



COUNSEL TO GREAT COMPANIES

# ***The Changing World of Patent Litigation***

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# ***The Changing World of Patent Litigation***

## Past, Present and Future

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# ***Road Map***

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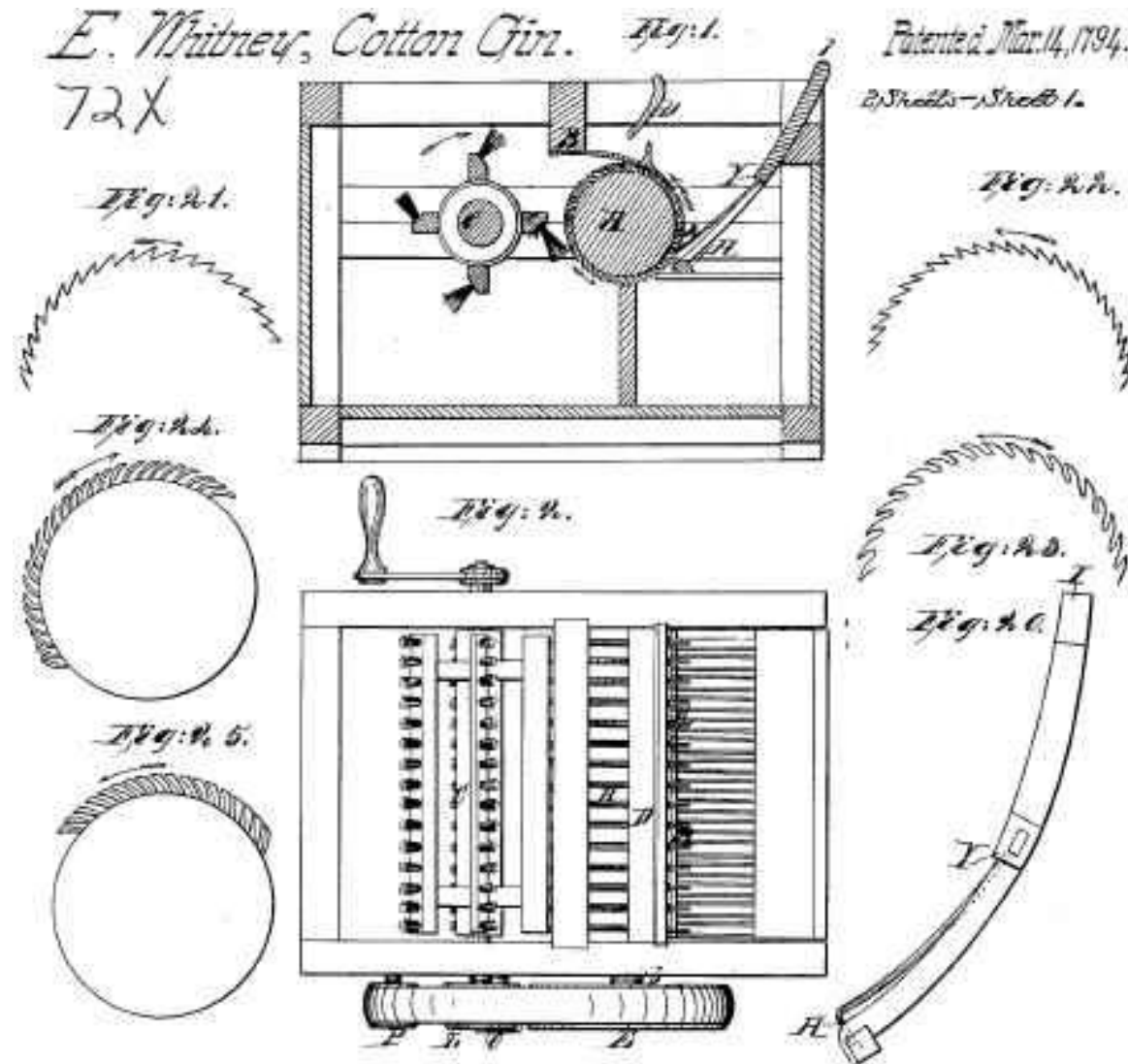
- ***Past to Present***

- *Patent Hostility*
- *Patent Value*
- *Patent Breadth*
- *Paper patents & NPEs*
- *Patent Quality*
- *Trifurcation*

- ***The Future***

- *Reasonable Royalties*
- *Claim Construction*
- *IPRs*
- *NPEs*
- *Venue*
- *New FRCPs*

# Past to the Present



***Why do we  
have a patent  
system?***

## ***Article 1, Section 8***

***To “promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries....”***

# ***Scholarly Criticism***

***“Many commentators view the patent system as a hindrance rather than a stimulus to innovation”***

M. Leafer, “Patent Misuse and Innovation,” 10 J. High Tech. L. 142 (2010)

***Seattle Times, March 9, 2016***

***“Patents have become more complex and controversial in recent years; critics say they are sometimes used to preserve market power by big companies and thwart competition.”***



# ***Underlying Question:***

***Is patent litigation  
encouraging  
innovation?***

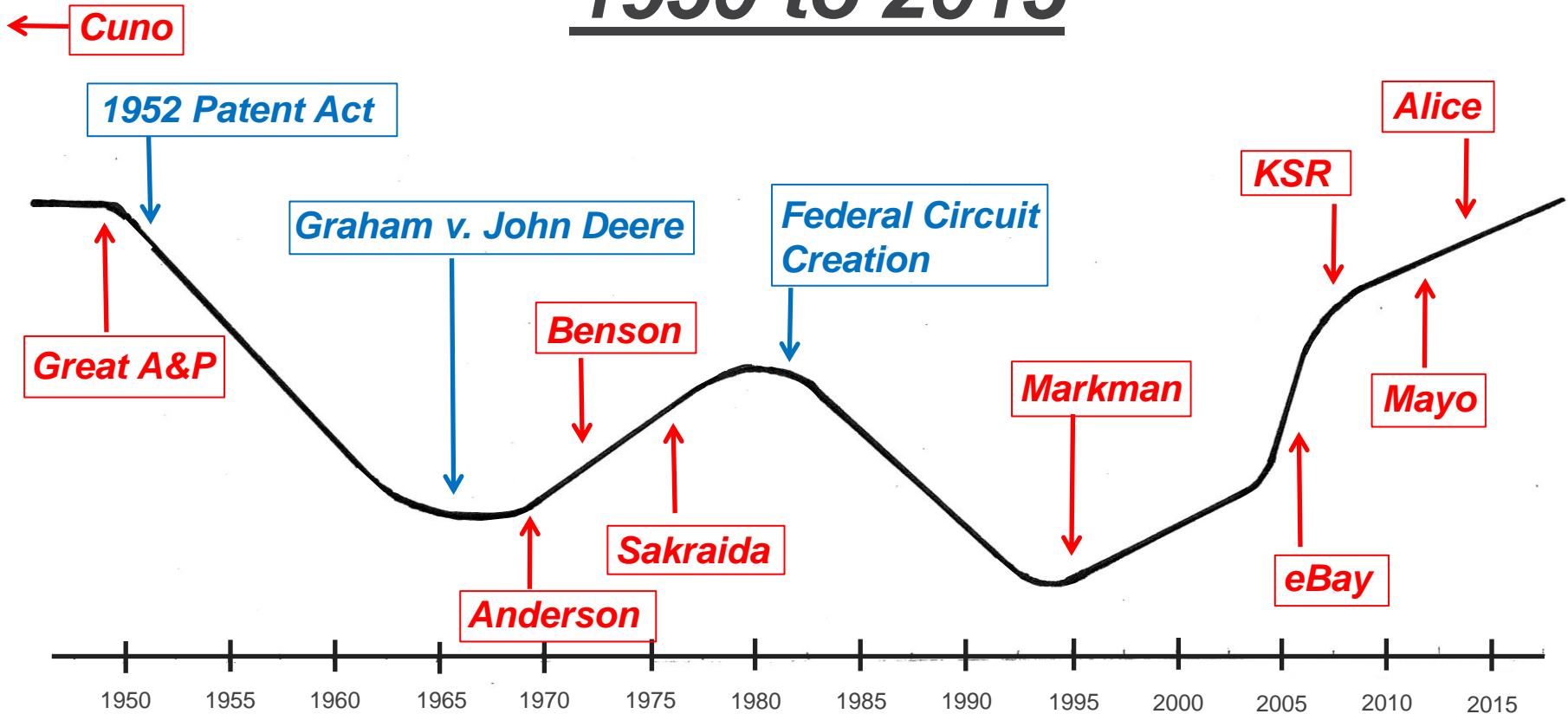
# *Hostility to Patents*

# ***Four hostility topics:***

- ***Evolution of the “invention” standard***
- ***Section 101***
- ***The doctrine of equivalents***
- ***Claim construction & Injunctions***

# *Changes in Hostility to Patents*

## 1950 to 2015



# ***“Invention” Standard***

# ***Cuno: “Flash of Genius”***

***“the new device . . . must reveal the flash of creative genius not merely the skill of the calling”***

***Cuno Eng’n Corp. v. Automatic Devices Corp., 314 U.S. 84 (1941)***

# ***A&P: Combination Patents***

***“Courts should scrutinize combination patents with a care proportioned to the difficulty and improbability of finding invention in an assembly of old elements.”***

***Great Atlantic & Pacific Tea Co. v.  
Supermarket Equip. Corp., 340 U.S.  
147 (1950)***

# ***Graham: No change***

***“we find **no change** in the general strictness with which the overall test is to be applied.”***

***Graham v. John Deere Co. 383 U.S.  
1 (1966)***



# ***Validity, 1961 to 1973:***

- ***10<sup>th</sup> Circuit – 70%***
  - ***7<sup>th</sup> Circuit – 49%***
  - ***9<sup>th</sup> Circuit – 26%***
  - ***2d Circuit – 18%***
  - ***8<sup>th</sup> Circuit – 11%***
- 
- ***Overall – 35%***

*Baum, “The Federal Courts and Patent Validity: An Analysis of the Record,”  
56 J.P.O.S. 758 (1974)*

# ***Anderson: “synergism”***

***“A combination of elements may result in an effect greater than the sum of the several effects taken together. No such synergistic effect is argued here.”***

***Anderson’s-Black Rock, Inc. v.  
Pavement Salvage Co., 396 U.S. 57  
(1969)***

# ***Sakraida: more synergism***

***“this patent simply  
arranges old elements  
with each performing the  
same function it had  
been known to perform.”***

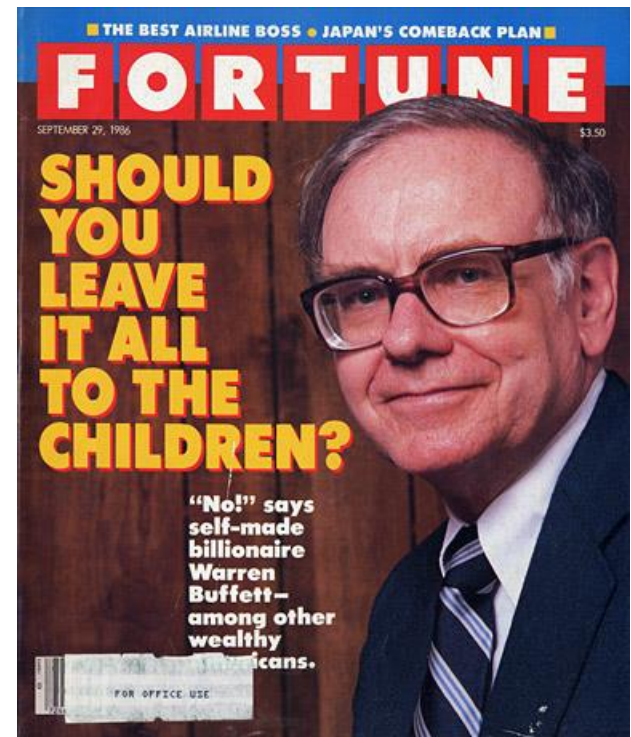
***Sakraida v. Ag Pro, Inc., 425 U.S.  
274 (1976)***

# ***The Federal Circuit***



Perry, *“The Surprising New Power of Patents,”* FORTUNE, June 23, 1986.

*One of many business press articles in the 1980’s describing the increased value of patents resulting from the Federal Circuit’s decisions.*



# ***KSR: Synergism?***

***“a court must ask whether the improvement is more than the predictable use of prior art elements according to their established functions.”***

***KSR Int’l Co. v. Teleflex Inc., 550  
U.S. 398 (2007)***

# ***KSR***

**Cited *A&P*, *Sakraida* and  
*Anderson* with approval.**

# ***Section 101***



# ***Benson: § 101 & computers***

- **a process claim directed to a mathematical formula that improved computer operation was not patentable**

***Gottschalk v. Benson*, 409 U.S. 68 (1972)**

# ***Benson: § 101 & computers***

**“Here, the process is so abstract and sweeping as to cover both known and unknown uses....”**

***Gottschalk v. Benson*, 409 U.S. 63,  
68 (1972)**

# ***Benson's Progeny***

- ***Parker v. Flook*, 437 U.S. 584 (1978)**
- ***Diamond v. Diehr*, 450 U.S. 175 (1981)**
- ***Bilski v. Kappos*, 130 S.Ct. 3218 (2010)**
- ***Alice Corp. v. CLS Bank Int'l*, 134 S.Ct. 2347 (2014)**

# ***Benson's Progeny***

- ***Parker v. Flook (1978)***
  - *Unpatentable algorithm*
- ***Diamond v. Diehr (1981)***
  - *Patentable by ringing bell*
- ***Bilski v. Kappos (2010)***
  - *Abstract ideas not process*
- ***Alice (2014)***
  - *Expansion of “abstract” exception*

# ***§101 for Drugs***

- ***Funk Bros. Seed Co. v. Kalo Inoculant Co., 333 U.S. 127 (1948)***
- ***Mayo Collaborative Services v. Prometheus Labs., 132 S.Ct. 1289 (2012)***
- ***Ass'n for Molecular Pathology v. Myriad Genetids, Inc., 133 S.Ct. 2107 (2013 )***
- ***Ariosa Diagnostics, Inc. v. Sequenon, Inc., 788 F. 3d 1371 (Fed. Cir. 2015)***

# ***§101 for Drugs***

- ***Funk Brothers (1948)***
  - *Discovery of natural phenomenon*
- ***Mayo v. Prometheus (2012)***
  - *Relationship of cell constituent concentration to dosage*
- ***Myriad (2013)***
  - *Isolated DNA*
- ***Ariosa (Fed. Cir. 2015)***
  - *Diagnostic method*

# ***The DOE***

# *Death of the DOE*

- *Pennwalt Corp. v. Durand-Wayland, Inc.*, 833 F.2d 931 (Fed. Cir. 1987)
- *Valmont Indus., Inc. v. Reinke Mfg. Co.*, 983 F.2d 1039 (Fed. Cir. 1993)
- *Sage Products, Inc. v. Devon Indus., Inc.*, 126 F.3d 1420 (Fed. Cir. 1997)
- *Johnson & Johnston Assoc, Inc. v. R.E. Service Co.*, 285 F.3d 1046 (Fed. Cir. 2002)
- *Cooper Cameron Corp. v. Kvaerner Oilfield Prod.*, 291 F.3d 1317 (Fed. Cir. 2002)



# ***Death of the DOE***

- ***Pennwalt – 1987– (~~claims as a whole~~)***
- ***Valmont – 1993 – (insubstantial)***
- ***Sage – 1997 – (foreseeable)***
- ***Johnson & Johnston – 2002 – (dedication to public)***
- ***Cooper – 2002 – (vitiation)***

# ***Claim Construction and Injunctions***

# ***Markman***

- ***Removed pro-patent juries from the claim interpretation process***
- ***Changed patent interpretation from a search for the invention to a battle over semantics.***

***Markman v. Westview Instruments, Inc., 52 F.3d 966 (Fed. Cir. 1995), aff'd, 517 U.S. 370 (1996).***

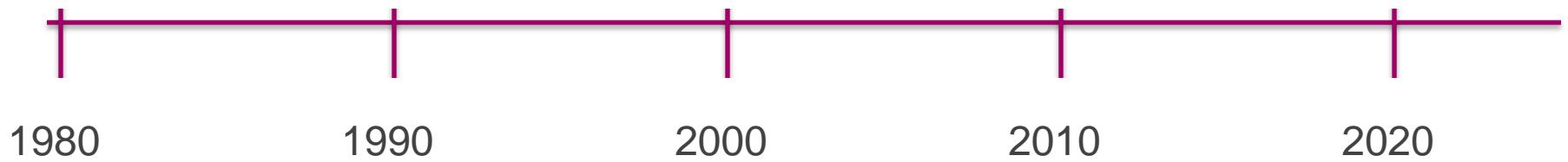
# ***eBay: Death of Injunctions***

***Eliminated the “general rule” that injunctions will issue after a finding of infringement.***

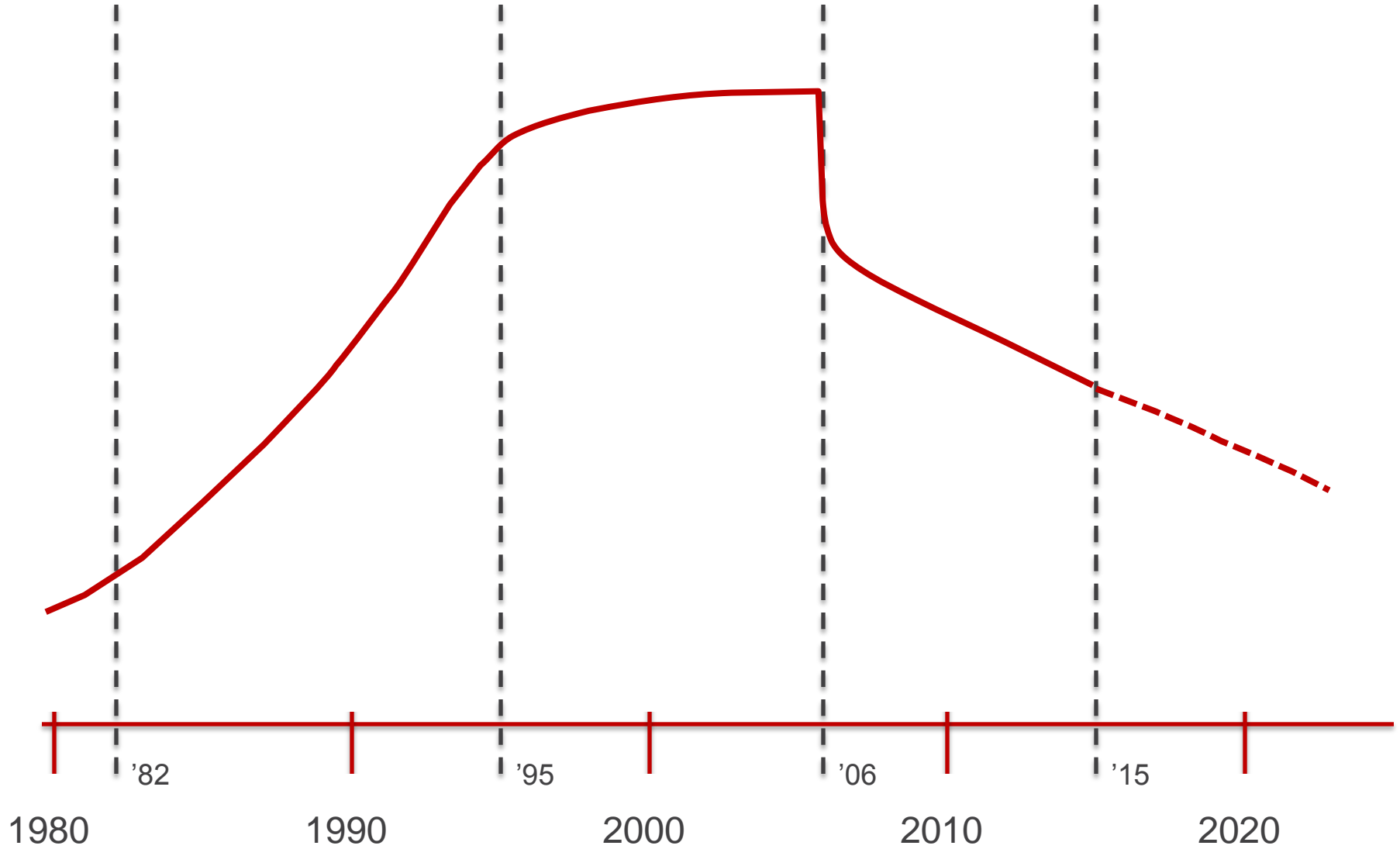
***eBay Inc. v. Mercexchange, LLC,  
547 U.S. 388 (2006)***

# *Patent Value*

# *Changes in Patent Value*

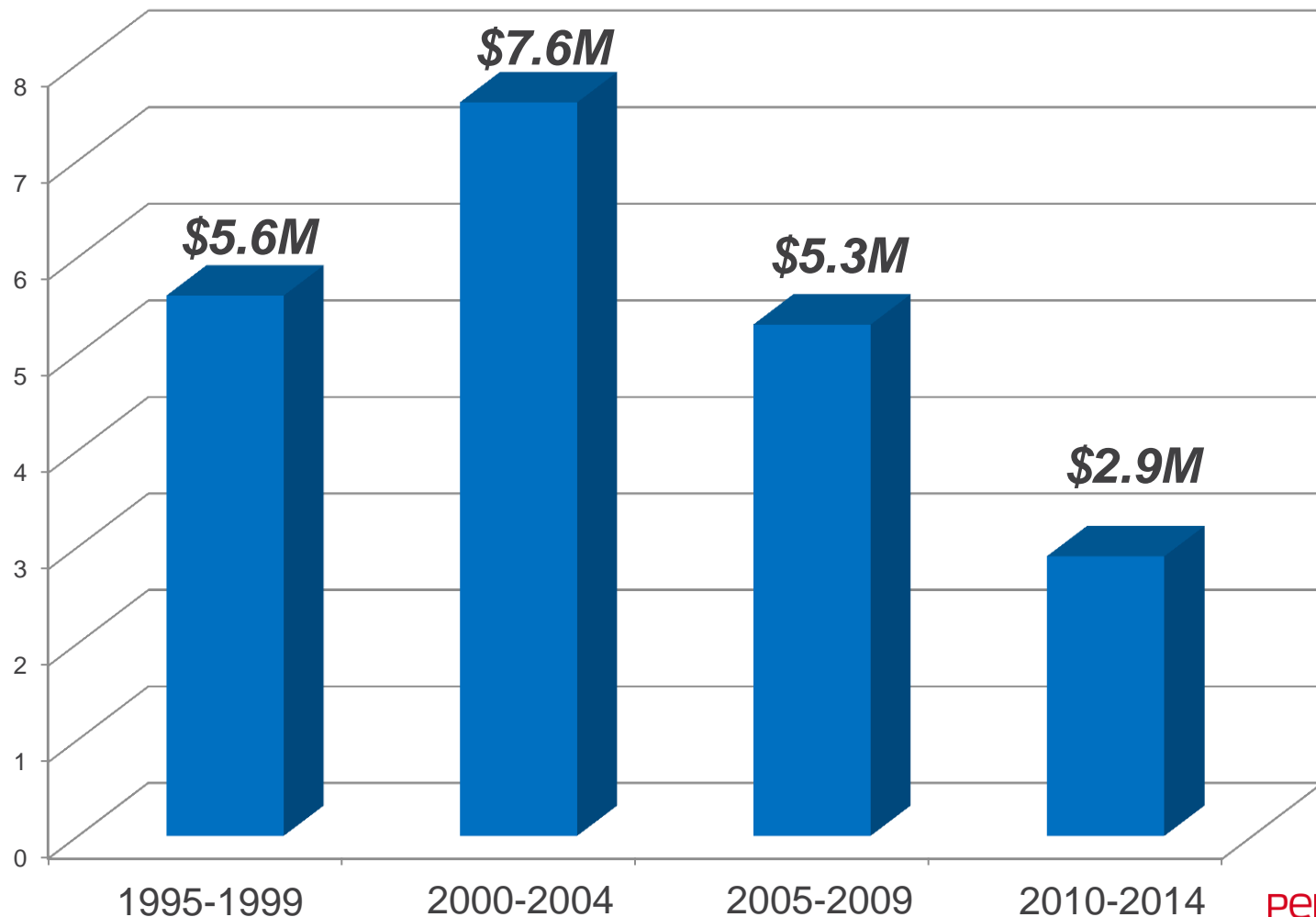


# *Changes in Patent Value*



# ***PricewaterhouseCoopers 2015 Damages Study***

## ***Median Damages 1995 to 2014***





# ***Patent Breadth***

# ***Narrow Claim Constructions***

- ***Athletic Alternatives, Inc. v. Prince Mfg., Inc.*, 73 F.3d 1573 (Fed. Cir. 1996)**
  - Narrow constructions are preferred
- ***Sage Products, Inc. v. Devon Indus., Inc.*, 126 F.3d 1420 (Fed. Cir. 1997)**
  - Patentee must bear the cost of a failure to seek protection for “foreseeable alteration of claimed structure”

# ***Narrow Claim Constructions***

- ***It depends on the Federal Circuit panel.***
- ***“Specification” versus “plain meaning”***

# ***Nonsensical Constructions***

- ***Chef America, Inc. v. Lamb-Weston, Inc.*, 358 F.3d 1371 (Fed. Cir. 2004)**
  - Nonsensical construction adopted despite contrary understanding of persons of ordinary skill
- ***Columbia University v. Symantec Corp.*, 2016 WL 386068 (Fed. Cir., Feb. 2, 2016)**
  - Nonsensical construction adopted that then required the patent to be found indefinite

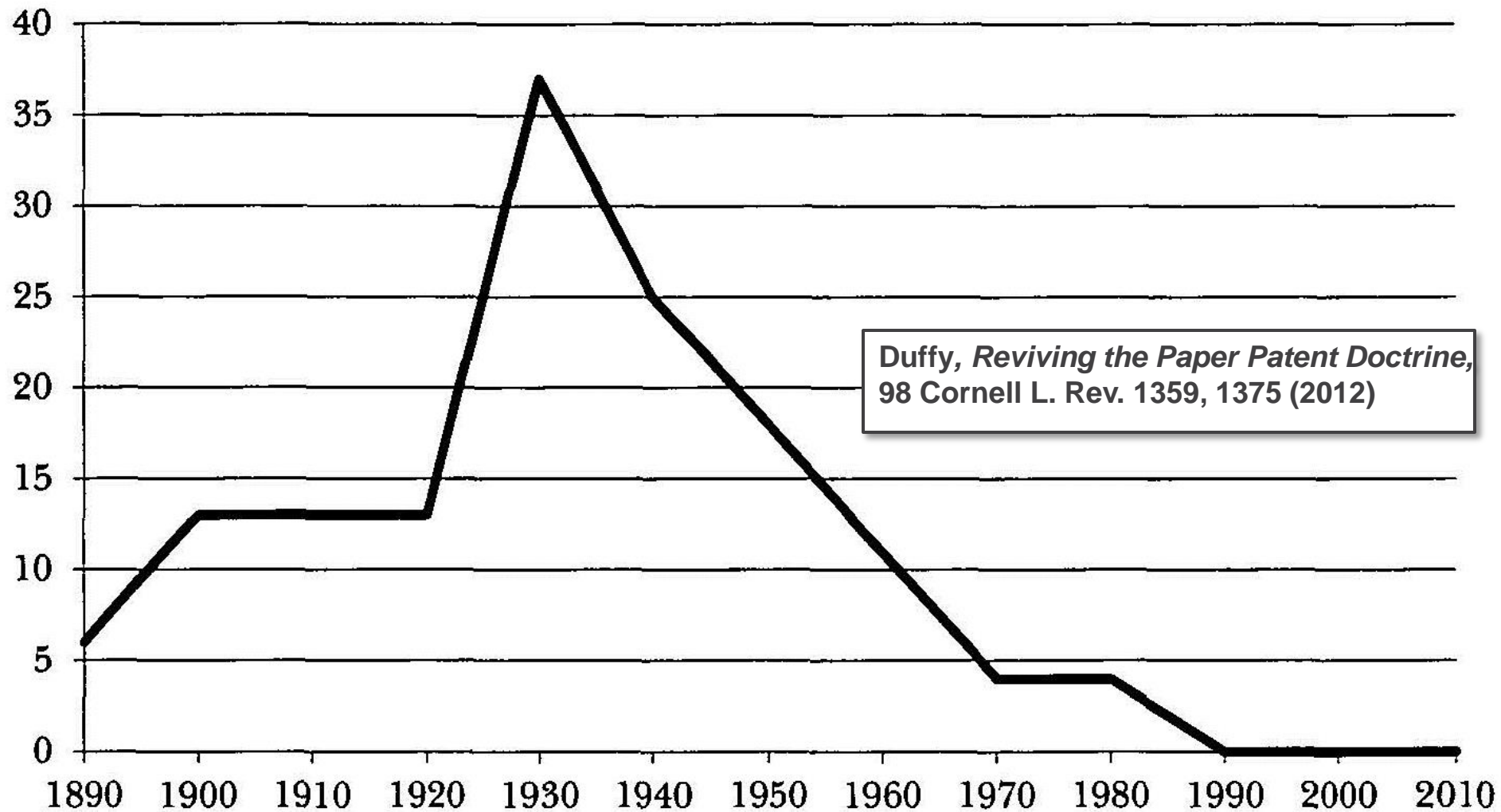
# ***Narrowing Infringement***

- ***Muniauction (2008)***
  - ***Single party must perform all steps***
- ***Global Tech. v. SEB (2011)***
  - ***Must intend contributory infringement***
- ***Limelight v. Akamai (2014)***
  - ***No induced infringement when one entity does not carry out all steps***

# ***Paper Patents & NPEs***

# ***Paper Patents***

# DISCUSSIONS OF THE “PAPER PATENT” DOCTRINE IN FEDERAL APPELLATE CASES PER DECADE

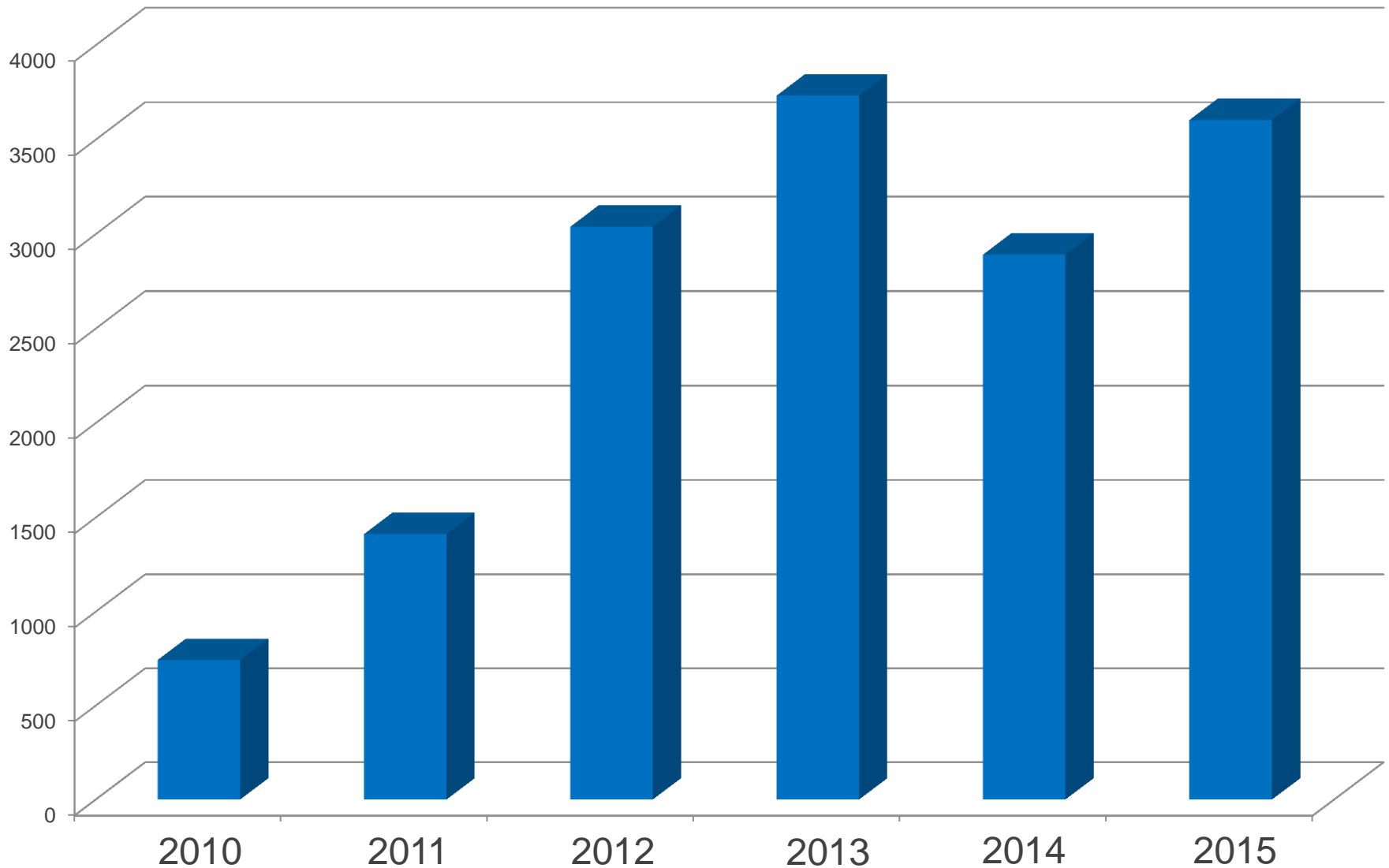




# ***NPEs and Counterclaims***

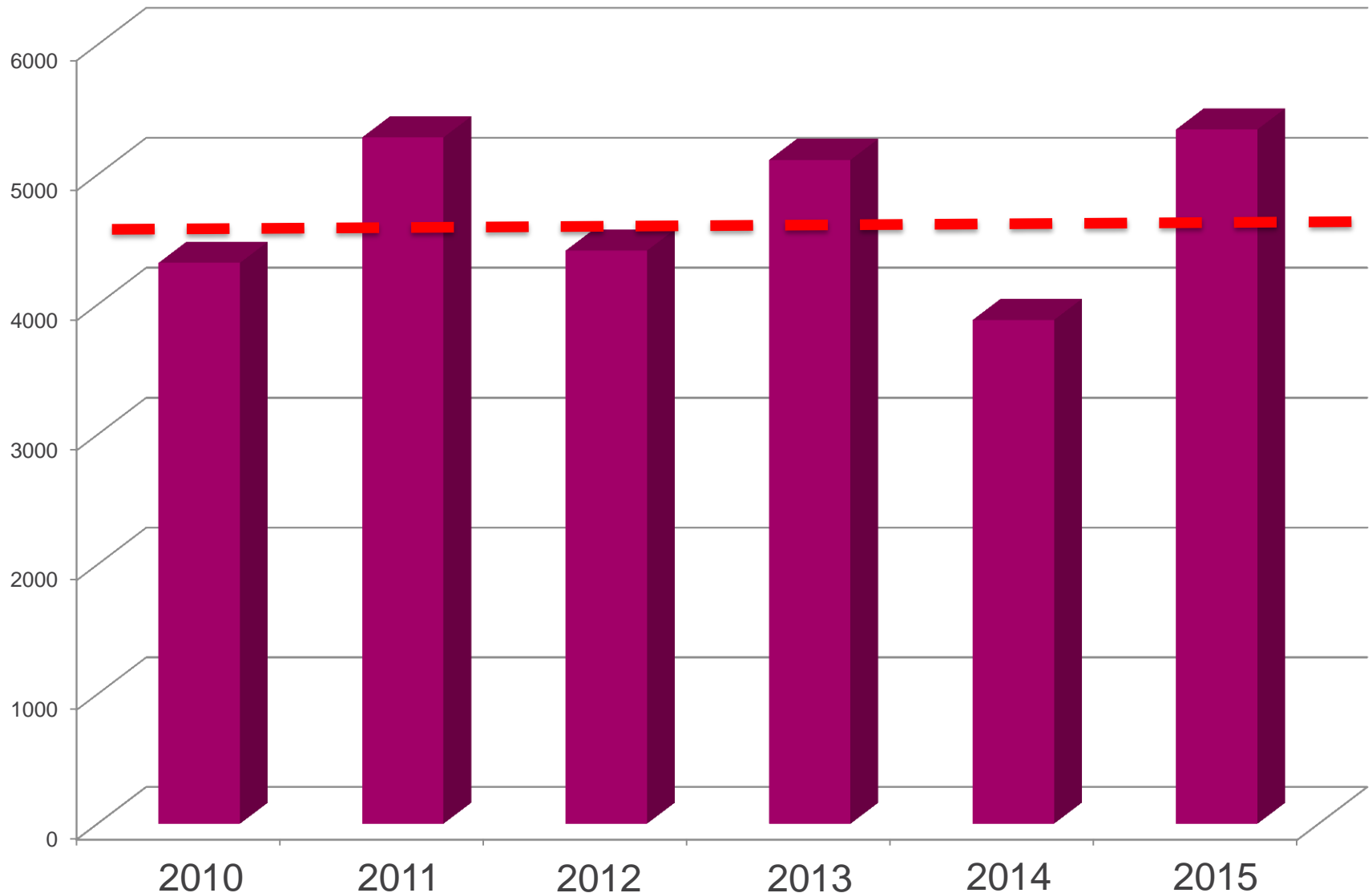
# ***Recent NPE Case Growth***

# ***NPE District Court Filings, 2010 -- 2015***

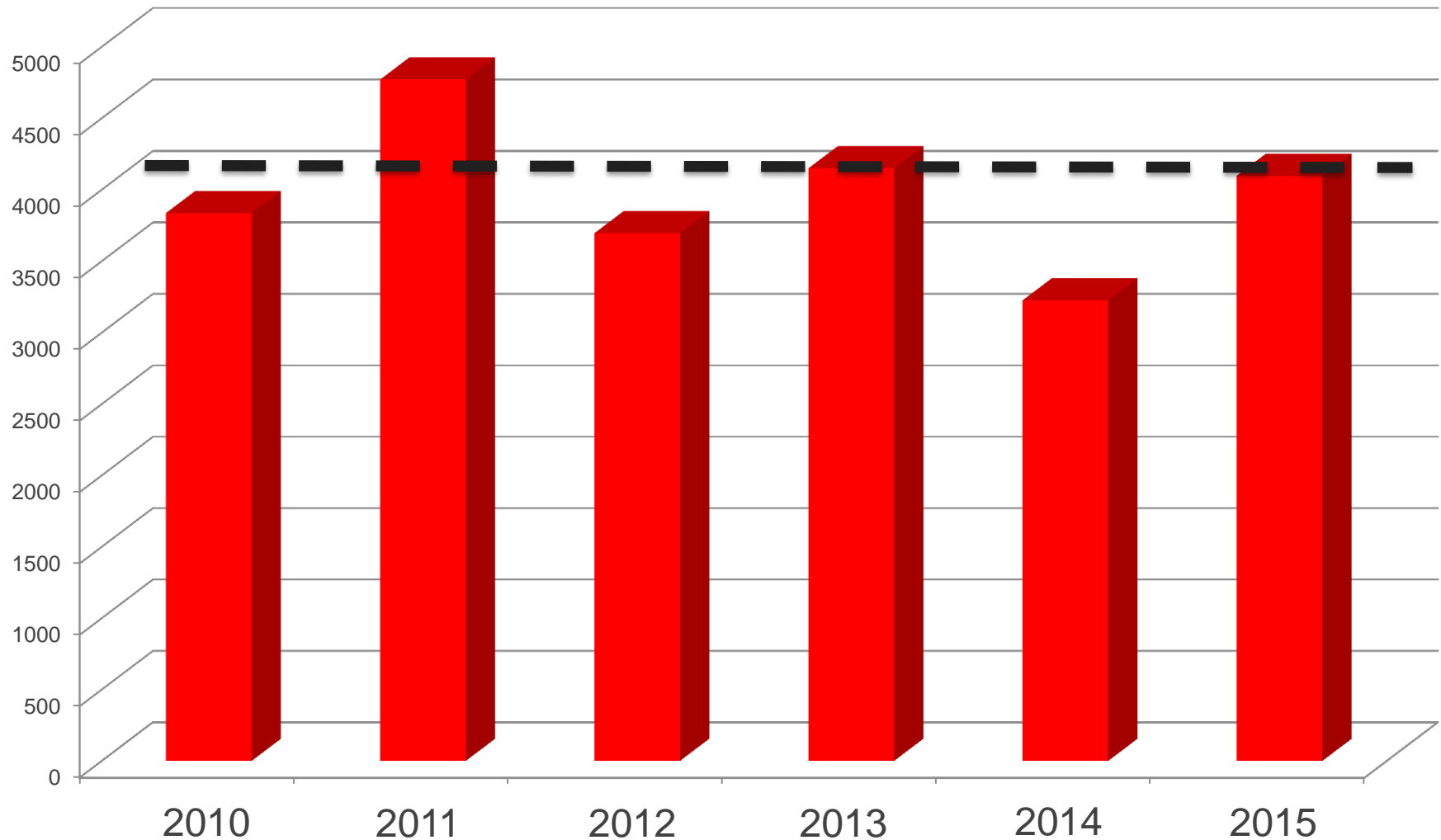


Source: RPX 2015 NPE Activity Report

# ***NPE District Court Defendants, 2010 -- 2015***

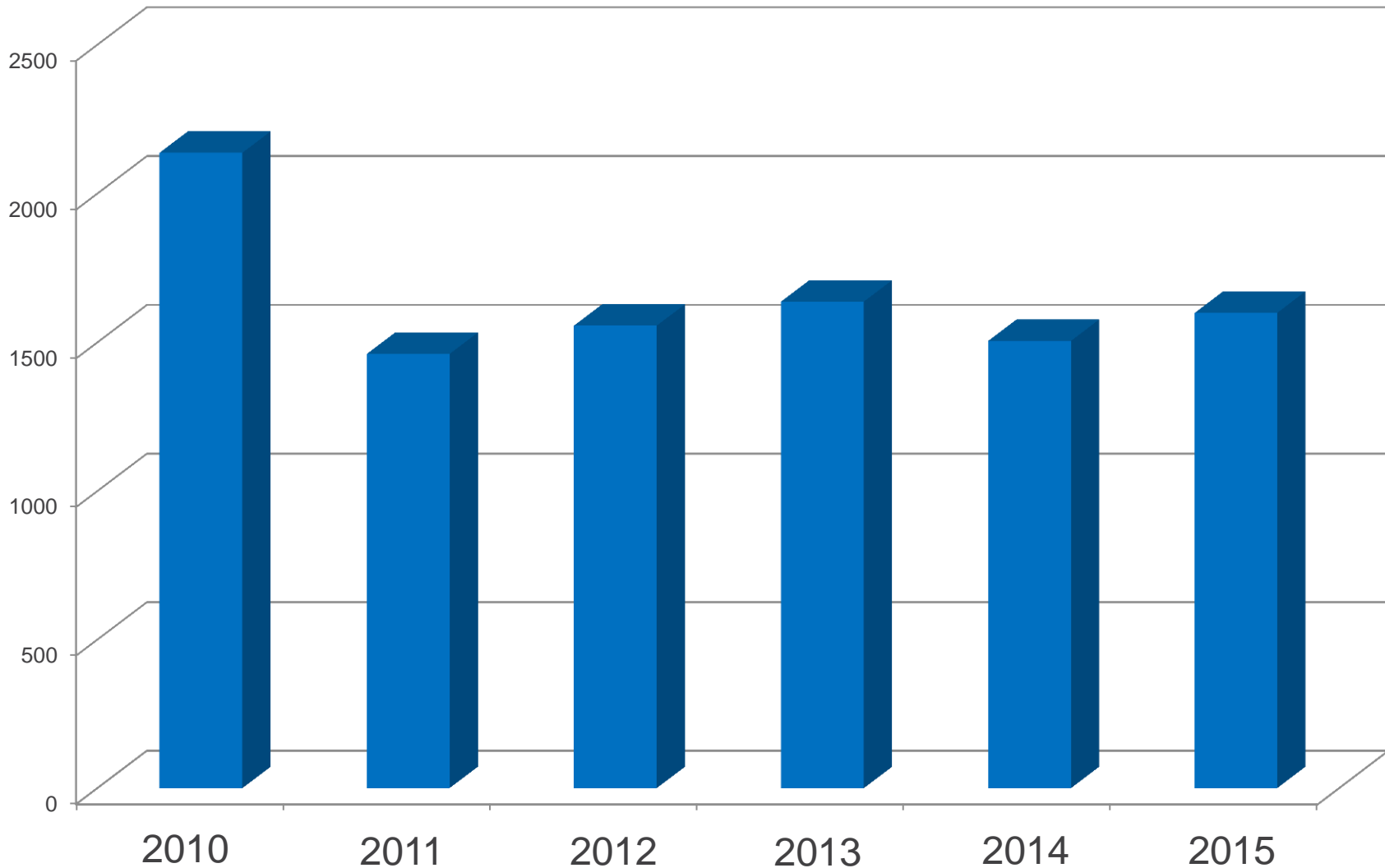


# ***Number of NPE District Court “Campaign” Defendants 2010 - 2015***

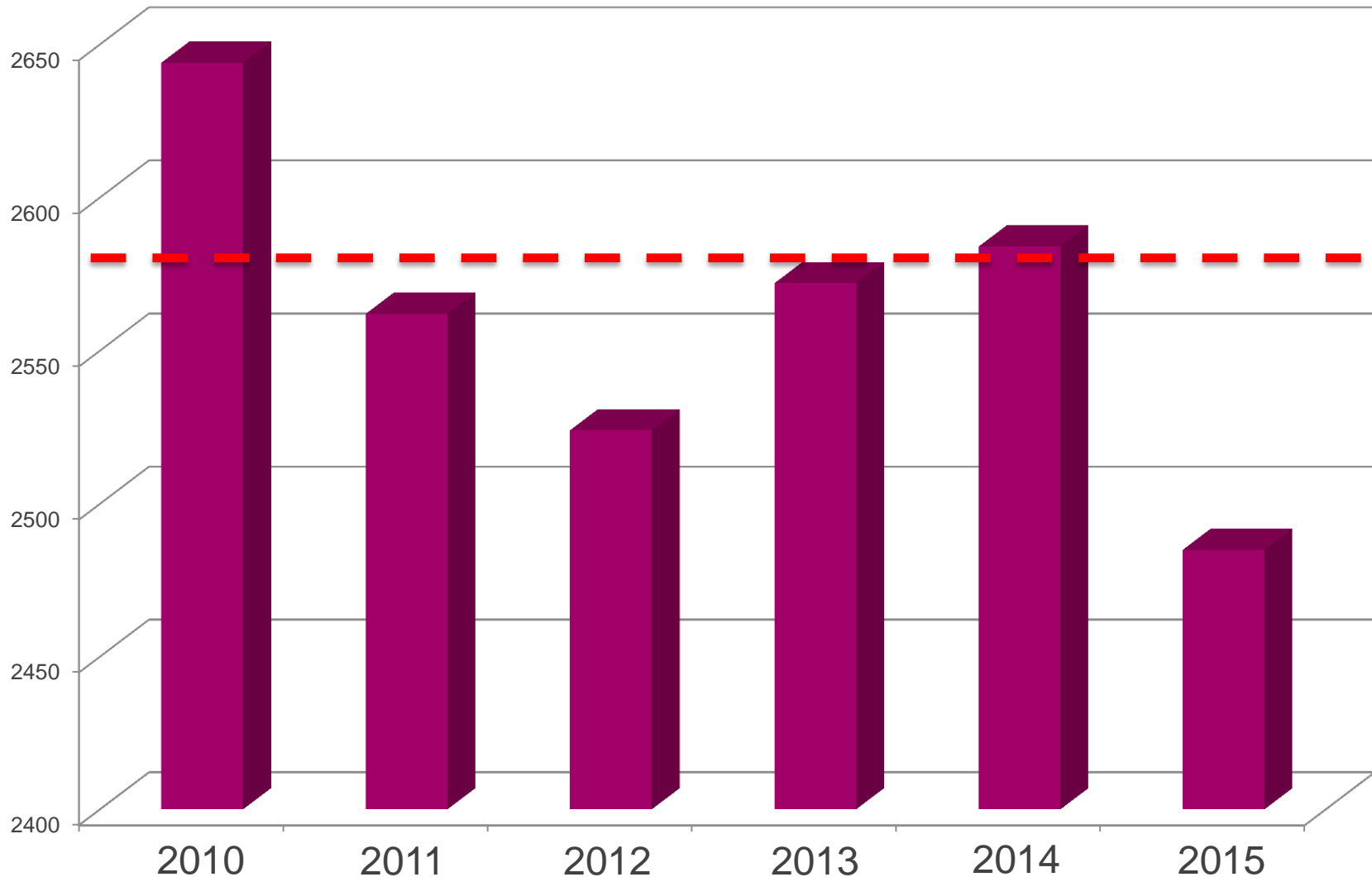


Source: RPX 2015 NPE Activity Report

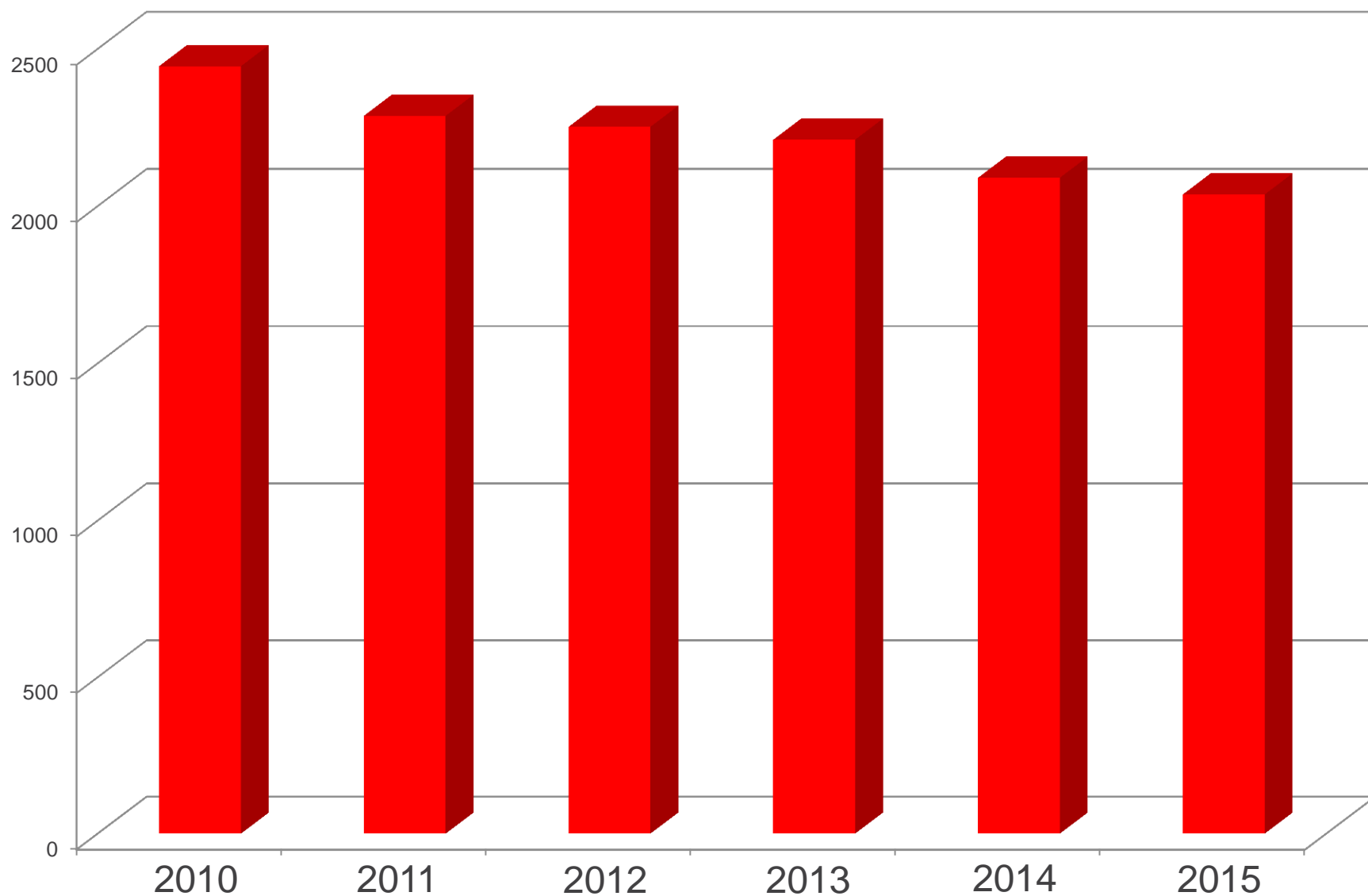
## *Number of Competitor Lawsuits 2010 - 2015*



## *Number of Competitor Defendants 2010 - 2015*



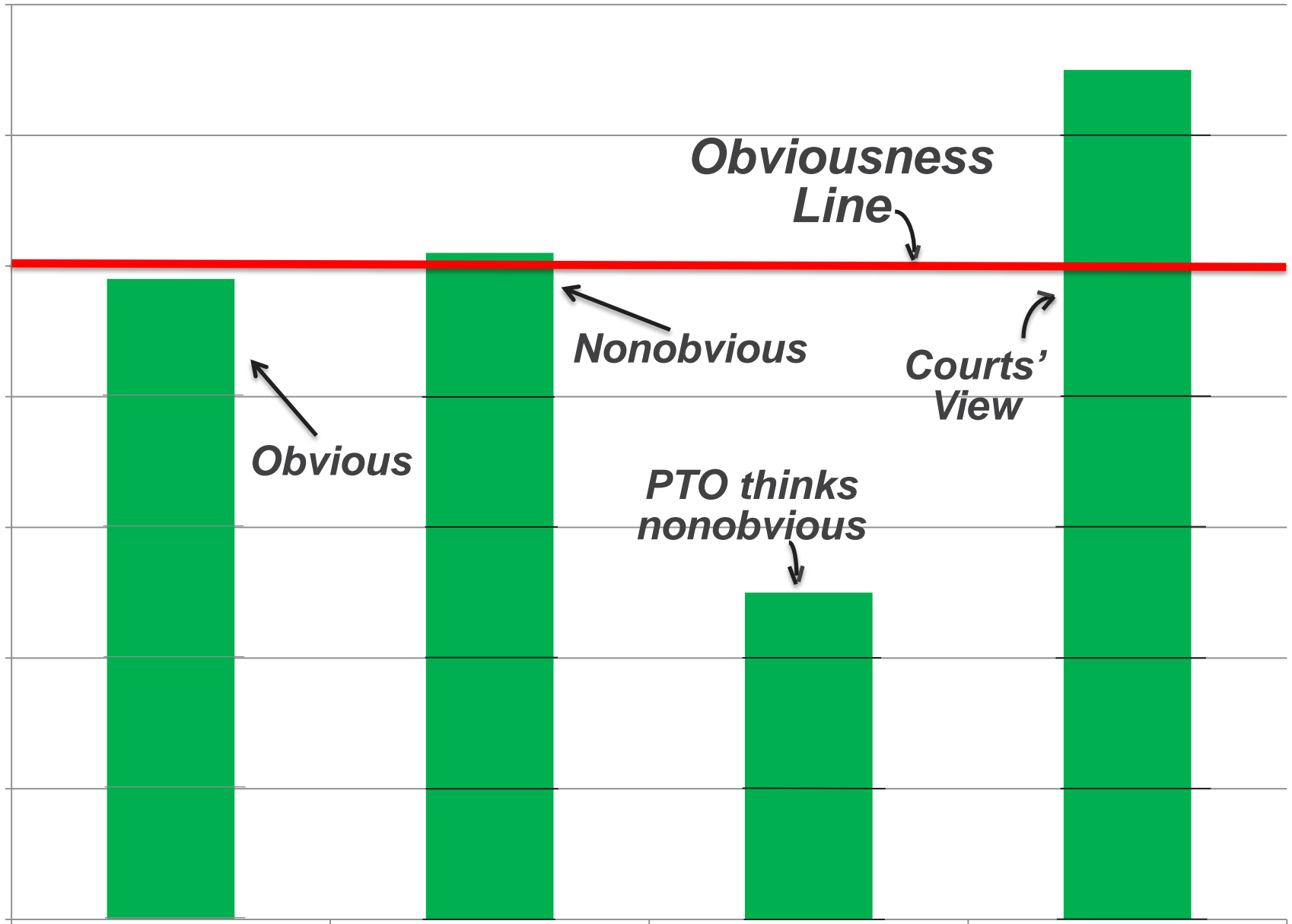
## *Number of Competitor “Campaign” Defendants 2010 - 2015*





# *Patent Quality*

# Obviousness Standard



2002

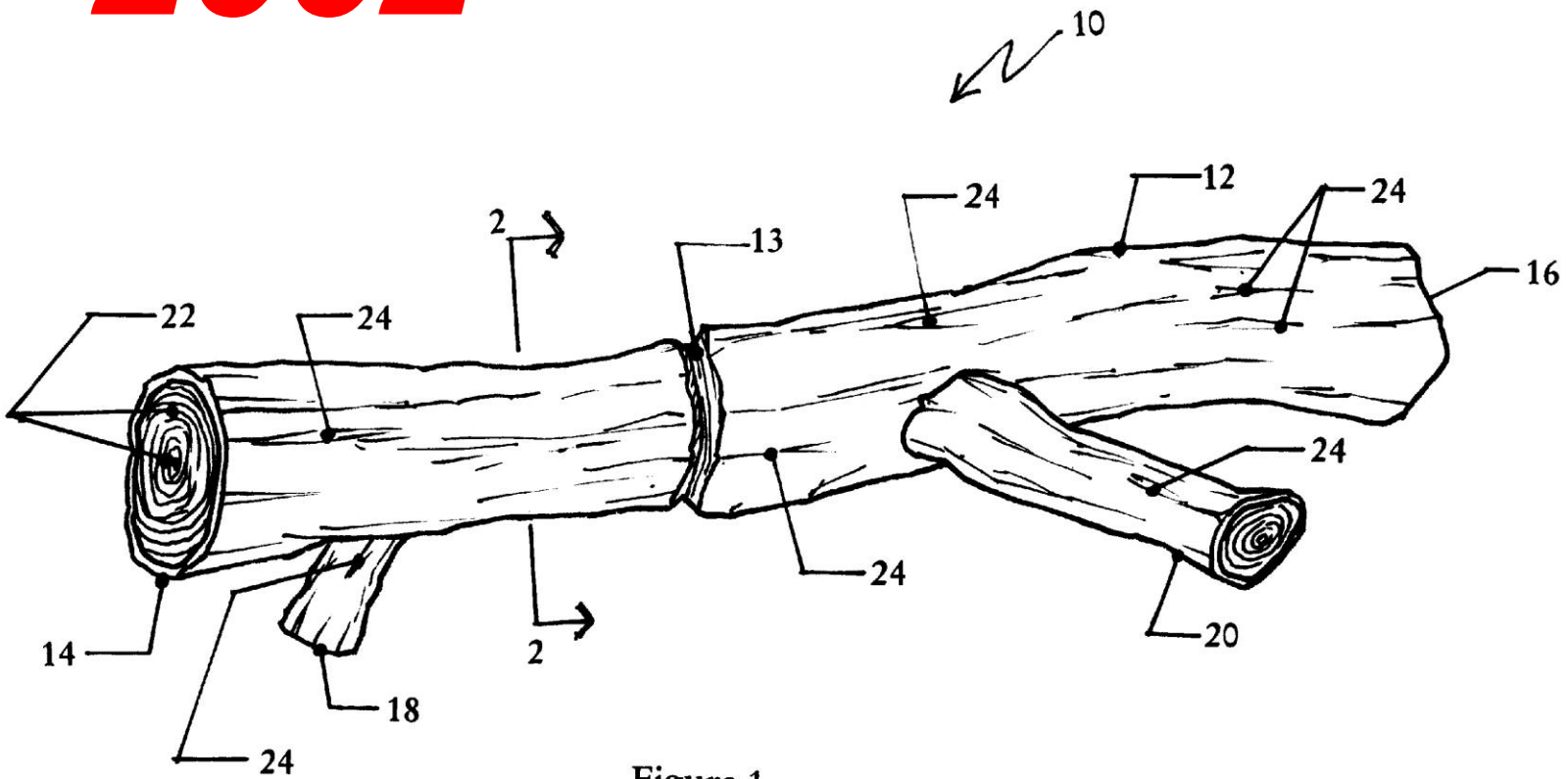
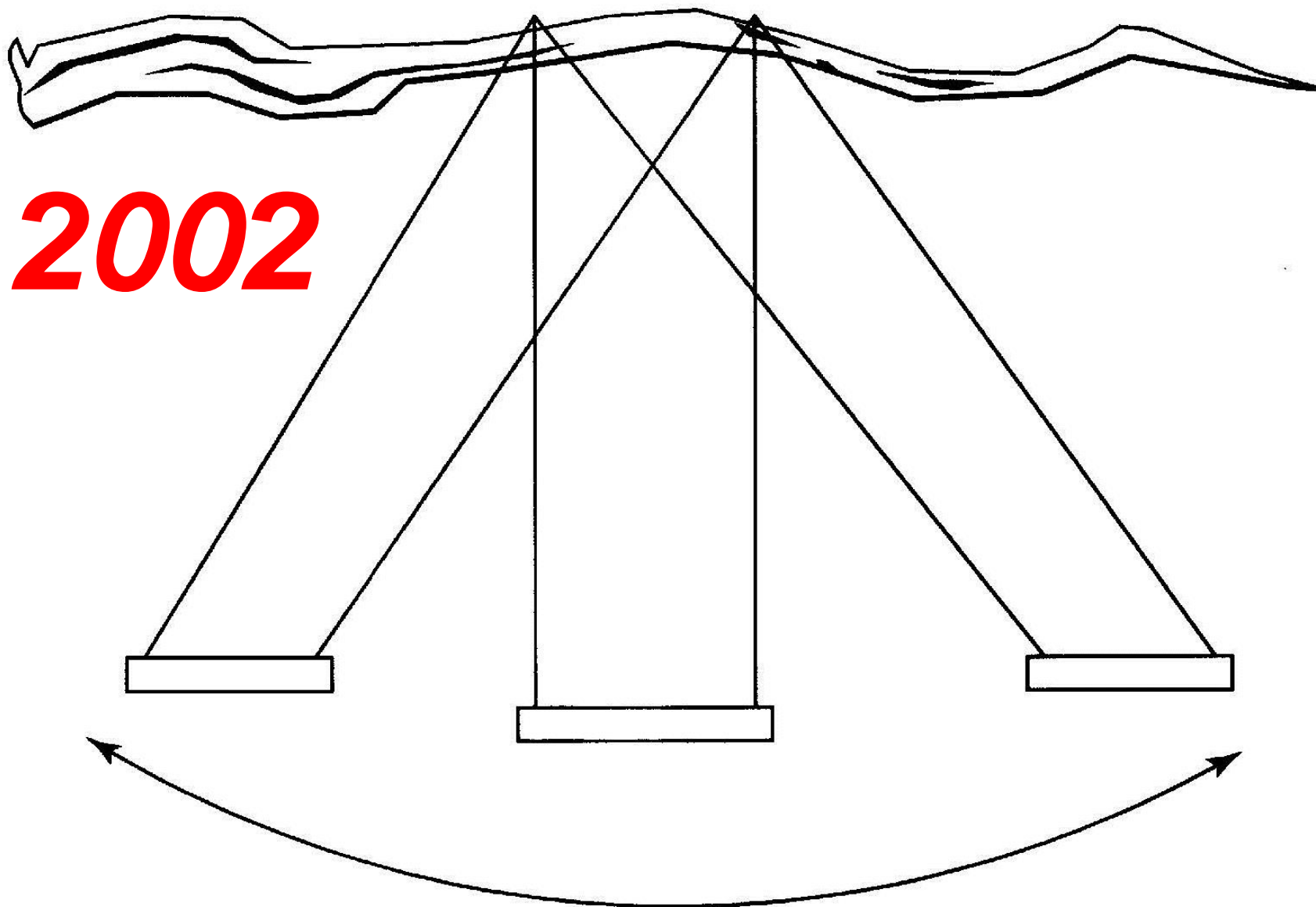
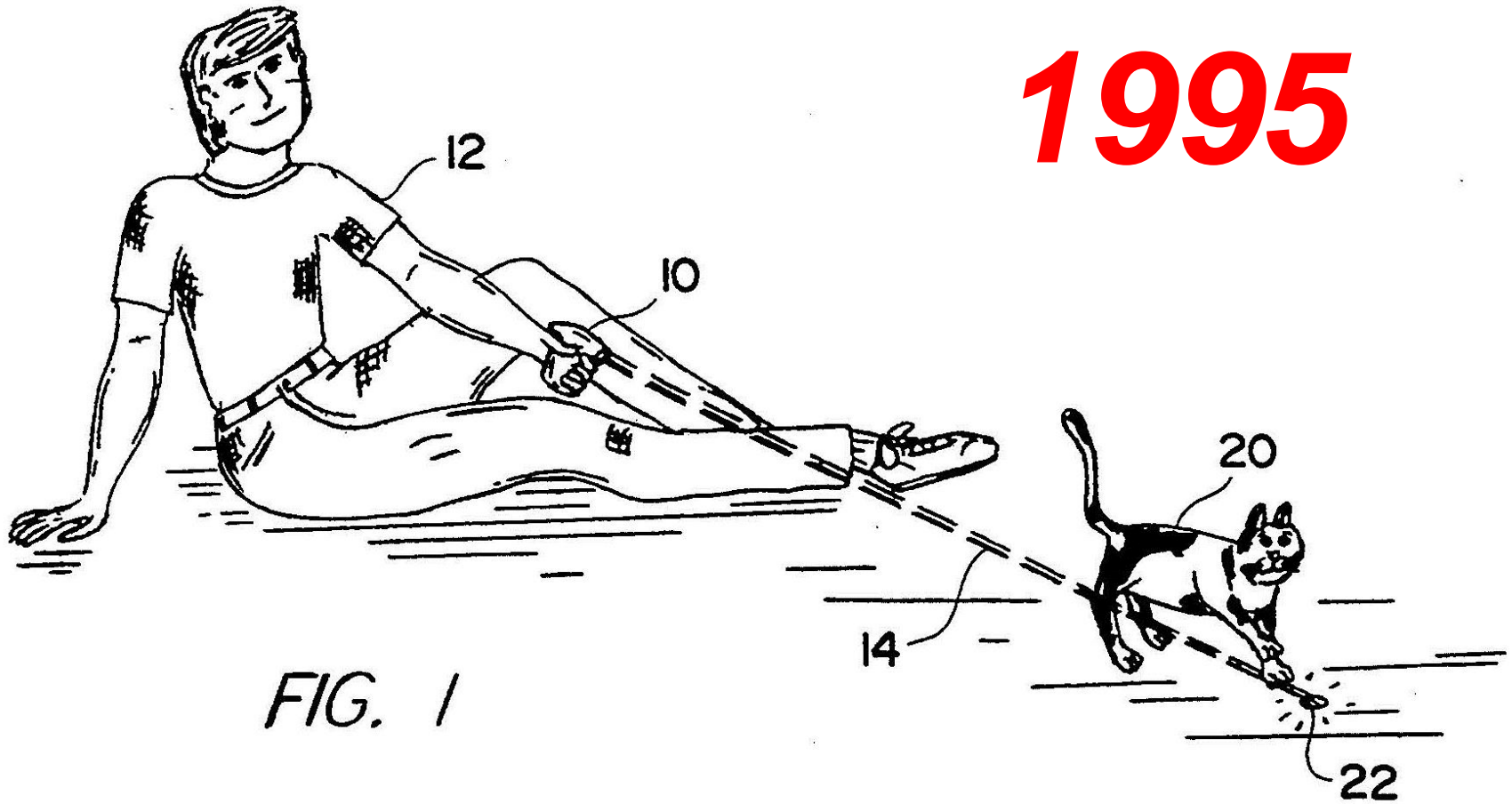


Figure 1



**Figure 2**

1995



10



*Fig. 1*

# IBM's Toilet Queue Patent



US006329919B1

(12) **United States Patent**  
**Boies et al.**

(10) **Patent No.:** **US 6,329,919 B1**  
(45) **Date of Patent:** **Dec. 11, 2001**

(54) **SYSTEM AND METHOD FOR PROVIDING  
RESERVATIONS FOR RESTROOM USE**

(75) **Inventors:** **Stephen J. Boies**, Mahopac, NY (US);  
**Samuel Dinkin**, Austin, TX (US); **Paul**  
**Andrew Moskowitz**, Yorktown Heights;  
**Philip Shi-Lung Yu**, Chappaqua, both  
of NY (US)

(73) **Assignee:** **International Business Machines  
Corporation**, Armonk, NY (US)

(56) **References Cited**

## U.S. PATENT DOCUMENTS

5,272,474	*	12/1993	Hill	.....	340/825.29
5,864,818	*	1/1999	Feldman	.....	395/205
5,948,040	*	9/1999	DeLormet et al.	.....	701/201
5,963,948	*	10/1999	Shilcrat	.....	707/100
5,978,770	*	11/1999	Waytena et al.	.....	705/5

\* cited by examiner

*Primary Examiner*—Benjamin C. Lee

(74) *Attorney, Agent, or Firm*—Morgan & Finnegan, L.L.P.

# *IBM's Toilet Queue Patent*

What is claimed is:

1. A method of providing reservations for restroom use, comprising:

receiving a reservation request from a user; and  
notifying the user when the restroom is available for his  
or her use.

**2001**



# United States Patent [19]

Williams

[11] **3,936,384**

[45] **Feb. 3, 1976**

[54] **RELIGIOUS SOAP**

[76] Inventor: Yancey Williams, G.P.O. Box 1373,  
New York, N.Y. 10038

[22] Filed: Jan. 14, 1975

[21] Appl. No.: 540,992

[52] U.S. Cl. .... 252/90; 252/134; 252/174;  
D73/1 A

[51] Int. Cl.<sup>2</sup> ..... C11D 17/00

[58] Field of Search ..... 252/92, 90, 134, 174;  
D73/1 A

[56]

## References Cited

### UNITED STATES PATENTS

6,624	/1875	Strunz.....	252/92
2,423,435	7/1947	Block.....	252/134
D192,131	1/1962	Weiss.....	D73/1 A

*Primary Examiner*—William E. Schulz

[57]

## ABSTRACT

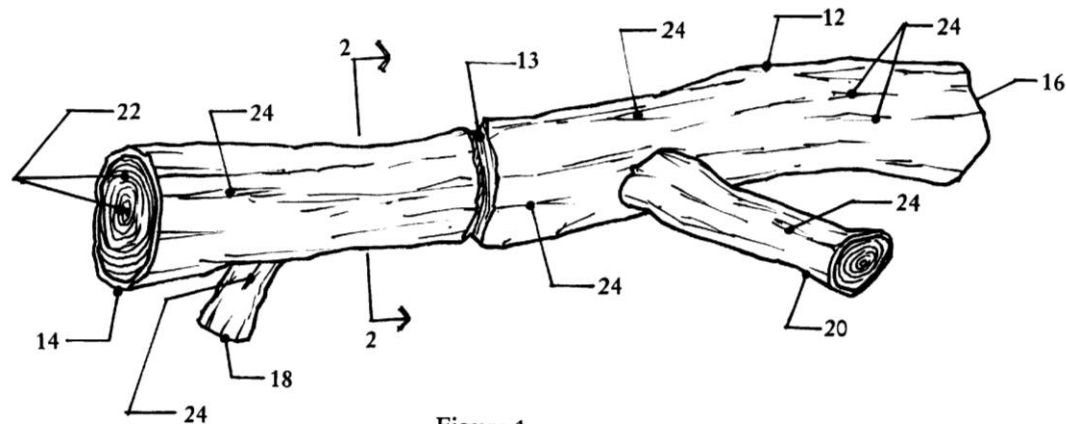
A soap bar which is embossed with a religious design on one side and a prayer on the other side.

**3 Claims, 3 Drawing Figures**

1. A bar of soap which is embossed with religious markings.

# Alice Observation

- Many decisions involve patents with severe § 103 problems
  - (But with no § 103 analysis)
- The District Courts have little respect for patents.



# *Trifurcated System*

# ***Three Patent Litigation Systems***

- ***Competitor suits***
- ***Suits by Patent Assertion Entities***
- ***Pharmaceutical suits***

# ***Competitor versus NPE Suits***

- ***NPEs get different damages***
  - ***RR only; no lost profits***
- ***NPEs get no injunctions***
- ***NPEs have greater venue problems***
- ***NPE cases have separate “bars”***
- ***NPEs get less judicial respect***

# ***Pharmaceutical Cases***

- ***Patent “Safe Harbor”***
  - *35 U.S.C. §271(e)*
- ***Hatch-Waxman Act***
  - *21 U.S.C. § 355(j)*
- ***BPCIA***
  - *“Biologics Price Competition and Innovation Act”*
  - *“Biosimilar” disputes*

# ***Pharmaceutical Cases***

- ***Separate body of substantive law***
- ***Separate procedures***
- ***Distinct “bar”***

# ***Quadrification?***

- ***Design patents allow profit “disgorgement” on the entire infringing product***
- ***Huge benefit***
  - ***Apple Inc. v. Samsung Elec. Co., 786 F.3d 983 (Fed. Cir. 2015)***
- ***Separate infringement test***
  - ***Egyptian Goddess v. Swisa Inc., 543 F.3d 665 (Fed. Cir. 2008)***
  - ***“ordinary observer” test***



# ***The Future***

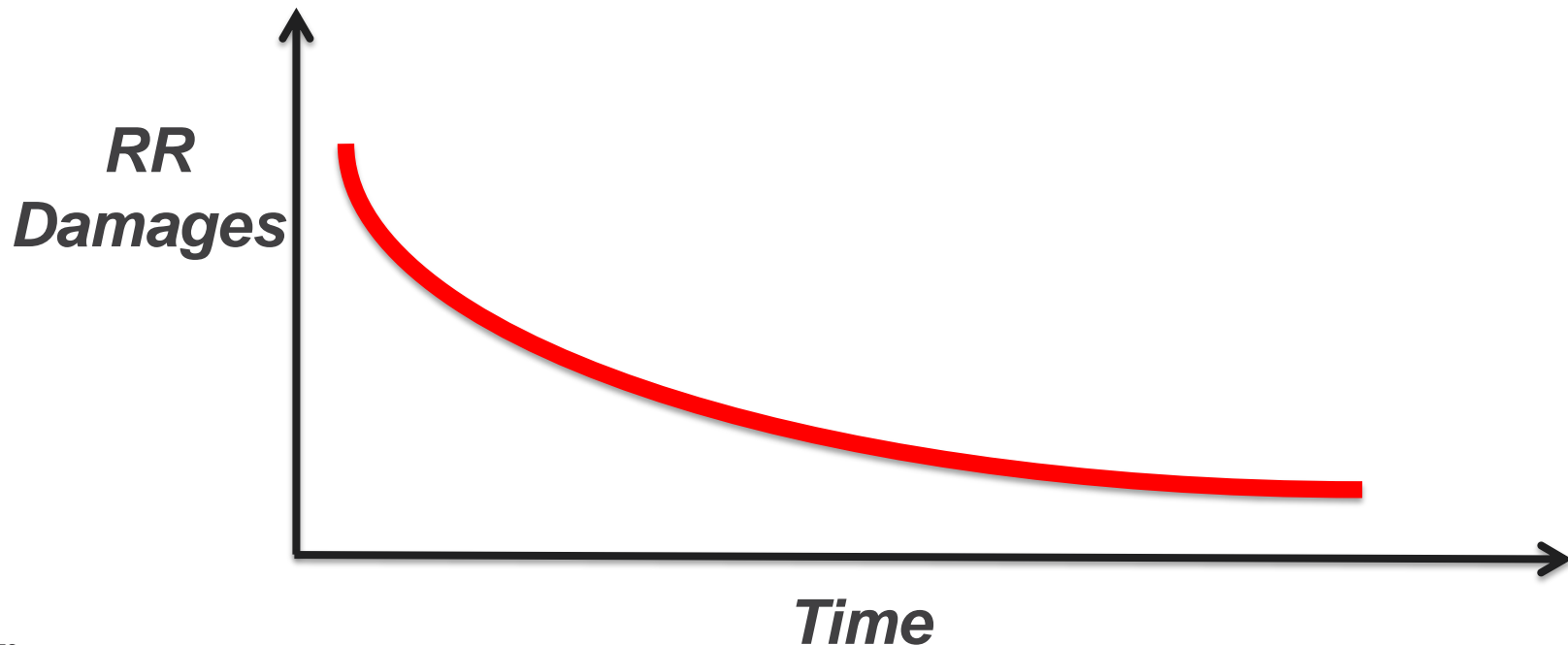
# *Reasonable Royalties*

# ***Past: Reasonable Royalty Decline***

- ***Apportionment, EMVR and the SSPPU***
- ***End of the “25% rule-of-thumb”***
- ***Limitations on “convoyed sales”***
- ***Fewer “comparable” licenses***
- ***Daubert enforcement***

# ***End of Federal Circuit Activism***

- ***The Federal Circuit seems to believe it has reasonable royalties under control.***



# ***Expanded Apportionment***

- ***Summit 6, LLC v. Samsung Elec. Co., 802 F. 3d 1283 (Fed. Cir. 2015)***
  - **Survey showed 21% of defendant's users used the infringing features.**
  - **Expert concluded 21% of the defendant's revenue resulted from the infringing features.**
  - **Federal Circuit: acceptable method of apportionment.**

# ***The Future of Claim Construction***

# ***Claim Construction***

- 1. Fall-out from *Teva***
- 2. Federal Circuit tug-of-war**
- 3. Role of the Jury**
- 4. *Alice* interpretations**

# 1. *Teva*

- ***Teva Pharmaceuticals USA Inc. v. Sandoz, Inc.*, 135 S.Ct. 831 (2015)**
- **Fact-findings underlying claim construction are reviewed under the “clear error” standard.**



# ***Teva* fall-out**

- **Federal Circuit clinging to de novo review**
  - **Most cases just state the *Teva* standard, but don't say if it's applied.**
- **“internal coherence and context assessment” (*Teva* on remand)**
- **Only one case applied “clear error”**
  - *Cephalon, Inc. v. Abraxis Bio Science, LLC*, 618 Fed. Appx. 663 (Fed. Cir. 2015)

# ***Teva* fall-out**

- **Most cases represent district court claim constructions under the pre-*Teva* standard**
- **Over time, district courts will change**
  - **Express findings of fact under Rule 52**
  - **More credibility determinations of expert testimony**
  - **But “internal coherence and context” will still dominate**

# Post-*Teva* strategy

- Any party wanting to rely on facts to support their construction should submit proposed findings of fact to the judge.

## ***2. Tug-of-war***

- ***Federal Circuit is split between two factions***
  - ***“plain meaning”***
  - ***specification dominates***
- ***No resolution from the FC or Supreme Court***
- ***No predictability***
- ***Uncertainty favors plaintiffs***

# ***3. Role of the Jury***

- ***Jury interpretations of claims will continue to increase***
  - ***“plain meaning”***
  - ***limited Markman rulings***
- ***Increased risk at trial***
  - ***O2 Micro Int’l Ltd. v. Beyond Innovation Tech. Co, 521 F.3d 1351 (2008)***

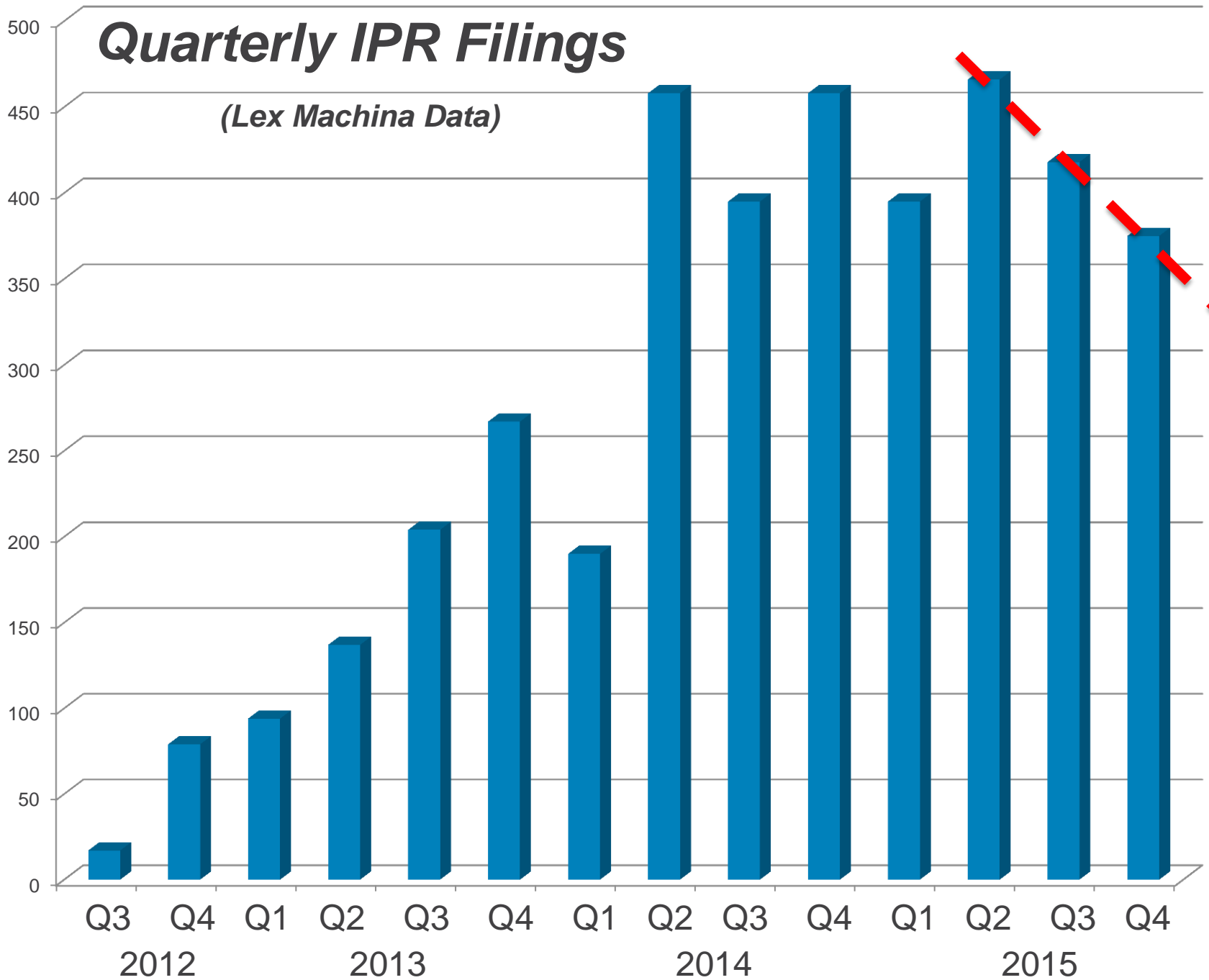
# 4. Alice

- ***Courts are “construing” claims when they rule on Alice motions***
  - ***Describing the gist of the invention***
- ***Most do not apply any CC rules***
  - ***E.D. Tex. is the exception***
- ***Creates law-of-the case problems***
- ***Practice will continue among anti-patent judges***
- ***Federal Circuit will eventually limit the practice***

# ***The Changing Impact of IPRs***

# Quarterly IPR Filings

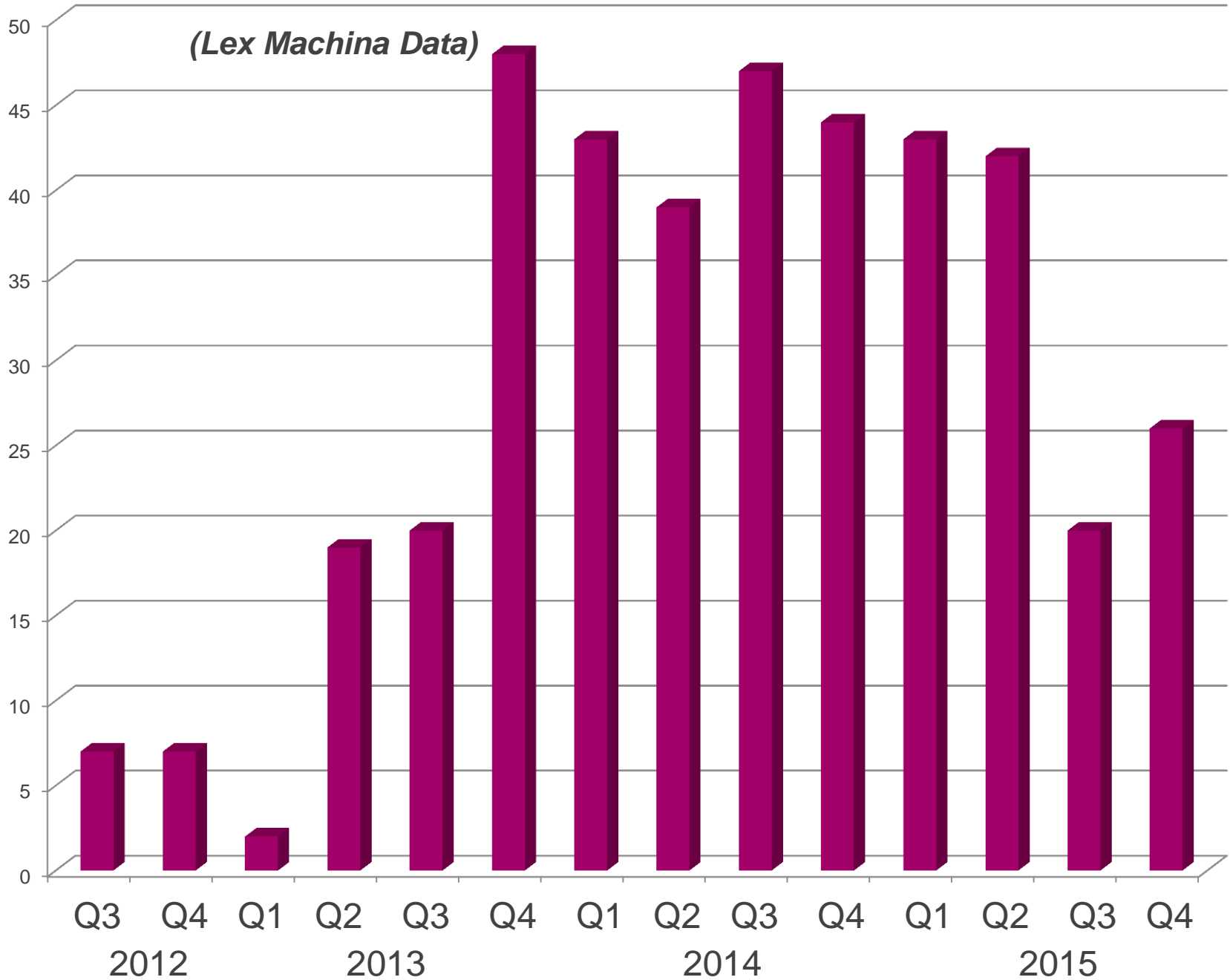
(Lex Machina Data)





# Quarterly CBM Filings

*(Lex Machina Data)*



# ***IPRs Less Deadly***

- **88%** of all petitions with final decisions resulted in at least one claim invalidated
  - Law 360, Sept. 2015
- **78%** of all final written PTAB decisions resulted in one or more claims unpatentable.
  - Docket Navigator 2015 Patent Year in Review

# ***IPRs***

- **2014: 29%** of IPRs decided in 2015 “killed” all claims
- **2015: 15%**
  - Law 360, January 2016

# ***PTO Data as of 1/31/16***

- **39,346 claims challenged**
- **17,066 claims instituted**
- **1,850 claims cancelled or disclaimed**
- **8,488 claims unpatentable**
- **26.3% unpatentable, cancelled or disclaimed**

# ***PTO Data***

## ***As of 1/31/16***

	<b>% of Claims Challenged</b>
<b>Claims unpatentable, cancelled or disclaimed</b>	<b>26.3%</b>

# ***IPRs***

**How many patents  
asserted in litigation  
have at least one claim  
patentable at the end of  
the IPR?**

# ***IPRs – Predictions***

**I think the number will  
exceed 50%.**

# ***IPRs – In the Future***

**Remember: without a prior art defense, plaintiffs will seek very broad claim interpretations.**



# ***IPRs – Predictions***

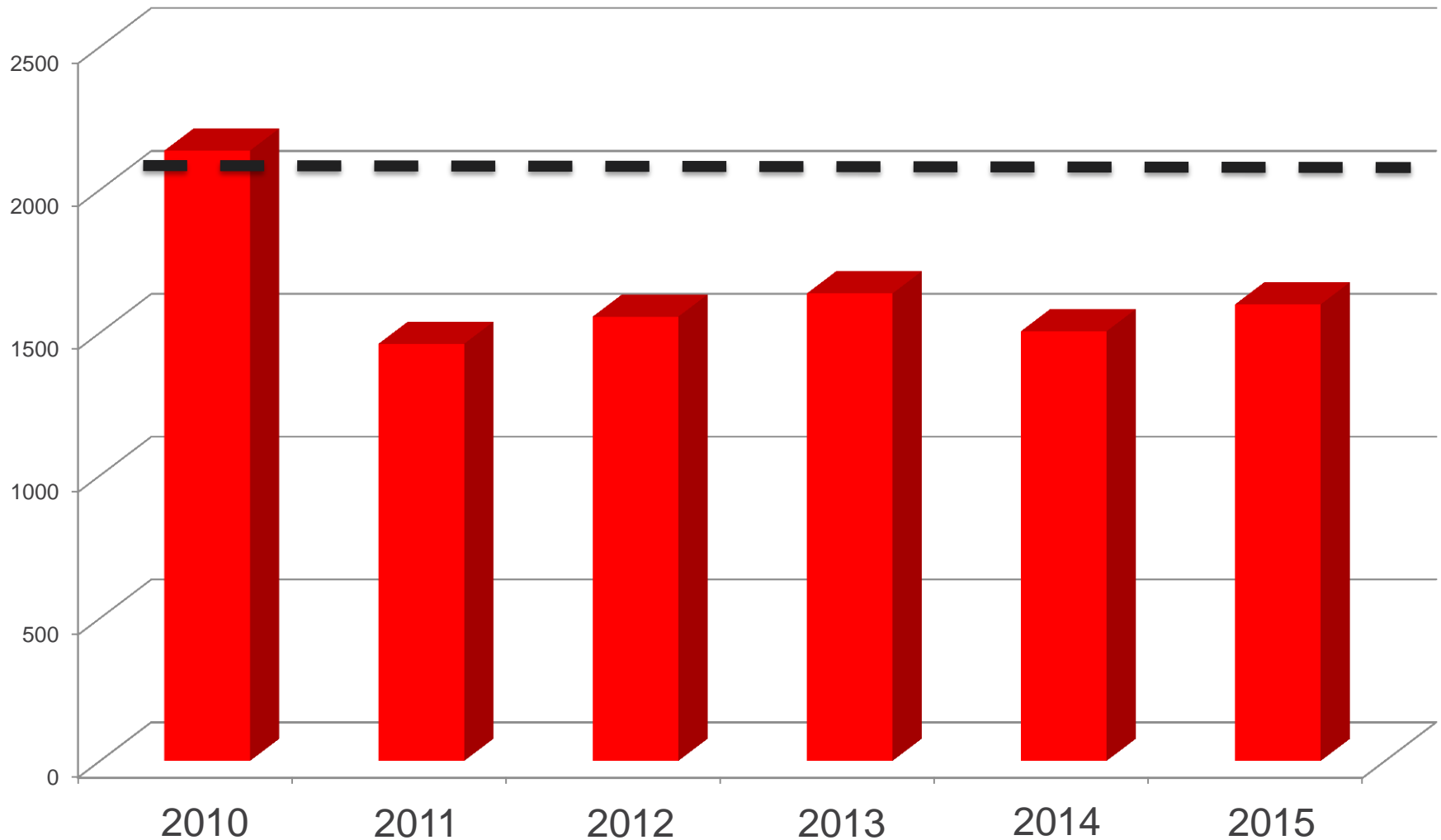
- **Most IPRs with surviving litigation claims will produce settlement**
- **IPR “litigations” are dominated by patent prosecution attorneys**
- **IPR procedures:**
  - **No live evidence**
  - **No cross examinations**
  - **No credibility proofs**

# ***IPRs – Predictions***

- **Plaintiffs will assert more patents against each defendant.**
- **If IPR's mean only 10% of claims will survive to return to litigation, plaintiff will assert 10 times as many patents.**

# ***The Future of NPEs***

# ***Number of NPE District Court “Campaign” Defendants 2010 - 2015***



Source: RPX 2015 NPE Activity Report

# ***NPE Case Predictions***

- **Internet and ecommerce suits will decline**
  - **At least until *Alice* obstacles are resolved**
- **Small NPEs will continue focusing on retailers**
- **Sophisticated NPEs will probe assertion of patents in previously neglected industries.**

# ***NPEs Case Bifurcation***

- ***A few sophisticated PAEs***
  - ***With sophisticated counsel***
- ***Many “ankle biters”***

# ***Evolving Venues***

# Venue

***45.5% of all 2015  
patent infringement  
suits were filed in  
East Texas.***



# Venue

	E.D. Texas	D. Delaware
Per cent change in infringement case filings, 2014 to 2015	+77%	-74%

# Venue

- **Broad venue is being challenged.**
  - **Federal Circuit**
    - *TC Heartland*, Misc. No. 16-105, argued 3/11/16
  - **Congressional proposals**

# ***If venue changes:***

- ***Defendants will be sued in their residence or PPB***
  - ***Delaware***
  - ***New Jersey***
  - ***Northern, Southern and Central Cal.***
  - ***Rest spread over the country***
    - ***W.D. Wa?***

# ***Venue Prediction***

- **Venue will change**
- **But plaintiffs *might* be able to sue in their “home court” when infringements occur in that district.**

# *Changes in The FRCPS*

# ***FRCPS***

- **Changes became effective on December 1, 2015.**

# ***FRCPS***

- **Form 18 is gone**
- **Discovery must be “proportional”**
- **Sanctions limited for ESI violations**
- **District Courts can expedite discovery disputes**
- **Litigation start cannot be delayed**

# ***FRCPPs Predictions***

- **Result of more detailed complaints:**
  - **Plaintiffs will do more homework before suing**
    - **Experts consulted**
    - **Claim charts prepared**
    - **Arguments analyzed**
  - **The best plaintiff's will use detailed complaints to pressure defendants**



# ***FRCPs Predictions***

- **ESI “extortion” of large companies will end**
- **Discovery revisions will have limited impact on patent litigation**
  - **Proportionality will mostly affect the largest cases**
    - **Judge dependent**
- **Streamlined discovery disputes will have limited effect**
  - **Litigants will still fight over infringement and invalidity contentions**

# ***FRCPs Predictions***

- Fewer judges will delay issuing a scheduling order
  - E.g., D. Del.
- Slow judges will delay other proceedings
  - *Alice* rulings under Rule 12
  - *Markman*

# ***FRCPPs Predictions***

- **Litigation costs will not change**
  - ***Other factors might impact litigation costs, such as the amount in controversy***

# ***Underlying Question:***

***Is patent litigation  
encouraging  
innovation?***

# ***Alternative Question:***

***Will patent litigation encourage innovation in the future?***

- ***Yes for pharma***
- ***Yes for start-ups owning patents***
- ***Yes for most competitors***
- ***For everyone else?***



COUNSEL TO GREAT COMPANIES

# ***The Changing World of Patent Litigation***

## Past, Present and Future

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