Fresenius in the pending infringement proceedings. Baxter appealed this judgment.

Baxter argued that the district court’s 2007 decision on remand was final and therefore the cancellation of the claims by the PTO cannot be given effect. The Federal Circuit disagreed—the district court’s 2007 decision on remand was a judgment final for purposes of appeal, but was not otherwise “sufficiently” final to preclude application of the intervening May 2012 Federal Circuit decision regarding the reexamination of the ‘434 patent. Indeed, the Federal Circuit’s September 2009 decision remanded several issues to the district court that had not yet been resolved. Because of the timing, the PTO’s decision canceled the claims, and no valid ‘434 patent exists. In a strongly worded dissent, Judge Newman argued the majority decision authorized “the Patent and Trademark Office, an administrative agency within the Department of Commerce, to override and void the final judgment of a Federal Article III Court of Appeals,” constituting an unconstitutional violation of the separation of powers. An agency under the Executive Branch, she argued, logically should not be able to supersede the district court opinion of the separate Judicial Branch. Baxter’s request for a rehearing en banc was denied. It is likely that Baxter will petition for certiorari to the Supreme Court.

10. Patent Exhaustion by First Distribution

A recent Federal Circuit case, *LifeScan v. Shasta*, No. 2013-1271, clarifies patent exhaustion of method claims. LifeScan manufactures a blood glucose monitoring system consisting of an electrochemical meter and disposable test strips. LifeScan sells 40% of the meters at below cost prices, but distributes the rest (about 60%) for free with the “expectation and intent” that it will profit from the sale of the disposable test strips for use with the meters. LifeScan obtained a patent for the method related to usage of this system. Shasta does not sell meters, and instead sought to compete with LifeScan with its own “GenStrip” test strips specifically designed to work with LifeScan’s meters.

LifeScan brought suit against Shasta for contributorily infringing and/or inducing the infringement of its method patent by selling the “GenStrip” test strips. LifeScan also sought a preliminary injunction. Shasta argued that the sale and distribution of LifeScan’s meters exhausted LifeScan’s rights under its method patent because the meters substantially embody the invention.

The district court granted LifeScan’s preliminary injunction, opining that the patent was likely not exhausted for the meters distributed free of charge because patent exhaustion applies only to a “sale” where the patentee received consideration for the product. LifeScan appealed, its primary argument that the distribution of its meters, whether by sale or gift, does not trigger patent exhaustion because its meters do not substantially embody the asserted claims as required by the Supreme Court in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008) (e.g. method claims are exhausted by sale of an unpatented component article if that article includes all the inventive aspects of the patented method and has no reasonable non-infringing use.).
The Federal Circuit disagreed. The court found that LifeScan’s meter substantially embodies the invention of the patent and rejected LifeScan’s argument that the test strips were the inventive component of the claims. The Court noted that “[r]ejecting a claim of exhaustion in this case would be particularly problematic because LifeScan would be permitted to eliminate competition in the sale of the strips even though the strips do not embody the claimed invention and are themselves not patentable.” Regarding the second issue, whether patent exhaustion applies to products distributed for free, the Federal Circuit held that “in the case of an authorized and unconditional transfer of title, the absence of consideration is no barrier to the application of patent exhaustion principles,” noting that the doctrine of patent exhaustion has never actually been confined to sales. LifeScan could still petition for certiorari or en banc review.


DirecTV, like Octane Fitness, asks the Court to weigh in on issues at the center of the patent litigation reform debate. Specifically, DirecTV asked the Supreme Court to determine the role Form 18 should play in patent pleading standards. The Federal Circuit held that “Rule 84, combined with the guidance from the Advisory Committee Note to the 1946 amendments of Rule 84, makes clear that a proper use of a form contained in the appendix of Forms effectively immunizes a claimant from attack regarding the sufficiency of the pleading.” Thus, in evaluating the sufficiency of a complaint on a motion to dismiss for failure to state a claim, “[d]istrict courts must evaluate complaints alleging direct infringement by reference to Form 18” rather than directly apply the Court’s precedent in Iqbal11 and Twombly12. Under the Federal Circuit’s approach, rather than focus on whether the complaint states a plausible claim for relief, a plaintiff need only satisfy Form 18, which requires five basic elements: (1) an allegation of jurisdiction; (2) a statement that the plaintiff owns the patent; (3) a statement that defendant has been infringing the patent “by making, selling, and using [the device] embodying the patent”; (4) a statement that the plaintiff has given the defendant notice of its infringement; and (5) a demand for an injunction and damages. DirecTV’s petition for certiorari asks the Court to decide whether Form 18 or the plausibility standard announced in Iqbal and Twombly control. A finding that eliminates Form 18 or otherwise mandates that the plausibility standard controls will inevitably require more factually detailed complaints and could help address the growing concern over vague patent suits.13

B. Evolving Trends in the IP Marketplace

1. FTC’s Planned Patent Troll Probe

Last year, the Federal Trade Commission launched an investigation into patent assertion entities (PAE) as a follow-up to its 2011 report. In June 2013, FTC chairwoman Edith Ramirez announced a series of steps the FTC planned to take, including a broad economic study of patent assertion activity, which could include issuing potentially involving subpoenaing PAEs, and a careful look at PAEs’ antitrust activity, particularly for PAEs that target businesses using false claims to induce license fees. This was followed up in September with the announcement of a formal inquiry known as a 6(b) study, wherein 25 companies would have to turn over information to the agency about their business practices. It is clear that the FTC considers this investigation a high priority, but an FTC report is not likely to be released any time soon. At a recent panel, Commissioner Julie Brill encouraged Congress to not delay reforms to the patent litigation system itself while the investigation is ongoing.

2. After Final Consideration Pilot at the PTO

The PTO launched the After Final Consideration Pilot (“AFCP”) 2.0 on May 19, 2013 in an effort to be more efficient and effective. AFCP 2.0 authorizes additional time for examiners to search and/or
consider responses after final rejection. Under AFCP 2.0, examiners can also use the additional time to schedule and conduct an interview to discuss the results of their search and/or consideration with the applicant, if the response does not place the application in condition for allowance. Under the PTO’s current system, examiners are disincentivized from issuing a Notice of Allowance as it decreases their “count”—the number of actions issued and RCEs filed. AFCP 2.0 essentially gives credit to examiners for considering after-final responses. The program was originally scheduled to end on December 14, 2013, but has been extended until September 30, 2014.

3. **Large PAE Actions**

Large multi-defendant actions brought by patent assertion entities continue to dominate the litigation arena. This year, some notable actions are as follows:

- **Intellectual Ventures** filed suit against at least twelve financial institutions, and targeted at least as many more, in multiple jurisdictions regarding infringement of patents in its banking portfolio. Although only 11 of its patents have asserted (5 in each case), Intellectual Ventures has many more financial banking related patents in its portfolio.

- **Rockstar Consortium** was formed in 2011 by Apple, Microsoft, BlackBerry and other tech companies to acquire Nortel patents for $4.5 billion at auction. Rockstar is considered to have one of the largest patent portfolios of any PAE. In October 2013, Rockstar filed patent infringement suits against eight companies, including Google, Huawei, Samsung, and LG Electronics. Rockstar also began selling groups of patents to other PAEs who have also started filing infringement suits.

- **ArrivalStar** has filed hundreds of lawsuits over the years, mostly against companies but also public transit agencies, with its patent portfolio covering systems and methods related to vehicle tracking and notification. Thus far, ArrivalStar has successfully avoided protracted litigation, managing to settle most lawsuits in the early stages. Earlier this year, the American Public Transit Association (APTA) struck back and successfully settled its case with ArrivalStar wherein ArrivalStar agreed to stop targeting public transit agencies and vendors serving these agencies. ArrivalStar continues to file lawsuits with regularity, 17 complaints alone in November of 2013, against well-known companies such as PetSmart, Starbucks, and Lululemon.

- **MPHJ** gained some notoriety last year when, through its more than 60 subsidiaries, it issued hundreds of demand letters on patents purportedly covering common scan-to-email functionality. MPHJ demanded $1,000 per worker from even the smallest businesses. Minnesota’s AG stepped in after many of those small businesses complained of extortionary practices. Apparently, MPHJ had done little investigation prior to sending out its demand letters, and strategically priced its license demand at a level just below what the companies would likely pay to investigate or challenge the claims. Businesses in Minnesota gained a reprieve after an August settlement with Minnesota’s AG, where MPHJ agreed to cease its campaign in the State. Early this year, MPHJ also filed suit against four companies including Coca-Cola and Dillard’s.

C. **Patent Legislation to Watch in 2014**

2013 saw a flurry of new legislative and administrative proposals to curb perceived abuses in patent litigation. The House moved quickly to pass Representative Goodlatte’s Innovation Act of 2013
(H.R. 3309), while the Senate has taken a more deliberate approach to patent litigation reform. Not to be left out, the White House Task Force on High-Tech Patent Issues published a variety of legislative and administrative recommendations. A brief review of the relevant proposals from these three sources reveals several key areas where action is likely: requiring patentees to disclose the ultimate owner of the patent rights (the “real party-in-interest”); revising Section 285 to permit more discretion in awarding attorney fees; and providing stays of litigation against customers where the manufacturer is also sued.

1. **House Proposals**

On December 5, the House passed the Innovation Act by a wide margin. The bill, if enacted as passed by the House, would implement wide spanning changes to patent litigation. Although a thorough examination of the Innovation Act is beyond the scope of this article, a few key provisions should be mentioned:

- First, the bill would change Section 285 to require fee shifting unless the losing party can show that its position was “reasonably justified in law and fact.” This is in stark contrast to the significant burden, discussed above in the context of *Octane Fitness*, that a prevailing party must overcome in the status quo.

- Second, the bill would limit discovery to only those matters related to claim construction until after the court issues its claim construction rulings. This would reduce a plaintiff’s leverage over a defendant to extract an early settlement in meritless cases because the defendant will not be required to participate in expensive and intrusive discovery until after the metes and bounds of the claims have been determined. As a corollary, the bill would also order the Judicial Conference to develop rules and procedures to implement a variety of discovery limitations and fee balancing measures in an attempt to even the playing field between non-practicing entities and large-scale manufacturers.

- Third, the bill includes a customer-suit stay provision that would require a district court to stay patent lawsuits pending against a customer if the customer agrees to be bound by the results of the case against the manufacturer.

- Lastly, the bill would drastically heighten pleading standards in patent infringement suits. The heightened pleading standards would require a plaintiff to plead allegations that mirror many local rules’ infringement contention requirements. For example, a plaintiff would have to identify each asserted claim and for each asserted claim, how a particular product embodies each element of the asserted claim. Additionally the complaint would be required to disclose a description of the principal place of business of the plaintiff and a description of the right of the plaintiff to assert each claim of each patent.

Having swiftly moved through the House, the fate of the bill now lies with the Senate, who will likely take a more measured approach to patent litigation reform.

The Demand Letter Transparency Act (H.R. 3540) has also garnered some attention in the House. This bill would set detailed requirements for patentees sending demand letters, including: inclusion of detailed infringement contents; identification of the real-party at interest; and a description of the principal business of the patentee. Failure to comply with these and the many other listed requirements would result in a fine and/or the potential for abandonment of the patent.
2. **Senate Proposals**

On December 17, the Senate Judiciary Committee held a hearing on “Protecting Small Businesses and Promoting Innovation by Limiting Troll Abuse.” At the hearing, the Committee discussed various proposals for litigation reform in the context of a question and answer session with industry representatives. There are four proposals circulating in the Senate after the hearing that will likely be cannibalized to form a Senate bill to counter the Innovation Act:

- **S. 1720—Patent Transparency and Improvements Act.** This bill, sponsored by Senator Leahy, includes, among other things: (1) a provision requiring the patentee to disclose those who have a financial interest in the proceeding; (2) a customer stay provision similar to that of the Innovation Act; (3) a provision codifying the double patenting doctrine for first-inventor-to-file patents; and (4) provisions targeting licensing demand letters sent in bad faith. The provision targeting bad faith demand letters addresses the growing concern over predatory demand letters and would make sending bad faith demand letters an unfair or deceptive practice within the meaning of Section 5(a)(1) of the Federal Trade Commission Act.

- **S. 1612—Patent Litigation Integrity Act.** This bill, sponsored by Senator Hatch, would amend Section 285 in a manner similar to the Innovation Act, but it also includes a provision permitting the court to require the patentee to post a bond sufficient to ensure payment of the accused infringer's attorney fees in certain situations. The addition of a provision requiring the patentee to post a bond makes this provision unlikely to pass because of the fear of deterring legitimate right holders from bringing meritorious claims.

- **S. 1013—Patent Abuse Reduction Act.** This bill, sponsored by Senator Cornyn, includes, among other things: (1) a provision requiring a complaint for patent infringement to disclose the real party-in-interest; (2) a modified Section 285 that creates the presumption of attorney’s fee awards unless the losing party’s position and conduct were objectively reasonable and substantially justified; (3) substantially heightened pleading standards similar to the Innovation Act; and (4) substantial limits on discovery, including the limiting of major fact discovery until after the district court issues its claim construction order.

- **S. 866—Patent Quality Improvement Act.** Senator Schumer passionately advocated this proposal, which would dramatically expand the scope of the covered business method review program created by the America Invents Act. Specifically, it would eliminate the existing sunset provision and eliminate the requirement that the challenged business method must be related to a financial product or service. In other words, Senator Schumer’s bill would permanently establish a supplemental review proceeding before the Patent Office for all business method patents if the petitioner meets certain criteria.

3. **White House Proposals**

In June of last year, the White House issued two complimentary findings regarding intellectual property: the first was a report titled “Patent Assertion and U.S. Innovation,” and the second, a fact sheet detailing the White House Task Force on High-Tech Patent Issues’ legislative and administrative proposals. These recommendations include: real party-in-interest requirements; revisions to Section 285 to permit more discretion in awarding attorney fees; measures to protect “off-the shelf use by consumers and businesses”; the application of the *Ebay* factors to ITC injunction determinations; and limiting the use of functional claiming.
D. Conclusion

We expect 2014 will bring significant developments in the intellectual property arena. Both the courts and practitioners will continue to grapple with the bounds of patentable subject matter post-\textit{Bilski} and other issues that have far-reaching impact on how companies choose to pursue, litigate, and invest in intellectual property. With the implementation of the America Invents Act, 2012 and 2013 saw significant changes to the way innovators obtain patents on their inventions. In 2014—either by the hand of the Supreme Court or Congress—we will likely see equally dramatic changes in the way innovators enforce their patent rights in 2014.

\begin{quote}
If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers:
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4. See \textit{Akamai Techs., Inc. v. Limelight Networks, Inc.}, 692 F.3d 1301 (Fed. Cir. 2012).


7. Note: At publication, SCOTUS unanimously reversed the Federal Circuit, holding “when a licensee seeks a declaratory judgment against a patentee to establish that there is no infringement, the burden of proving infringement remains with the patentee.”


13. At publication, the Supreme Court denied DirecTV’s petition. However, the issues raised in DirecTV will likely be addressed either by Congress as described below or by the rulemaking body responsible for recommending changes to the Federal Rules of Civil Procedure. The Committee on Rules of Practice and Procedure of the Judicial Conference published a Request for Comment in 2013 on proposed amendments to the Rules of Civil Procedure that would abrogate Rule 84 because of the “tension between the pleading forms and emerging pleading standards.”

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