September 2013 Intellectual Property Roundtable – Hot Topics from the Summer

Fresenius USA, Inc. v. Baxter Intern., Inc., — F.3d — (Fed. Cir., July 2, 2013)

By: Michael M. Lafeber
80 S. Eighth Street
2200 IDS Center
Minneapolis, Minnesota 55402

Ultramercial, Inc. v. Hulu, LLC, — F.3d — (Fed. Cir. June 21, 2013)

By: Michael S. Borella, Ph.D.
300 South Wacker Drive
Chicago, IL 60606

Commil USA, LLC v. Cisco Systems, Inc., — *F.3d* — (Fed. Cir. June 25, 2013)

Coach, Inc. v. Goodfellow, 717 F.3d 498 (6th Cir. May 31, 2013)

By: Grady M. Garrison, Adam S. Baldridge and Nicholas L. Vescovo
165 Madison Ave
Memphis, TN 38103

Patent Reform Bills Currently Pending on Capitol Hill

By: Eugene Mar and Dan Callaway
235 Montgomery Street, 17t Fl.
San Francisco, CA 94104

Fresenius USA, Inc. v. Baxter Intern., Inc.
Federal Circuit Promotes Administrative Review of Patents

By: Michael M. Lafeber (Briggs and Morgan)

In a decision issued July 2, 2013, the Federal Circuit ruled that a patent infringement judgment in excess of fourteen million dollars ($14,000,000.00) was rendered void and moot by a United States Patent and Trademark Office decision invalidating the subject patent. What makes the case interesting is a prior Federal Circuit decision in the case affirming the validity of the patent. *Fresenius USA, Inc. v. Baxter Intern., Inc.*— F.3d —-, 2013 WL 3305736 (C.A.Fed., July 2, 2013 (Cal.)) Coupled with the new broader scope and expedited administrative review provided for in the America Invents Act, the decision continues a trend of favoring or promoting administrative review of patents over district court litigation.

The decision will allow defendants to consider administrative challenges to the validity of a patent much further into the district court litigation process. Prior to this ruling, prevailing wisdom was that a re-examination proceeding needed to be completed prior to the conclusion of district court proceedings to be useful. A defendant who uncovers relevant prior art late in a proceeding may now be more likely to commence a re-examination proceeding as long as it can be completed prior to any appeals.

The decision raises interesting issues concerning separation of powers and the finality of judgments. In a strongly worded and well-reasoned dissenting opinion, Judge Pauline Newman argued the decision improperly allows an administrative agency to void a final Federal Circuit Court of Appeals judgment. Judge Newman wrote:

> The court today authorizes 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. The panel majority holds that the entirety of these judicial proceedings can be ignored and superseded by an executive agency's later ruling.

The majority justified its decision on the grounds that the there was no "final" judgment. According to the majority, the prior decision affirming the validity of the patent was not final because the matter had been remanded solely to address post-judgment damage issues. According to Judge Newman this position is inconsistent with well-established principals of finality:

> The panel majority argues that the rules of finality do not apply here because the Federal Circuit, with its final judgment, included a remand to the district court to assess post-judgment damages. The courts of the nation have dealt with a variety of circumstances in which a final judgment included a remand to the district court. Here, all of the issues on appeal were finally adjudicated by the Federal Circuit; the remand authorized the district court to determine only post-judgment royalties. The remand had no relation to any issue in reexamination; validity had been finally resolved in the courts.

> . . .The majority proposes that the final adjudication of patent validity can be redecided by the courts and thus by the PTO, because of the remand to assess post-judgment damages. This theory is contrary to the precedent of every circuit. All circuits impose finality and preclusion as to issues that were finally decided in full and fair litigation. . .

The America Invents Act contains certain procedural mechanisms which should prevent this from becoming a recurring concern. Specifically, under the AIA: 1) Post Grant Review and Inter Partes Review will be *prohibited* if a civil action challenging the validity of the patent has been previously filed; and 2) a civil action challenging validity filed after the filing of either a Post Grant Review or Inter Partes Review petition will automatically be stayed (With the exception of "Covered Business Method Patents" these provisions are applicable only to patents issued from applications filed after March 16, 2013 (patents granted under the new "First Inventor to File" Rules).

Ultramercial, Inc. v. Hulu, LLC
When Does an Abstract Idea Constitute Sufficient "Inventive Concept"?
By: Michael S. Borella, Ph.D. (McDonnell Boehnen Hulbert & Berghoff)

On the heels of its fractured en banc ruling in *CLS Bank Int'l v. Alice Corp.* regarding patent-eligibility of computer-implemented inventions under 35 U.S.C. § 101, the Federal Circuit decided another § 101 case, *Ultramercial, Inc. v. Hulu, LLC.* Of interest is that the panel for *Ultramercial* included the authors of the two main opposing opinions in *CLS Bank* -- Judge Lourie and Chief Judge Rader. However, instead of throwing down, the judges agreed that the claims at issue met the requirements of § 101, even if they disagreed on the rationale for this conclusion.

This action began when Ultramercial sued Hulu, YouTube, and WildTangent for infringement of U.S. Patent No. 7,346,545. Hulu and YouTube were eventually dismissed from the case. On a 12(b)(6) motion, the District Court held that the '545 patent does not claim patent-eligible subject matter. On appeal, the Federal Circuit reversed and remanded. However, that decision was vacated by the Supreme Court. Back in the Federal Circuit again, Chief Judge Rader authored the majority opinion, joined by Judge O'Malley, once again reversing the District Court. Judge Lourie concurred in the outcome.

Claim 1 of the '545 patent recites:

> A method for distribution of products over the Internet via a facilitator, said method comprising the steps of:
>
> > a first step of receiving, from a content provider, media products that are covered by intellectual property rights protection and are available for purchase, wherein each said media product being comprised of at least one of text data, music data, and video data;
> >
> > a second step of selecting a sponsor message to be associated with the media product, said sponsor message being selected from a plurality of

> sponsor messages, said second step including accessing an activity log to verify that the total number of times which the sponsor message has been previously presented is less than the number of transaction cycles contracted by the sponsor of the sponsor message;
>
> a third step of providing the media product for sale at an Internet website;
>
> a fourth step of restricting general public access to said media product;
>
> a fifth step of offering to a consumer access to the media product without charge to the consumer on the precondition that the consumer views the sponsor message;
>
> a sixth step of receiving from the consumer a request to view the sponsor message, wherein the consumer submits said request in response to being offered access to the media product;
>
> a seventh step of, in response to receiving the request from the consumer, facilitating the display of a sponsor message to the consumer;
>
> an eighth step of, if the sponsor message is not an interactive message, allowing said consumer access to said media product after said step of facilitating the display of said sponsor message;
>
> a ninth step of, if the sponsor message is an interactive message, presenting at least one query to the consumer and allowing said consumer access to said media product after receiving a response to said at least one query;
>
> a tenth step of recording the transaction event to the activity log, said tenth step including updating the total number of times the sponsor message has been presented;
>
> and
>
> an eleventh step of receiving payment from the sponsor of the sponsor message displayed.

First, Chief Judge Rader noted that it is rare for a patent to be dismissed at the pleading stage, because issued patents enjoy a presumption of validity. Thus, factual allegations of patent-ineligibility must be viewed in the most favorable light for the patentee. Indeed, there must be "clear and convincing evidence of ineligibility," and consequently," 12(b)(6) dismissal for lack of eligible subject matter will be the exception, not the rule." Chief Judge Rader also noted that the various § 101 analyses propounded by the judges of the Federal Circuit generally require some degree of factual inquiry. As a result, the presence of these factual issues would normally "render dismissal under Rule 12(b)(6) improper."

Turning to the history of title 35, Chief Judge Rader emphasized, like he did in *CLS Bank*, that Congress intended § 101 to be read expansively. Congress made no exceptions to patentable subject matter -- those were introduced by the courts. Particularly, the well-known exceptions of abstract ideas, laws of nature, and natural phenomena were introduced to "prevent the monopolization of the basic tools of scientific and technological work."

Following his 'broad statute with narrow exceptions' interpretation of § 101, Chief Judge Rader addressed the patentability of abstract ideas with respect to software and business method claims. He noted that "a process need not use a computer, or some machine, in order to avoid abstractness." In rejecting the machine-or-transformation test for § 101 eligibility in *Bilski v. Kappos*, Chief Judge Rader believes that the Supreme Court was attempting to allow the patent laws to accommodate new and future technologies of the information age.

Chief Judge Rader further indicated that, in doing so, the Supreme Court has set forth a number of guidelines. These include the principles that (i) a claim that recites an abstract idea can be valid as long as the claim is directed to an application of the idea, and (ii) determining if this is the case requires consideration of the claim as a whole to ascertain whether the claim includes meaningful limitations restricting it to such an application. Factors determining whether a limitation is meaningful were spelled out by Chief Judge Rader's concurrence-in-part and dissent-in-part in CLS Bank, and he revisits them here.

One of Chief Judge Rader's challenges in both *CLS Bank* and this case was to synthesize two opposing notions originally set forth by the Supreme Court in *Parker v. Flook* and *Diamond v. Diehr*, respectfully. On one hand, *Flook* indicated that the § 101 inquiry should treat claimed abstract ideas as "a familiar part of the prior art." On the other hand, *Diehr* held that "[t]he question therefore of whether a particular invention is novel is wholly apart from whether the invention falls into a category of statutory subject matter." The Supreme Court's most recent ruling on patent-eligible subject matter, *Mayo v. Prometheus*, seems to defer more to *Flook* than *Diehr* in this regard. For example, in *Prometheus*, the Justices stated that "in evaluating the significance of additional steps, the §101 patent-eligibility inquiry and, say, the §102 novelty inquiry might sometimes overlap."

However, Chief Judge Rader reads *Diehr* into *Prometheus* to conclude that the Supreme Court was not actually suggesting that a novelty or non-obviousness analysis need be performed in a § 101 review. Instead, he believes that:

> [T]he Supreme Court's reference to "inventiveness" in *Prometheus* can be read as shorthand for its inquiry into whether implementing the abstract idea in the context of the claimed invention inherently requires the recited steps. Thus, in *Prometheus*, the Supreme Court recognized that the additional steps were those that anyone wanting to use the natural law would necessarily use. If, to implement the abstract concept, one must perform the additional step, or the step is a routine and conventional aspect of the abstract idea, then the step merely separately restates an element of the abstract idea, and thus does not further limit the abstract concept to a practical application.

Thus, Chief Judge Rader seems to be advocating that the "inventive concept" and "meaningful limitations" tests involve limited consideration of prior art. This consideration would determine whether the non-abstract-idea features of a claim are essential, routine, or conventional facets of a recited abstract idea.

Applying this notion to computer-implemented inventions, he notes that mere reference to a general purpose computer in the claims falls into the essential, routine, or conventional category. On the other hand, Chief Judge Rader suggests that if "the claims tie the otherwise abstract idea to a specific way of doing something with a computer, or a specific computer for doing something . . . they likely will be patent eligible." He also notes that "meaningful limitations may include the computer being part of the solution, being integral to the performance of the method, or containing an improvement in computer technology." Such limitations would avoid pre-emption of a claimed abstract idea.

Turning finally to Ultramercial's claim, Chief Judge Rader held that the District Court erred in "requiring the patentee to come forward with a construction that would show the claims were eligible." Instead, he indicated that, given the procedural posture of the case, the District Court "should either have construed the claims in accordance with *Markman*, required the defendant to establish that the only plausible construction was one that, by clear and convincing evidence rendered the subject matter ineligible (with no factual inquiries), or adopted a construction most favorable to the patentee." In analyzing the claims, Chief Judge Rader opted for the latter approach.

In determining whether the claim encompassed an abstract idea, the parties agreed the claimed idea that "advertising can be used as a form of currency" is abstract, and focused their dispute on whether the claims include meaningful limitations to overcome this abstractness. Chief Judge Rader answered this question in the positive, observing that some steps of claim 1 "plainly require that the method be performed through computers, on the internet, and in a cyber-market environment." As a result, he found that the complexity of such a computer implementation involved "no risk of preempting all forms of advertising, let alone advertising on the Internet" and met the requirements of § 101.

Thus, despite a recitation of "the Internet" being the only concrete structure in the claim, a combination of the claim's many specific limitations, and the procedural requirement of construction most favorable to the patentee, led to the conclusion that the claim was patent-eligible. Notably, Chief Judge Rader posited that the claim requires "controlled interaction with a consumer over an Internet website, something far removed from purely mental steps."

In concurring, Judge Lourie wrote separately to advocate "faithfully follow[ing] the Supreme Court's most recent guidance regarding patent eligibility in [*Prometheus*] and . . . the plurality opinion of five judges from this court in *CLS Bank*." Judge Lourie agreed that the claims included the abstract idea of "using advertising as an exchange or currency."

However, he disagreed with Chief Judge Rader's focus on the complexity of the computer implementation of the claimed method, since a specific implementation is not recited. Instead, Judge Lourie found that "the added limitations in these claims represent significantly more than the underlying abstract idea of using advertising as an exchange or currency and, as a consequence, do not preempt the use of that idea in all fields." And he left it at that, with no further substantive analysis or discussion.

So . . . now what? In a sense, this case is a valuable data point. It demonstrates how a claim that encompasses an abstract idea can include sufficient "inventive concept" and "meaningful limitations" to satisfy the judges who disagreed so fiercely in *CLS Bank*. But what analytical technique should be used to evaluate such a claim? Do we turn to Chief Judge Rader's approach, which seems limited to the facts of this case, or to Judge Lourie's approach, which has been referred to by some commentators as “conclusory”?

One point seems clear, however. The Federal Circuit is not going to abandon the "inventive concept" and "meaningful limitations" tests -- the progeny of *Prometheus* -- any time soon.

Commil USA, LLC v. Cisco Systems, Inc.
Defending Against a Claim of Inducement of Patent Infringement by Asserting a Good-Faith Belief in Patent Invalidity

By: Grady M. Garrison, Adam S. Baldridge and Nicholas L. Vescovo
(Baker, Donelson, Bearman, Caldwell & Berkowitz, PC)

On June 25, 2013, the Federal Circuit added to the growing body of law regarding claims of inducement of patent infringement with its holding in *Commil USA, LLC v. Cisco Systems, Inc.* Relying upon the Supreme Court's 2011 holding from *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011), which made clear that to be liable for inducing patent infringement the inducer must be aware of the patent and know that the induced acts constitute patent infringement, Judge Prost provided the opinion of the Court and gave companies that could be targets of induced infringement claims a new possible shield to employ. Judge Newman meanwhile provided a strong dissent that calls into question how long this potential defense may be available.

The underlying litigation has a well-developed history, as two different juries have sided with Commil. After the first trial, the jury found Cisco liable for direct infringement and awarded Commil $3.7 million in damages, but found that Cisco was not liable for induced infringement. Commil moved for a new trial on the issues of induced infringement and damages and the Court granted Commil's motion. The second time, the jury found Cisco liable for inducing patent infringement and awarded Commil $63.7 million in damages. Cisco then appealed.

On appeal, Cisco challenged the district court's refusal to allow Cisco to present evidence during the second trial of its good-faith belief that the '395 patent was invalid. Commil had filed a motion in limine to exclude the evidence. The district court granted the motion, yet did so without issuing a written opinion. During the appeal, the Federal Circuit noted that the district court appeared to rely upon the fact that precedent indicates that evidence of a good-faith belief of non-infringement is relevant whereas evidence of a good-faith belief of invalidity is not. Judge Prost clarified that the Federal Circuit had not up until that point been called upon to determine whether evidence of a good-faith belief of invalidity is relevant. With the issue now squarely before the Federal Circuit, the majority held that "a good-faith belief [in invalidity] <u>may</u> negate the requisite intent for induced infringement." Slip Op. at 9 (emphasis added).

Judge Prost appeared to base his opinion on the fact that because a good-faith belief of non-infringement evidences a lack of the specific intent required to prove inducement, a good-faith belief in patent invalidity must therefore carry the same weight. He reasoned that there exists no "principled distinction" between a good-faith belief of invalidity and a good-faith belief of non-infringement. Thus, in the majority's view, a party may lack the requisite intent to be liable for induced infringement even though it was (1) aware of the patent and (2) induced another to infringe the patent, simply by having a good-faith belief that the patent is invalid.

Of note, the majority appeared to cede some ground in light of Judge Newman's dissent, discussed below. Judge Prost explicitly noted that the majority's holding does not mean that evidence of a good-faith belief in invalidity *precludes* a finding of induced infringement; instead Judge Prost directed that such evidence "should be considered by the fact-finder in determining whether an accused party knew 'that the induced acts constitute patent infringement.'" Slip Op. at 11 (quoting *Global-Tech*, 131 S. Ct. at 2068).

In dissent, Judge Newman questioned the purpose of such evidence of a good-faith belief in invalidity, as he reminded the majority that "a 'good-faith belief' in invalidity does not avoid liability for infringement when the patent is valid" and that "[n]o rule eliminates infringement of a valid patent, whether the infringement is direct or indirect." J. Newman Op. concurring-in-part, dissenting-in-part at 2. He turned first to section 271(b) and the fact that the statute "does not import a validity criterion, or a 'good faith belief' about validity, into proof of the act of infringement." *Id.* at 2. The inducement statute simply states that "[w]hoever actively induces infringement of a patent shall be liable as an infringer." 35 U.S.C. § 271(b).

Judge Newman relied upon tort law, analogizing induced infringement to liability "under a theory of joint tortfeasance," and the principle that "[a] mistake of law, even if made in good faith, does not absolve a tortfeasor." J. Newman Op. at 3. In Judge Newman's view, the majority misapplied *Global-Tech* and erroneously equated knowledge of infringement with knowledge of validity. To Judge Newman, "[w]hatever Cisco's 'belief' as to invalidity of the patent, this belief is irrelevant to the fact and law of infringement." *Id.* at 4.

Many commentators have taken issue with the majority's opinion, especially in light of Judge Newman's dissent. Still, until the *en banc* reconsideration of the ruling which Commil is seeking, a potential indirect infringer of a patent has an even greater incentive to obtain an opinion on the issue of invalidity.

Coach, Inc. v. Goodfellow
The Sixth Circuit Adopts Contributory Liability for Flea Market Operators Based on Trademark Infringement by Vendors

By: Grady M. Garrison, Adam S. Baldridge and Nicholas L. Vescovo
(Baker, Donelson, Bearman, Caldwell & Berkowitz, PC)

On May 31, 2013, the Sixth Circuit joined the Seventh and Ninth Circuits in adopting contributory liability for a flea market operator based on the trademark infringement of vendors at the flea market. Such contributory liability has seen increased attention over the past five years, especially from Coach, Inc., the plaintiff in the case.

In *Coach, Inc. v. Goodfellow*, the defendant Frederick Goodfellow owned and operated the 3rd Street Flea Market in Memphis, Tennessee, and oversaw day-to-day operations.

Goodfellow rented between 75 to 100 booths to vendors at the rate of $15/day Thursday through Sunday, rented storage containers to vendors for storage of their goods, and essentially controlled the flea market with ultimate authority as to the allowance and removal of vendors. Aware of the sale of counterfeit goods at the flea market, Coach worked with the local, state and federal authorities to begin an investigation into the flea market. On January 15, 2010, Coach wrote a letter to Goodfellow regarding the counterfeit sales, advising him of potential violations of federal and state laws, and demanding that all sales of counterfeit Coach products cease. According to the record, Goodfellow ignored Coach's letter, so the DA's Office wrote to Goodfellow on March 26, 2010 to notify him that counterfeit sales were continuing and that he was in willful disregard of the law. In April 2010, law enforcement officers raided the flea market and seized counterfeit Coach products, along with the counterfeit goods of other companies. Coach brought suit against Goodfellow and the flea market in June 2010, demanding the sale of counterfeit Coach products be stopped.

During the course of the litigation and the underlying criminal prosecution, Goodfellow made several admissions that helped Coach in the contributory trademark infringement suit. Specifically, he admitted to knowing that vendors continued to sell counterfeit Coach goods after he received the first letter in January 2010, admitted to knowing that multiple raids occurred and that vendors were arrested, admitted that he never inspected the vendors' booths to ensure counterfeit goods were not being sold, and admitted that he never asked vendors if they were licensed distributors of Coach goods. With such admissions, Coach was able to prove willful blindness.

Coach claimed that Goodfellow was liable for the sale of counterfeit products and infringement of Coach's trademarks pursuant to the Lanham Act, 15 U.S.C. § 1114, which states in pertinent part that:

> Any person who shall, without the consent of the registrant ... use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive ... shall be liable in a civil action by the registrant for the remedies hereinafter provided.

15 U.S.C. § 1114(a)(1). Unlike contributory liability for patent infringement, there is no statute regarding such indirect infringement, as the Lanham Act does not expressly provide for contributory liability. Contributory liability for trademark infringement has developed instead through trademark jurisprudence. In *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982), the U.S. Supreme Court held that "liability for trademark can extend beyond those who actually mislabel goods with the mark of another." The *Ives* Court relied upon the 1924 case of *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526 (1924), which held that a manufacturer is liable for contributory infringement if he designedly enables or induces retailers or distributors to defraud their customers by palming his products off as the plaintiff's product. The Supreme Court revised the *Warner* test in *Ives*. Under contributory trademark infringement, a defendant is liable if he (1) intentionally induces another to infringe on a trademark or (2) continues to supply a product knowing that the recipient is using the product to engage in trademark infringement.

Goodfellow was neither a manufacturer nor a distributor, but actually a landlord. In order to find him liable for contributory trademark infringement, the Sixth Circuit relied upon the Seventh Circuit's opinion in *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143 (7th Cir.1992), holding that a flea market operator can be liable for trademark violations by its vendors if it knew or had reason to know of their violations. *Id.* at 1149. The *Hard Rock* court held that "willful blindness" would qualify as such knowledge: "To be willfully blind, a person must suspect wrongdoing and deliberately fail to investigate." *Id.* at 1150. Unlike the Sixth Circuit in *Goodfellow*, the Seventh Circuit ultimately held that the *Hard Rock* plaintiffs did not proffer enough evidence to prove willful blindness. The district court in *Hard Rock* focused on the defendant's failure to take the necessary precautions to prevent counterfeiting, as opposed to focusing on the defendant's knowledge of or willful blindness towards the sale of counterfeit goods. The Seventh Circuit came to the conclusion that the district court found the defendant flea market operator to be *negligent*, not *willfully blind*, and thus vacated the judgment and remanded for further proceedings.

The Ninth Circuit adopted the Seventh Circtuit's holding from *Hard Rock* in *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996), and also noted that the Supreme Court did not limit its holding in *Ives* to only manufacturers or distributors. Both the Seventh and Ninth Circuits relied upon the Restatement (Second) of Torts § 877(c) & cmt. d (1979), which states that a company "is responsible for the torts of those it permits on its premises 'knowing or having reason to know that the other is acting or will act tortiously . . . .'"

Relying upon the holdings of *Hard Rock* and *Fonovisa*, the Sixth Circuit upheld the finding that Goodfellow was contributorily liable for the trademark infringement of the vendors at his flea market. Coach presented substantial evidence demonstrating Goodfellow's knowledge of the infringing activity.

On appeal, Goodfellow argued that he undertook reasonable remedial measures to address the infringing activity, analogous to the remedial measures eBay undertook in *Tiffany (NJ), Inc. v. eBay, Inc.*, 600 F.3d 93, 105–10 (2d Cir.2010). Goodfellow had distributed pamphlets informing the vendors that they could not sell counterfeit goods and held a voluntary meeting to discuss the sale of counterfeit goods. In comparison, the Fourth Circuit held that eBay was not contributorily liable for the trademark infringement of sellers on its site given the significant remedial measures eBay took to combat the sale of counterfeit goods, including promptly removing all listing that Tiffany challenged as counterfeit and spending millions of dollars taking affirmative steps toward the removal and monitoring of counterfeit Tiffany merchandise. *Tiffany*, 600 F.3d at 103. The Sixth Circuit disagreed that Goodfellow's remedial measures equaled those of eBay in *Tiffany*, noting that Goodfellow's actions fell well short of denying access to the infringing vendors. The Sixth Circuit thus affirmed the district court's grant of summary judgment.

Coach has pursued similar suits across the U.S. *See Coach, Inc. v. Farmers Market & Auction*, 881 F. Supp. 2d 695 (D. Md. 2012); *Coach, Inc. v. Dequindre Plaza, LLC*, Case No. 11-cv-14032 (D. E.D. Mich. 2012); *Coach, Inc. v. Gata Corp.*, 98 USPQ2d 1911 (D.N.H. 2011).

Patent Reform Bills Before Capitol Hill

By: Eugene Mar and Dan Callaway
(Farella Braun + Martel LLP)

1. **SHIELD Act** (Saving High-Tech Innovators from Egregious Legal Dispute Acts of 2013) (Reps. DeFazio, Chaffetz)

- Full bill can be found at http://beta.congress.gov/bill/113th-congress/house-bill/845/cosponsors
- New version of legislation originally introduced late in the 2012 session
- Provides defendants with an option of seeking early determination that a patent holder is not a practicing plaintiff:
    - Upon such a motion, plaintiff has 90 days to respond
    - Court must rule within 120 days of such a motion being filed
- If patent holder is determined not to be a practicing plaintiff, it has to put up a bond to cover the amount determined by the Court for the full costs and attorneys fees should defendants prevail
- Should defendant prevail in the case, and the plaintiff is determined to be a non-practicing plaintiff, the plaintiff must pay the defendant's costs and attorneys fees in defending the litigation
- Exceptions include: plaintiff is (i) an inventor or the original assignee, (ii) a party that produces or sells a patented good, or (iii) a university or a technology transfer organization who helps universities license

2. **Patent Abuse Reduction Act** ("PARA") (Sen. Cornyn)

- Full bill can be found at http://www.govtrack.us/congress/bills/113/s1013
- Institutes some initial pleading requirements:
    - Identifying asserted claims
    - Pointing out where each claim element is found in each accused instrumentality
    - Identifying acts of indirect infringement
    - Providing a description of the business of the plaintiff
    - Listing other complaints that assert the same patent
    - Identifying the patent's co-owners, exclusive licensees, and assignees
    - Identifying other parties with the right to enforce the patent
    - Identifying parties with a direct financial interest in the outcome of the action
- Joinder Requirements – including anyone who has a financial interest in the outcome of the litigation
- Discovery Limits
    - Claim Construction Discovery
        - Default rule: until the Markman hearing, all discovery is limited to information related to claim construction.
        - Exceptions where substantive law or motion practice requires more discovery
    - "Core Documentary Evidence" and Fee-Shifting
        - The bill defines "core documentary evidence" (with the proviso that it does not include computer code or e-mail, unless the court finds good cause) as documents that:

        - relate to the conception, reduction to practice, and application for the asserted patent;
        - are sufficient to show the technical operation of the instrumentality identified in the complaint as infringing the asserted patent;
        - relate to potentially invalidating prior art;
        - relate to previous licensing or conveyances of the asserted patent;
        - are sufficient to show revenue attributable to any claimed invention;
        - are sufficient to show the organizational ownership and structure of each party, including identification of any person that has a financial interest in the asserted patent;
        - relate to awareness of the asserted patent or claim, or the infringement, before the action was filed; and
        - sufficient to show any marking, lack of marking, or notice of the asserted patent provided to the accused infringer; and
    - A requesting party must pay for any requested discovery that is outside the bounds of "core documentary evidence."
- Costs and Expenses
    - Prevailing party wins its fees and expenses, unless the position and conduct of the non-prevailing party was "objectively reasonable and substantially justified"
    - Fees and expenses are recoverable against not only parties, but any interested party.

3. **<u>Patent Litigation and Innovation Act</u>** (Reps. Jeffries, Farenthold)

- Full bill at http://www.govtrack.us/congress/bills/113/hr2639
- Heightened pleading: Requiring patent holders to explicitly make its case when it files by specifying which patents and claims are at issue, as well as exactly what products allegedly infringe and how. It also requires patent holders to remove the veil of secrecy and specifically identify who is behind the action—not just the patent's owner, but everyone who stands to financially benefit.
- Protection of end users: Allowing an "interested party"—such as the manufacturer or supplier of equipment—to intervene on behalf of its customers. Upon request, any underlying case against the consumer would be stayed until the "interested party" finished its case. But the consumer must agree to be bound by any judgment in the “interested party” litigation.
- Stay of discovery until motions to dismiss and motions to transfer are ruled on and until after claim construction is conducted
- Sanctions for abusive litigation: Requiring courts to include a record of each party's compliance with the rules of litigation.

4. **<u>Patent Quality Improvement Act</u>** (Sen. Schumer)

- Full bill http://beta.congress.gov/bill/113th/senate-bill/866
- Aimed at facilitating PTO review of "poor-quality patents that cover intangible methods of doing business using computers."

- For post-grant review, this bill expands the scope of post-grant review from "covered business method patents" to include a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of any enterprise, product, or service, except technological inventions.
- Amends the Leahy-Smith America Invents Act to remove the eight-year sunset provision with respect to the transitional post-grant review program available to review the validity of covered business method patents, thereby making the program permanent.

5. **<u>Stopping the Offensive Use of Patents (STOP) Act</u>** (Reps. Issa, Chu)

- Full bill at http://www.govtrack.us/congress/bills/113/hr2766
- "in part a companion to the Schumer bill"
- It expands post-grant review for business method patents to go beyond financial products and include patents that claim a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of any enterprise, product, or service, except technological inventions.
- When instituted, it stays any litigation proceeding between the same parties in court. (Currently, courts have discretion over whether to decide to stay cases—discretion that results in inconsistent results.)
- Removes the sunset provision in the transitional business method patent post-grant review (currently, 8 years) and makes it permanent
- The STOP Act also includes a provision requiring the Patent Office to expand access to pro bono legal services to "under-resourced re-sellers, users, implementers, distributors, or customers of an allegedly infringing product or process." Of course, we would rather these parties not find themselves facing patent litigation at all; to the extent they are, the process should be as painless as possible. Increased access to pro bono legal services is an important element to make that happen.

6. **<u>End Anonymous Patents Act</u>** (Rep. Deutch)

- Full bill at http://beta.congress.gov/bill/113th/house-bill/2024
- Would require disclosure of any "real party in interest"
- Patent owners can only collect on damages that occur after the true owners of the patent are disclosed
- Partially addressed by President Obama's executive actions in June 2013.

7. **<u>Proposed Executive Actions</u>** (President Obama)

- <u>Tighten functional claiming</u>: requiring patent applicants to explain their inventions better and to limit those inventions to a specific way of accomplishing a task, as opposed to all ways of accomplishing a task.
- <u>Make ownership more transparent</u>: requiring patent owners to update records at the Patent Office with the patent's real owner.
- <u>Protect downstream users</u>: ending the abuse associated with targeting end users, such as small businesses, startups, and even individuals who find themselves facing lawsuit threats and licensing demands for simply using everyday products. As the White House puts it: "End-users should not be subject to lawsuits for simply using a product as

intended, and need an easier way to know their rights before entering into costly litigation or settlement."

- Expand dedicated outreach and study: working with members of the community, including third-party stakeholders, to address flaws in the system. This would include increasing scholarly programs at the Patent Office.
- Strengthen enforcement of exclusion orders: streamlining procedures for imported goods that are found to infringe U.S. patents. This issue is complicated by the all the smartphone wars currently before the ITC and the recent decision from the Federal Trade Representative refusing to enforce an ITC ban on Apple iPhone products.