



# Intellectual Property Law Section

## State Bar of Texas

### Special Issue - 2013 Advanced Patent Litigation Course

## Texas Litigators Visit Albuquerque, New Mexico

*Reporting by Matthew Baca, Indranil Chowdhury, Michael Hawes, Paul Morico, and Michael Paul. Photography by Indranil Chowdhury.*

The 9<sup>th</sup> annual Advanced Patent Litigation Course was held July 25-26, 2013 at the picturesque Hyatt Regency Tamaya Resort and Spa outside Albuquerque, New Mexico.



Stunning mountain scenery outside Albuquerque.

### Thursday

## Results of Interviews With Past Patent Jurors

Clyde Siebman of Siebman, Burg, Phillips & Smith started the course with a presentation of results of interviews he has conducted with past patent jurors. Mr. Siebman has been involved in patent litigation for over two decades and has been involved in over 350 cases in the Eastern District of Texas.



Clyde Siebman

According to Mr. Siebman, jurors' likes and

dislikes can be summarized by the Golden Rule: Always treat people as you would like to be treated. Jurors expect decorum and integrity from lawyers, and failure by an attorney to act with integrity will decrease that lawyer's ability to persuade the panel.

A trial lawyer's objective, of course, is connecting with the jury, which Siebman noted is more of an art than a science. He did, however, provide some basic rules for a jury trial:

- First, be tough but fair. Jurors expect lawyers to be advocates for their clients, but not to the point of cheating. Jurors are adept at picking up on gamesmanship. They expect a fair trial to be a search for the truth given the evidence at hand. Anyone perceived to be advocating for less will be viewed with skepticism.
- Second, the case is ultimately about the evidence, not the lawyers. In fact, the most important thing a lawyer can do is stay out of the way of the evidence. In Siebman's interviews, the lawyers' personal opinions were generally regarded as detracting from the persuasiveness of the argument. Lawyers who make facial expressions, sigh, roll their eyes, and try to communicate non-verbally are viewed by jurors as less convincing.
- Third, realize you are on stage whenever the jurors are in the jury box. The jurors are constantly identifying who they think is not playing by the rules. For example, objecting too frequently,

especially when the objections are unsuccessful, may be perceived as an attempt to keep important evidence from the jury. To that end, jurors are suspicious of any inconsistency in your narrative.

Mr. Siebman noted that many interviewees felt lawyers condescended to them by repeating arguments, evidentiary points, and questions to witnesses. The challenge, he said, is for the trial lawyer to focus the jury's attention on the important evidence without giving the impression of "beating a dead horse." The key, said Siebman, is figuring out what the jury is looking for, and emphasizing those points while staying away from ancillary points that do not matter. Siebman further emphasized the need to arm the jurors with the evidence they need to build consensus for your client during deliberations.

Mr. Siebman also noted that, while jurors may not begin a trial with the technological knowledge to fully understand the patent issues, jurors are always perceptive judges of character and common sense. To that end, Mr. Siebman also stressed that a lawyer should not adopt a style that is inconsistent with that lawyer's natural manner. While style is important, sincerity and genuineness are more important.

Mr. Siebman concluded that, in the end, every case is about the facts. The jury will hone in on the facts in reaching its verdict provided the lawyer does not get in the way.

### **Federal Circuit Appeals**

Rosemary Snider of McKool Smith explained why, more often than not, trial counsel should not also handle an appeal of the same matter. Ms. Snider specializes in motion practice, trial preparation, and appellate



Rosemary Snider

briefing in McKool Smith's Dallas office.

Primarily, Ms. Snider noted that the skill sets of trial counsel and appellate counsel are so different that they are rarely found in one individual. A good trial counsel's ability to appeal to a jury's emotions, which is often an innate skill, will be ineffective on appeal.

A trial is like a play designed to invoke an emotional response from the jury for the benefit of the client. The lawyers present the narrative, using evidence and argument, to an audience of jurors. The trial attorney acts much like the director by determining the order of the witnesses and guiding the jury through the story in a way intended to elicit an emotional response. The jurors then decide, based on the respective narratives, which party is right.

The appellate lawyer, however, needs to be adept at dispassionately talking to and writing for a panel of judges. Appellate counsel must know the record rather than the facts of the underlying case. Moreover, the appellate lawyer must be proficient at describing the relevant events that happened at trial and explaining to the judges how those events relate to the applicable law.

Appellate attorneys understand the arguments made on appeal are to respond to the appellate panel's concerns rather than to retry the facts of the underlying dispute. Trial counsel, however, can have difficulty forgetting what happened to the client at the district court and the personal toll on both client and lawyer. As a result, trial counsel may show up with a grudge that relates to the dispute or the trial itself, but that the appellate court finds irrelevant and uninteresting.

So should trial counsel also handle the appeal? Ms. Snider suggests only rarely given the difference in required skills.



Sharon Israel, Hon. John Love, and John Edmonds.

## **Non-Practicing Entity Litigation Strategy**

Sharon A. Israel of Mayer Brown, John J. Edmonds of Collins, Edmonds, Pogorzelski, Schlather & Tower, and the Hon. John D. Love, U. S. Magistrate Judge with the Eastern District of Texas presented a panel on Non-Practicing Entity (NPE) litigation strategy. The agenda focused primarily on “Recent Developments” comprising various Legislative proposals and Executive actions prompted by a perceived need to address NPE litigation abuses. This focus was prompted by the sheer volume of very recent statutory and rule making proposals that demonstrate clear and bipartisan political momentum for going beyond the AIA’s actions (restrictions to joinder) to curtail perceived litigation abuses by NPEs.

The Panel listed the prospective sources of reform as including multiple Executive actions and proposals including USPTO directives, legislative recommendations, FTC and ITC studies, CAFC Advisory Council proposals, and multiple House and Senate proposals. Having received the summary description of the expansive and multifaceted proposals for reform, the audience responded in the negative regarding whether a significant NPE litigation problem exists.

Legislative proposals covered in the presentation included the Patent Quality Improvement Act (Schumer, S.866, May 6), which is directed to expanding the USPTO “Covered Business Method Review” by making it permanent (removes the 8-year

sunset period) and expanding the scope to cover all business method patents, not just those claiming financial products and services. Other proposals, including the SHIELD Act (Defazio, Chaffetz, H.R. 845, Feb. 27), take more specific aim at those asserting “commoditized” patents. The Panel members discussed at length how the SHIELD Act would amend 35 U.S.C. § 285 to require courts to award a cost recovery (including attorneys’ fees) upon entry of final judgment to a prevailing party asserting invalidity or non-infringement.

Another fee shifting proposal discussed was the End Anonymous Patents Act (Deutch, H.R. 2024, May 17) that combines real party in interest disclosures with a damages penalty. The bill requires disclosure to the PTO of (1) the real party in interest to a patent at the time of its issuance, (2) who paid the patent’s maintenance fees, and (3) the transfer of interests in the patent. Failure to comply with these requirements would result in a forfeiture of damages until the disclosure requirement is met.

Texas Senator John Cornyn discussed his proposed Patent Abuse Reduction Act (S.1013, May 22) that proposes the following:

- a heightened pleading requirements for patent infringement cases (akin to infringement allegations),
- an identification of other complaints asserting the patents-in-suit,
- an identification of certain licensing terms or pricing commitments associated with the patents-in-suit,
- an identification of all owners, assignees, exclusive licensees, parties having enforcement rights, and persons having a direct financial interest in the litigation outcome,
- requiring the joinder of all interested

parties where the interest of the plaintiff is limited primarily to asserting the patents-in-suit,

- limiting discovery prior to claim construction,
- shifting costs, including attorneys' fees, of discovery that unreasonably extends beyond the production of core documentary evidence,
- awarding prevailing party reasonable costs and expenses including attorney's fees, unless the non-prevailing party's position and conduct were objectively reasonable and substantially justified or exceptional circumstances render the award unjust, and
- amending FRCP Form 18 as needed for consistency with the new requirements.

The next day, on May 23, House Judiciary Committee Chairman Bob Goodlatte released a discussion draft of legislation that is similarly comprehensive and which resulted from bipartisan, bicameral collaboration with Senate Judiciary Chairman Pat Leahy. The draft proposes the following:

- allowing a party to recover certain costs, including attorney's fees, where that party obtains a more favorable result than what that party offered during settlement negotiations,
- requiring more transparency regarding patent ownership,
- requiring a stay of an action against a customer of an allegedly infringing product, if the product manufacturer elects to intervene,
- limiting discovery, and
- early case management procedures to identify potentially dispositive issues.

The panel also discussed the justifications for and potential impact of the key common threads among the pending bills and the Goodlatte draft.



Michael Smith and David Maland.

### **Venue Practice in the Eastern District of Texas After the AIA: Unintended Consequences and Case Management Challenges**

Michael Smith with Siebman, Burg, Phillips & Smith, LLP and David Maland, Clerk with the US District Court, Eastern District of Texas, began by presenting and discussing implications of statistical trends in patent filings and dispositions in the Eastern District over the past ten years. Mr. Maland gathered the statistics from data available from the Court's electronic case filing database and credited Catherine Whitaker, Assistant Chief of the Statistics Division of the Administrative Office of the U.S. Courts, for assisting the data collection that enabled statistical comparisons between the Eastern District and similarly patent-heavy districts across the United States.

The first two slides depicted numerical and linear trends of filings and dispositions for each of the six divisions in the Eastern District from 2003 through 2013. The 2013 statistics were projected based on the data collected over the first six months of 2013. The first slide showed the rise and separation of Marshall as the dominant patent filing division over the years and also showed the consistent and very gradual volume increase from 2003 to 2009 in Tyler,

the other statistically significant division. Total district filings peaked in 2007, at which point Marshall's filings dropped gradually until mid-2009 while Tyler's filings continued to rise. Mr. Smith attributed Tyler's 2007-2009 increase as corresponding to the Marshall decrease that appears to have been caused by the increasing times-to-trial in Marshall coinciding with significantly shorter times-to-trial in Tyler. A similar swap cycle between Marshall and neighboring Tyler appears to repeat every 2-3 years.

Having explained the historical filing numbers and trends through 2009, Mr. Smith moved on to the filings data likely to have been impacted from 2011 to the present by the AIA's joinder restrictions and *In re EMC's* severance requirements. Mr. Smith qualified the sharp filing increases in both divisions by noting that the uptick actually began across 2010 and 2011 before exploding in 2012 and 2013, due in part to a flood of false marking filings (estimated to have comprised between one third to one half of all contemporaneous "patent filings") that preceded the AIA's near practical elimination of false marking liability in 2011.

Predictably, the 2012-2013 filing data clearly shows that the AIA and *In re EMC's* restrictions to multi-defendant patent suits have dramatically increased total numbers of patent suit filings in the NPE-rich Eastern District. The 2012 results are somewhat skewed by *In re EMC's* requirement that claims against defendants in *pre-AIA* cases be severed into separate cases, resulting in hundreds of "new" cases generated by severances in previously-filed cases. However, even with the false positives largely eliminated by 2013 (using annualized numbers for the first half of the year), filings increased still further to approximately 1,500. The net filing results to date were presented in a pie chart that showed there are currently 709 pending cases in Marshall and 518 in Tyler, with a total of only 42

cases in four other divisions. A slide presenting the "serially filed" defendants trend showed that following the AIA's enactment, "serially filed" cases in Tyler had an average of 6.4 defendants in 2012 and 8.5 to date in 2013, while Marshall was slightly higher in 2012 at 10.6 but lower at 7.9 thus far in 2013.

Messrs. Smith and Maland concluded by briefly explaining data showing the Eastern District's patent case filings data has been similarly shared by other "patent-heavy" districts across the US, including Delaware and Northern and Central California.



David Hricik and John Keville.

### **Ethical Issues in Negotiating, Licensing, Mediation, Etc.**

During lunch, Professor David Hricik with Mercer Law School in Macon, Georgia, and John Keville with the Houston office of Winston & Strawn discussed ethical issues in settlement and licensing negotiations. The presentation focused on (1) choice of law; (2) what constitutes a false statement of material fact; and (3) what constitutes impermissible coaching of a client.

Initially, Prof. Hricik noted that clear guidance for "federal" ethical rules can be challenging to find. Federal courts often defer to "federal norms" or "national standards" of ethics, which are to be derived from a variety of sources, including state ethics rules, model rules, the Restatement of the Law Governing Lawyers, and the like. In fact, some circuits have held it is reversible

error to follow state ethics rules even if those state rules have been adopted by the federal court's local rules.

Whatever the applicable standard of ethics, lawyers are universally prohibited from making false statements of material fact in the course of representing a client. See, e.g., Model Rules of Prof'l Conduct R. 4.1(a). But what constitutes a "false statement of material fact" depends greatly on the circumstances.

Under generally-accepted conventions in negotiation, certain types of statements ordinarily are not taken as statements of material fact, but rather matters of opinion or conjecture. These include value estimates placed on the subject of a transaction; a party's intentions as to an acceptable settlement of a claim; and the existence of an undisclosed principal, unless nondisclosure is fraudulent.

Other statements are ordinarily viewed as statements of material fact. These include representations concerning the existence and amount of insurance coverage. A false statement of present intention is usually regarded as material.

Compare, for example, two statements that might be made during the course of a licensing negotiation when the lawyer making the statement is authorized to accept a royalty rate of three percent: (1) "The minimum royalty rate we can accept is five percent," and (2) "The minimum royalty rate I am authorized to accept is five percent." The first statement would likely be considered an acceptable statement of opinion or conjecture, whereas the second statement would not.

Finally, the panel discussed the ethics of coaching your client in communicating directly with the other party. Party principals may directly communicate with one another. Model Rules of Prof'l Conduct R. 4.2 cmt. A

lawyer, however, may not communicate with a represented opposing party. *Id.* R. 4.2. Moreover, a lawyer may not attempt to violate Rule 4.2 through another person, or assist or induce another person to do so. *Id.* R. 8.4.

A recent ABA opinion, however, concluded that it is not unethical for a lawyer to draft talking points or script for clients, to give strategies, and to give substantial assistance regarding a substantive communication. The lawyer must, however, warn his own client not to make admissions or disclose confidences and not to overreach or put undue pressure on other party. The lawyer must also instruct his client to advise the opponent to consult with counsel. See ABA Formal Ethics Op. 11-461 (Aug. 4, 2011).

In the opinion, the ABA admits that the line between permissible and unethical assistance might be blurry. Prof. Hricik and Mr. Keville advise the use of "playground fairness"—at a minimum, no dishonesty, deceit or misrepresentation, no misrepresentation of material facts, and no nondisclosure when necessary under the rules.

## Evolution of Pleading Requirements

After lunch, Steve Malin of Sidley Austin reviewed recent decisions on pleading requirements in patent cases stemming from *Bell Atlantic Corp. v. Twombly*, 550 U.S. 662 (2007) and *Ashcroft v. Iqbal*, 556 U.S. 662 (2009).



Steve Malin

In *Twombly*, the Supreme Court adopted a "plausibility of relief" standard for Sherman Act claims, requiring the plaintiff to plead enough facts to raise a reasonable expectation that discovery will lead to evidence supporting the cause of action. The Supreme Court extended this standard

to other causes of action in *Iqbal*.

For the patent bar, the question then became whether, and how, *Iqbal* and *Twombly* affected pleading requirements for patent infringement in light of Form 18 of the Federal Rules of Civil Procedure. In an apparent contradiction to the heightened standards of *Iqbal*, Form 18 merely requires (1) an allegation of jurisdiction; (2) a statement that the plaintiff owns the patent; (3) a statement that defendant has been infringing 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.

With *In re Bill of Lading Transmission*, 681 F.3d 1323 (Fed. Cir. 2012), the Federal Circuit held that Form 18 is sufficient to withstand a sufficiency challenge to a direct infringement cause of action, but that *Twombly* and *Iqbal* control when pleading indirect infringement. The Court also noted that for a claim of indirect infringement, a plaintiff need not identify a specific direct infringer. Rather, the plaintiff may plead facts sufficient to allow an inference that there is a direct infringer.

*Bill of Lading* also clarified that the notice of infringement itself can satisfy the knowledge requirement. This overturned a number of district court cases that previously required an accused infringer to have knowledge of the patent prior to institution of the lawsuit.

In *Superior Industries, LLC v. Thor Global Enterprise Ltd.*, 700 F.3d 1287 (Fed. Cir. 2012), the Court applied *Bill of Lading* in holding that the patent owner had stated sufficient facts to support a plausibility of relief for a claim of direct infringement. The Court, however, affirmed the trial court's dismissal of the indirect infringement claims.

In *K-Tech Telecommunications, Inc. v. Time Warner Cable, Inc.*, 714 F.3d 1277 (Fed. Cir. 2013), the defendants argued that the

patentee had failed to identify the specific device or products that infringed the patents at issue, and therefore the complaint should be dismissed. K-Tech responded that it was unable to ascertain exactly what devices were infringing. The trial court dismissed K-Tech's complaint, ruling that K-Tech had failed to explain how the defendants' products were infringing the patent at issue. In reversing the trial court's dismissal, the Federal Circuit cautioned that Form 18 does not require the plaintiff to rebut the defendant's theories of noninfringement.

Of course, all parties should ensure that any allegation of direct infringement satisfies Form 18. Moreover, both parties should also be aware that a complaint could be Form 18-compliant and yet deficient under Rule 11.

### Managing Claim Construction Determinations Across Multiple Cases

Ms. Hilda Galvan of Jones Day opened with President Obama's high-profile involvement in the politics associated with non-practicing entities ("NPEs"), noting that the President has publicly used the terms "hijack" and "extort" in describing NPE activities. The President's harsh and yet publicly uncontroverted criticisms appear to reflect growing bipartisan frustration over the increasing volume of NPE litigation and corresponding costs to commerce. The AIA added section 299 to chapter 35 of the U.S. Code, which prohibits the joining of defendants in a patent infringement action unless they are accused of infringing under the same products or process. This joinder provision was intended to curtail perceived NPE litigation excesses, but it has resulted in unintended consequences, e.g., increases in filings totals.



Hilda Galvan

Ms. Galvan introduced the unintended, but less facially predictable problem of increasing numbers of cases in which the issue of claim construction consistency arises. Ms. Galvan presented past and current approaches that courts have used to handle the construction of claim terms under the same patent that have already been construed by another court. While collateral estoppel preclusion is always considered, it often does not apply due to the requirements of having identical issues and a final judgment based on the decided issues. Ms. Galvan pointed out that issues differences, arising from differences in contested terms, new arguments, and different intrinsic records, often negates estoppel, and also that different “final judgment” standards in different circuits complicate its application.

On the “identical issues” point, Ms. Galvan referenced the claim construction opinion issued in *Golden Bridge Technology Inc. v. Apple Inc., et al.*, (D. Del. Apr. 9, 2013). Golden Bridge Technology (“GBT”) sued Apple and Amazon.com in two separate actions alleging infringement of U.S. Patent Nos. 6,574,267 and 7,359,427. The Court considered the estoppel effect of the claim constructions of the ‘267 patent in a prior suit filed by GBT in Texas against other defendants. The Court held that collateral estoppel was not applicable because the issues previously decided by the Texas court were not identical to the present case. Specifically, one of the patents-in-suit, although a related patent, was not issued until after the conclusion of the Texas case. Moreover, the ‘267 patent was reexamined after the Texas case concluded, resulting in different claims and additional prosecution history. Ms. Galvan noted that the Fifth Circuit applies the strictest rule in which a final judgment must be appealable, rendering collateral estoppel inapplicable to claim construction orders in cases disposed

of by settlement or by final judgments not based on claim construction issues.

Ms. Galvan divided the non-precluded collateral estoppel cases into two categories: (1) cases in the same judicial district and (2) cases across different districts. Most districts follow a rule requiring a high level of deference to, but independent evaluation of, a previous construction order issued from within the same district. See, e.g., *EMG Technology, LLC v. Chrysler Group, LLC*, 6:12-cv-259, 2013 WL 3502072 (E.D. Tex. Apr. 11, 2012); *TQP Development, LLC v. 1-800-FLOWERS.com, Inc.*, 2013 WL 2177896 (E.D. Tex. May 20, 2013); and *Rambus, Inc. v. LSI Corp.*, C 10-05446RS, 2012 WL 4466578 (N.D. Cal. Sept. 26, 2012).

Ms. Galvan also discussed the general “reasoned deference” rule that is generally applied to claim constructions from other judicial districts. In the first case, *Red River Fiber Optic Corp. v. Verizon Servs. Corp.* (N.D. Tex. Feb. 14, 2012), multiple claims at issue in the Northern District were construed in the Eastern District of Texas. Characterizing the Eastern District’s construction opinion as thorough and well-reasoned, the magistrate judge adopted only two constructions verbatim and modified the construction of nine terms.

In the second case, the court in *Comcast Cable Comms. Corp. v. Finisar Corp.* (N.D. Cal. Apr. 6, 2007) afforded little deference to a Texas Eastern District construction order. The Court began by acknowledging the interest in uniform claim treatment with the caveat that different conclusions may be reached. With that, the Court construed the claims substantially differently than the Texas Eastern District court and provided no particular rationale as to why.

In the third case, *Southwest Bell Tel., L.P. v. Arthur Collins, Inc.* (N.D. Tex. Oct. 14,

2005), the Court frequently cited to and adopted every construction position previously ordered in the Eastern District of Virginia.

Ms. Galvan then moved to how courts have handled or may handle claim construction in the post-AIA era in which separate suits are being filed against multiple defendants asserting the same claims. Courts are using transfer, delay of transfer, or denial of transfer in different ways depending on the circumstances of each case to minimize the potential for inconsistent constructions. Examples of use of case transfer included post-AIA *Ho Keung Tse v. Google, Inc.* (E.D. Tex. Dec. 13, 2012) and pre-AIA *COA Network, Inc. v. Global Communications, Inc.* (D.N.J. June 17, 2010). In both cases, the transferee court (Northern District of California) had greater numbers of co-pending cases and both cases were further along than the corresponding co-pending cases in the transferor courts. In *Diet Goal Innovations LLC v. Meredith Corp.* (E.D. Tex. April 15, 2012), the Court denied a motion to transfer to the Southern District of New York and opted instead to transfer to the Eastern District of Virginia which was handling co-pending cases.

A creative use of transfer was seen in *Beacon Nav. GmbH v. Chrysler Grp. L.L.C.* (D. Del. 2013). The Court granted the transfer motion for 38 of the total 46 defendants and issued a *sua sponte* transfer order directing the remaining eight defendants' cases to the Eastern District of Michigan where the other 38 had been transferred. The judge acknowledged uncertainty about a jurist's authority to undertake this type of action for the sake of minimizing the risk of inconsistent claim construction.

Ms. Galvan then presented examples in which courts transferred cases despite realizing that doing so risks inconsistent

constructions and how those courts creatively attempted to mitigate the risks. In *Cian IP LLC v. National Instruments Corp.* (N.D. Tex.), Judge Lynn granted NI's motion to transfer to the Western District of Texas. Upon docketing of the transferred case, Judge Yeakel assigned the case back to Judge Lynn (who was sitting by designation in the Western District) with the intent that she would preside over both the Northern District and Western District *Cian IP* cases. However, the Northern District case settled, and the Western District case was assigned back to Judge Yeakel.

In *Good Technology Corp. v. Little Red Wagon Technologies, et. al* (N.D. Tex.), Judge Lynn transferred a number of defendants to the Southern District of New York leaving several other defendants remaining in the Northern District of Texas. Judge Lynn and the assigned New York judge scheduled an apparently unprecedented cross-district joint *Markman* hearing. At least one of the cases however settled prior to the hearing resulting in cancellation of the joint hearing.

Next, Ms. Galvan discussed how courts have delayed the transfer of defendants to minimize the risk of inconsistent claim constructions. In *Norman IP Holdings LLC v. Lexmark Int'l Inc. et al.* (E.D. Tex. Aug. 10, 2012), Chief Judge Davis issued an order retaining the defendants in the case through the *Markman* phase of the proceedings, with any pending orders to transfer becoming effective once the *Markman* opinion issues. In *Williamson v. Verizon Comms. Inc.* (S.D.N.Y. Jan. 18, 2013), the Court denied transfer without prejudice to refiling before trial; the only factor weighing in favor of transfer was the convenience of the parties regarding trial location.

Ms. Galvan concluded by noting that the Federal Circuit has ruled that the risk of

inconsistent claim constructions is inadequate as a sole ground to deny a motion to transfer. See *In re Verizon*, 635 F.3d 559 (Fed. Cir. 2011); *Zimmer Holdings*, 609 F.3d 1378 (Fed. Cir. 2011). Courts should consider using other techniques to address the issue of inconsistent claim constructions via, e.g., joint *Markman* hearings or providing deference to prior claim construction rulings.

### Management of Patent Litigation Under the AIA Transition

Jerry Selinger of Patterson & Sheridan gave a half-hour presentation on the potential impacts of the America Invents Act on patent litigation. Mr. Selinger leads his firm's trial practice section and focuses on intellectual property trials and appeals.



Jerry Selinger

Mr. Selinger started the presentation with a recap of pre-AIA law, which will still apply to certain patents as late as 2030. He stressed that many cases during the next twenty years are likely to be governed by pre- and/or post-AIA provisions.

Mr. Selinger then summarized the changes to 35 U.S.C. § 102 and § 103. With respect to § 102, the first inventor to file an application, or to publicly disclose an invention and then file an application within one year of publication, will generally get priority. In addition, the one-year bar date now starts with an “offer for sale” or “public use” anywhere in the world rather than just the United States.

With respect to § 103, obviousness is now determined based on the effective filing date of an application rather than the date of the invention. In Selinger's opinion, however, the change to § 103 likely only impacts rapidly-evolving technology. He also

questioned whether the new statutory wording “claimed invention as a whole” found in § 103 changes the obviousness analysis or merely adopts the Federal Circuit standard.

Mr. Selinger then highlighted potential issues under the new § 102. For one, § 102(b) introduces the term “subject matter” into the statute. Specifically, §§ 102(b)(1) and 102(b)(2) exclude from prior art disclosures of subject matter by the inventor or those who obtained the subject matter from the inventor. For these exceptions to be applied at the PTO, however, the disclosed subject matter must be *identical* to the claimed subject matter. Mr. Selinger pointed out, however, that the PTO has indicated the mode of disclosure can be different, the disclosures need not be worded identically, and a more-general description of disclosed subject matter is covered by the exception.

While the AIA undoubtedly increases the body of available prior art, Selinger noted that the new law may also eliminate some art. Specifically, the PTO construes “available to the public” in § 102(a)(1) as modifying all other preceding phrases. As a result, a secret sale or use by the inventor does not, according to the PTO, qualify as prior art. Thus, an inventor's own prior commercial use might not operate as bar if the prior use or knowledge was not “available to the public.”

The AIA also created a “prior commercial use” defense under 35 U.S.C. § 273, by which a litigant may defend a claim of infringement by establishing its own commercial use of the claimed invention at least one year before the effective filing date of the asserted patent. The defense does not apply, however, if it is based on subject matter somehow derived from the patentee. For this defense, the accused infringer must

meet a “clear and convincing” burden of proof.

Mr. Selinger noted that as first-to-file patents start to be litigated, creative lawyers will have an opportunity to flush out these provisions and the PTO’s interpretations, and to develop significant new law. For example, what constitutes “subject matter” in the new § 102(b)(2)? How “similar” must an “identical” disclosure be for the PTO to apply the prior-art exceptions of §§ 102(b)(1) and 102(b)(2)? Can the “on sale activity” exception be limited to “identical” subject matter as well? What constitutes “commercial use” under § 273? And does the new language of § 103 change the obviousness analysis? These are all issues we can expect to see litigated in the coming years.



Hon. Diane DeVasto, Diane Lettelleir, Hon. John Love, and Hon. Rodney Gilstrap.

### **Trial of a Small Patent Case**

Recently, PTO discussions have surfaced about the possibility of a patent small claims court to help address the high expense of litigation. High litigation expense means small inventors often cannot economically enforce their patent rights. This, in turn, leads those inventors to avoid the patent process, to the detriment of the patent system and the public knowledge.

Thursday’s final presentation was a panel discussion concerning the “small patent case.” The panel consisted of Hon. Diane DeVasto of Tyler Potter Minton, Hon. J. Rodney Gilstrap, Diane Lettelleir of J.C. Penney Corp., and Hon. John Love.

The panel’s discussion was centered on the

United Kingdom’s approach to small patent cases in the Patents County Court, which was organized in 1990 to provide a cheaper and simpler alternative forum for patent litigation.

The panel discussed the parameters for what would constitute a small patent case. While the panel had no conclusive definition in mind, possibilities include the amount of damages and the scope of evidence.

Other issues to be considered include the timing of claim construction, the number of trial days, discovery limitations, whether opting for a “small case” classification would result in a waiver of jury rights, limitations on pleadings, appeals, and mediation. The panel also considered whether claims of invalidity or willful infringement should exempt a case from a “small case” classification.

More information on the UK Patents County Court can be found at <http://www.justice.gov.uk/downloads/courts/patents-court/patents-court-guide.pdf>.

After a long day under the glare of the fluorescent conference room lights, many participants availed themselves of the outdoor air and blue New Mexico skies by participating in the annual golf tournament. Later in the evening, participants enjoyed a relaxed social gathering.



Participants prepare for the annual golf tournament.



Participants relax at the evening social gathering.

## ***Friday***

### **Preparing a Patent Case for Trial**

Friday started off with Michael D. Pegues of the Dallas Office of Bracewell & Guiliani, and the Honorable Diana V. DeVasto of the Tyler Office of Potter Minton, opened the morning session of the second day of the conference with their joint presentation on “Preparing a Patent Case for Trial.”



Hon. Diane DeVasto and Michael Pegues.

Judge DeVasto started the presentation by cautioning against over using PowerPoint presentations with the jury. She noted that PowerPoint presentations can be very distracting to the jury. Mr. Pegues then stressed the importance of keeping the presentation to the jury simple. He added that narrowing the case is critical to keeping it simple. One way he recommended focusing the case was to draft the jury charge early.

The discussion then turned to the pretrial order and what needs to go into the order, as well as how to use the pretrial order as an opportunity to narrow the case for trial. With regard to the witness list, Mr. Pegues advised that litigants should focus on the reason for calling each witness and what their testimony will provide. He advised that litigants should boil down the testimony of their witnesses to three main points. He added that litigants should also get a sense of why the other side is calling certain witnesses and try to ascertain what their testimony is likely going to be so that effective cross-examinations can be prepared.

Judge DeVasto then discussed the exhibit list. She pointed out that most judges limit the number of exhibits that can be used at trial. She advised that litigants should try to limit their lists to about 250 exhibits per side. She also urged litigants to focus on the exhibits of the other side to try to figure out how they will be used. Judge DeVasto also advised that counsel for both sides need to confer prior to the pretrial conference to narrow the issues for trial.

The presenters then discussed other discretionary pretrial efforts that should be undertaken, including conducting mock jury trials, preparing demonstratives, and engaging jury consultants to assist with jury research, witness preparation, and voir dire. Judge DeVasto emphasized that the data gathered from the mock jury research can be very useful in focusing witness outlines. The presenters also talked about the importance of doing research on the actual jury. They advised taking the time to study the jury questionnaires as a lot of useful information can be gained from them. They also recommended hiring a private investigator to dig up information on each of the prospective jurors. They point out that social media sites were useful sources of information about the prospective jurors.

The presenters concluded the presentation by advising of the importance of involving local counsel in all aspects of the pretrial process.



Janelle Waack and Don Coulman.

### **New *Inter Partes* Review and Interplay with Litigation**

Janelle Waack with the Houston Office of Novak Druce Connolly Bove + Quigg LLP and Don Coulman of Intellectual Ventures in Seattle, Washington, addressed the new *Inter Partes* Review (IPR) process established by the AIA. Specifically, the panelists discussed the structure of an IPR as well as the interplay of IPR with litigation.

The new IPR provisions became effective September 2012. IPR provides a mechanism to challenge the validity of United States patent claims based on other patents and printed publications. IPR is intended to quickly render a final decision within about eighteen months.

IPR has a pretrial period and trial period. The pretrial period starts with the filing of a petition that construes each challenged claim and asserts why each challenged claim is allegedly unpatentable. The petition must specify where every element of the challenged claim is found in the prior art. The petition may provide documentary and declarant evidence to support the challenge. After the petition is filed, the patent owner *may* file a preliminary response to the petition within three months to assert that IPR is unwarranted.

The pretrial period concludes when the

Patent Trial and Appeal Board (PTAB) decides to either grant or deny the petition. The PTAB will grant the petition if there is a reasonable likelihood that the challenge would prevail on at least one of the claims based on a preponderance of the evidence. So far, the PTAB has granted about ninety percent of IPR petitions.

The granting of a petition signifies the start of the trial period. After a petition is granted, the owner has a three-month period to conduct discovery and respond to the petition. The owner may also move to amend the challenged claims. The petitioner then has a three-month period to conduct additional discovery, reply to the response, and oppose any amendment to the claims. After a one-month reply period for the PO, a three-judge panel will issue a decision, usually no more than twelve months from the petition's grant date. If requested, the PTAB will grant an oral hearing prior to the decision.

Mr. Coulman stressed, and restressed, the importance of knowing the rules throughout the proceeding. Each panel will have at least one judge well-versed in interference practice, and the judges are not sympathetic to mistakes. A practitioner should know the statute, the rules, interpretive comments, the trial practice guide, and even representative decisions on the USPTO website. IPR is designed to efficiently render a decision on the challenge, and the failure of a party to know the applicable rules impedes such efficiency and can lead to damaging consequences for a party's position.

Mr. Coulman suggested not relying on § 102 challenges, the vast majority of which are not successful. Rather, include single-art § 103 challenges along with the additional evidence to show the claim is obvious. The judges appreciate the practical side of obviousness challenges, especially in light of *KSR v Teleflex* and similar decisions.

Ms. Waack provided background on PTAB judges. Many of the judges were initial members of the interference trial section formed in the late 1990s. Those same judges are now leading the IPR proceedings and are instrumental in training younger PTAB judges. All of the judges have technical degrees, and will have studied the record prior to any hearing.

Ms. Waack also discussed IPR discovery rules, which are intended to avoid the voluminous discovery often found in a district court setting. The Board wants parties to focus on discovery reasonably needed to respond to the opponent's position. A party is entitled to "routine discovery," which includes discovery directed to cited exhibits or testimony, cross-examination of the opposition's declarant, and information that is "inconsistent with a position advanced during the proceeding." "Additional discovery" includes everything else, and will only be permitted when a movant can show such discovery is necessary "in the interests of justice."

The panel also discussed litigation stays, which are not mandatory but are expected to be common. So far, about two-thirds of motions to stay litigation because of a pending IPR have been granted, with district courts most-often considering (1) whether discovery is complete and whether a trial date has been set; (2) whether a stay will simplify the issues in question and trial of the case; and (3) whether a stay would unduly prejudice or present a clear tactical advantage to the non-moving party.

Finally, the panel touched on settlement of an IPR proceeding. Ms. Waack noted that a petition for IPR might be a vehicle to bring the parties to settlement early, provided that the petitioner can prepare a well-drafted petition for an opponent's review prior to filing. Settlement terminates the proceeding with respect to the parties but does not guarantee the panel will not issue a ruling.

Any settlement must be in writing and filed with the Board. Settlement terms are sealed and kept separate from the record, and are only available to government agencies unless good cause is shown.

### Developments in IP Anti-Trust

Stephen Fox, a principal in Fish & Richardson's Dallas office, updated course attendees on developments in patent-related antitrust litigation and recent developments concerning standard essential patents (SEPs).



Stephen Fox

With respect to antitrust developments, Mr. Fox discussed two recent, notable decisions. The first, *F.T.C. v. Actavis, Inc.*, 133 S.Ct. 2223 (2013), involved reverse payment settlements (RPSs), which are agreements by patent holders to pay potential competitors to delay entering the market. Prior to *Actavis*, a patent owner acting alone and within the rights of his patent grant was immune from antitrust liability under Federal Circuit law, although other circuits held that RPSs were presumptively unlawful.

The Supreme Court rejected both approaches and held that RPSs should be reviewed under the "rule of reason." The Court held that agreements that appear to fall within the scope of the patent may be anti-competitive if the patent is invalid or not infringed, but the Court refused to presume illegality of RPSs.

The second case, *United States v. Apple Inc.*, No. 12 Civ. 2826 (S.D.N.Y.) concerned most-favored-nation (MFN) clauses. In 2010, Apple convinced five e-book publishers to force other e-book retailers to switch from a wholesale model, in which the retailers set their own prices, to an agency model, in which the publishers set the prices. Apple's agreements with the

publishers contained MFN clauses that ensured Apple could match the price on any competing retailer's e-book.

Following a three-week bench trial, the trial court found that the contracts violated Section 1 of the Sherman Act. According to the trial court, "[t]he plaintiffs have shown that the publisher defendants conspired with each other to eliminate retail price competition in order to raise e-book prices, and that Apple played a central role in facilitating and executing that conspiracy."

After these two antitrust cases, Mr. Fox turned to three recent district court cases addressing SEP issues. In *Microsoft, Inc. v. Motorola, Inc.*, Case No. C10-1823JLR (W.D. Wa.), the court issued a 207-page analysis of the obligation to license SEPs on reasonable and non-discriminatory based on a modified *Georgia-Pacific* analysis. Although lengthy and non-binding, the decision provides significant guidance for the type of evidence that may be useful in RAND disputes.

In *SK Hynix v. Rambus*, No. C-00-20905 RMW (N.D. Cal.), the trial court had previously awarded Rambus damages of \$350 million for patent infringement. Hynix appealed the trial court's finding that Rambus did not destroy evidence relating to the litigation. The Federal Circuit vacated the trial court's finding on spoliation, after which the trial court reversed its position. The court presumed Rambus's spoliation of evidence prejudiced Hynix's ability to litigate its claims and issued a sanction of \$250 million applied against Rambus's judgment—in effect imposing a RAND rate cap as a sanction for the spoliation.

In *Realtek Semiconductor v. LSI Corp.*, May 20, 2013 (N.D. Cal.), LSI breached its licensing obligations to Realtek by failing to offer a license on RAND terms before seeking an exclusion order and injunctive relief. The Court granted Realtek's request

for a preliminary injunction barring LSI Corp. from enforcing any exclusion order or injunctive relief.

Notwithstanding these three decisions, a number of unsettled issues remain in this area, including what constitutes acceptable RAND licensing terms, the availability of injunctive relief, obligations associated with patent transfers, and the nature of any disclosure obligations.



Amanda Johnson, Alan Albright, Alan Ratliff, and Noah Webster.

### **Damages Panel**

Alan Albright of Bracewell & Guiliani, Alan Ratliff of StoneTurn Group, Noah Webster of BlackBerry, and Amanda Johnson of Akin Gump presented a panel discussion on damages focusing on license comparability under *Georgia-Pacific* and recent developments relating to the entire market value rule (EMVR).

Under the EMVR, if the patent holder can prove that the patented component is the basis of demand for the entire product, the royalty base for damages purposes is the entire product rather than just the patented component. Recent decisions, however, suggest an increasing burden on patent holders to provide concrete damages analysis that relate to the facts of the case to justify use of the EMVR.

The panel agreed that, from a patent holder's perspective, recent EMVR case law makes litigating royalty issues without a survey more difficult. Moreover, because of the cost of surveys, patent holders are more likely to focus on finding key marketing documents from the accused infringer that

explains why the patented feature is so important. In fact, Mr. Webster noted that searching for a “smoking gun” document is usually cheaper than a survey, with the added benefit of forcing the accused infringer to chase down every document, thus increasing defense costs.

There are alternatives to the EMVR. Mr. Albright suggested identifying what he called the “largest smallest component” supportable early in the case. The key to this approach is getting the technical expert involved in the case as early as possible to identify that component. The technical expert must be able to explain to the jury the relationship between the various components and why the selected component is justifiable as a base for damages calculations.

With respect to license comparability, *Georgia-Pacific* suggests using licensing rates paid by the accused infringer to license comparable patents as a factor in deriving a reasonable royalty rate. This requires that such licenses are sufficiently comparable to the hypothetical license at issue. Any actual licenses used for this comparison cannot be “radically different” from the hypothetical agreement under consideration.

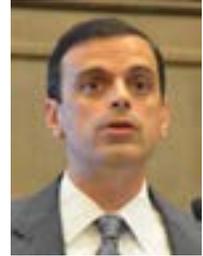
In *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 56, 63 (Fed. Cir. 2012), the court stated that “[w]hen relying on licenses to prove a reasonable royalty, alleging loose or vague comparability between different technologies or licenses does not suffice.” Any such actual licenses should be linked to the patented technology, the same patents or similar technology; be relevant to the royalty structure of the hypothetical license (e.g., either the same structure or capable of being converted to the same structure); be commensurate in scope and consideration; and not arbitrarily inflate damages.

In short, the trend in damages analysis

suggests an increasing burden the patentee. The panel agreed that the days of the “black box” damages model are likely behind us.

### **Are Mock Trials Really Useful? – Best Practices, Managing Client Expectations**

Chair of the Section, Paul Morico of Baker Botts in Houston, Texas, began this lunch presentation with a question: Why conduct jury research? He answered the question by saying that you conduct jury research for the same reason that you investigate a judge you’ve never been before, namely, so you know how the decision maker in your case thinks. He stressed that it is even more important to investigate how the potential jurors think and will analyze the evidence and arguments made at trial because they will be deciding the ultimate issues in the case.



Paul Morico

Morico then proceeded to discuss the various forms of jury research, including mock jury trials, focus groups, deliberation groups, and juror survey. He discussed the various aspects of each of these forms of jury research. For mock jury trials, he discussed the importance of selecting an experienced jury consultant. He recommended that the jury consultant be experienced in selecting juries and know the profile of the prospective jury. He also discussed the location of the mock trial. He cautioned against holding it in the client’s facilities because of the danger of tainting the results of the research. Morico then stepped through the elements of the presentation to the mock jury, including using an opening to summarize the case at the beginning of the presentation. He urged the importance of having attorneys of equal abilities present both sides of the case and of presenting your opponent’s best case. He pointed out the advantages of mock jury trials being the ability to watch deliberation

as well as the ability to test credibility and other evidence, including demonstrative evidence.

Morico then turned to a discussion of the other forms of jury research. He explained how focus groups are limited because the focus group is usually only presented with a summary of the evidence rather than the evidence itself. He pointed out the cost advantages of focus groups as well as them being a good tool for testing themes. A drawback of this form of research, according to Morico, is that “you can’t evaluate credibility.” He described jury deliberation groups as a hybrid of focus groups and mock jury trials with the main benefit being the ability to watch the participants deliberate. He observed that jury deliberation groups were somewhere between focus groups and mock jury trials from a cost perspective. Morico then described jury surveys as an inexpensive, helpful tool for gathering data about your trial themes. He recommended conducting this form of research before the start of discovery.

Morico then turned the focus of his speech to the use of mock jury trials and other forms of jury research in patent cases. He identified the various themes, issues, and evidence that attorneys should consider testing in such cases. An exemplary list of themes, included the patentee as an innovator (or gamer of the system), the accused infringer as a copyist (or fair competitor), the patent as a property right (or an improper exclusionary right). Issues identified included infringement (direct and indirect), validity (including whether to test reexamination), willfulness, and damages. Morico also noted the practical challenges of testing all of the issues in the case given the limited time devoted to the process. Morico noted that mock jury trials are a good vehicle for testing demonstratives, including mock-ups and the accused products as well

as prior art devices.

Mr. Morico then discussed the role of the client in the whole process. He advised keeping the client involved in the process from the beginning. He noted the importance of managing the client’s expectations. “It’s not about winning the case before the mock jury,” Morico stated. According to Morico, “the main purpose of mock jury trials is to learn the strengths and weaknesses of your case and test the themes and evidence in the case.” Morico added, “the sooner the client understands this, the less likely the client will discover that its expectations were not met.”

Morico ended the talk with some practice tips. These tips included, (1) writing your protective order so that the mock jurors can see “confidential” and “highly confidential information;” (2) conducting the mock jury research early enough to be able to modify your themes; (3) testing evidence that might be excluded separately so as not to taint the rest of the data; (4) hiring a jury consultant that knows and understands the jury pool in the venue where your case is pending; and, finally, (5) keeping your client engaged in the process from the beginning.



Bob McAughan, Derek Gilliland, and Johanna Carrane.

### **Voir Dire in Texas Federal Courts**

Bob McAughan of Sutton McAughan Deaver moderated a panel discussion on voir dire in Texas federal courts. Derek Gilliland of Nix, Patterson & Roach and Johanna Carrane of Juryscope, Inc., a Minnesota jury consulting firm, participated as panelists.

Mr. Gilliland, who spends the majority of his time in intellectual property litigation,

stressed the importance of planning for voir dire from the start of the case. He emphasized that this requires that attorneys know their cases well and develop a narrative from the beginning.

Generally, the panel members prefer not to use conditioning questions during voir dire. At the end of the day, said Gilliland, conditioning questions are probably a waste of valuable time because most jurors do not remember much from voir dire other than that they were selected to the jury.

Rather than looking for jury panelists who agree with his position, Mr. Gilliland views voir dire as an opportunity to ferret out panel members who disagree with him, and believes the key to this objective is to get those panelists talking. In designing questions, Mr. Gilliland thinks about which jurors will be not be receptive to his narrative: What life experiences, education level, and potential biases are likely to cause persons to disagree? And when the panelists are talking, Mr. Gilliland suggests listening carefully to what they say.

Mr. Gilliland also emphasized that lawyers should carefully research and understand the law and local process governing the jury-selection. The Federal Rules of Civil Procedure give courts great discretion concerning voir dire. For example, the court may conduct voir dire or allow the attorneys to do so. Courts must allow to each side three peremptory challenges, but may allow more. Knowing how to preserve error can be critical when a juror admits to actual bias but the judge refuses to strike, as can knowing how to handle a juror who admits to facts that imply bias.

Ms. Carrane provided additional useful practical tips from a jury consultant's perspective. First, Ms. Carrane recommended that local counsel should not be sent home at the conclusion of voir dire, and should instead remain involved to make

clear to the jury that local counsel is part of the team and was not just brought in to appeal to panelists. Second, as a general rule, Mr. Carrane suggested that a lower number of panelists will generally reduce the judge's willingness to allow a hardship, which can potentially affect how strikes should be used. Finally, Mr. Carrane suggested negotiating which party will ask general questions, and considering whether it makes sense to request a few extra minutes for questions that benefit both parties.

The panel generally stressed the importance of reconnaissance and preparation. The panel noted that, because federal courts have such a great deal of discretion in voir dire, it is critical to know and plan for your court's particular process. For example, whether and when the judge will show the Federal Judicial Center's patent video can affect strategy. Similarly, knowing the typical size of the panel in patent cases and whether the judge will give a sufficient number of challenges to strike through the panel can impact decisions about which panelists to strike. Other key questions include: Who conducts voir dire? How is the courtroom laid out? When is jury selection conducted? Does the court permit mini-openings? The answers to these questions will help planning and thereby minimize the impact of these variables during the selection process.

Finally, the panel noted the importance of creating a plan for voir dire from the beginning of a case, and of continuing to plan through the end of voir dire. A plan can be adjusted as needed based on reconnaissance and additional information; given the typical scarcity of time, the objective should be efficiently working through a jury panel while minimizing the chances of keeping an unfavorable juror.

The panelists stressed that flexibility is important because federal courts have great

discretion and a may change procedures to suit particular circumstances. If and when that happens, preparation is key to being able to adapt effectively.

### Best Practices in Preserving Error

Michael Hawes with the Houston office of Baker Botts discussed best practices for perserving error. In patent litigation, preserving error is a complex area due to different types of law that can apply. Depending on the error to be preserved, either Federal Circuit law or the applicable regional circuit law may apply.



Preserving error involves three steps. The first step is identifying the error of the trial court: whether it is of commission or omission. The second step is stating the legal basis for the objection. The third step is telling the trial court what it ought to do instead of making the mistake. The third step is the one that can be most difficult in the heat of trial.

Ethical issues in preserving error include the appealability of sanction determinations, potential sanctions for appealing a nonfinal judgment, and potential sanctions for filing an inappropriate cross appeal.

The Federal Circuit's en banc decision in *Robert Bosch LLC v. Pylon Manufacturing Corp* allows appeals prior to damages and willfulness trials. The en banc case of *Lighting Ballast Control v. Philips Electronics* could increase the need for preserving error in claim construction hearings if the Federal Circuit decides that there are underlying factual determinations in claim construction.

The key issue in preserving claim construction errors is whether the construction urged on appeal was waived because it was not presented to the district court. Even if it was not, there are several possibilities for avoiding the waiver. First,

even if the appealing party did not propose its preferred construction to the District Court, the Federal Circuit may adopt it because, under its *de novo* review standard, it can adopt constructions independent of the parties' position. Second, the Federal Circuit may not find waiver when the change in construction is small. Third, an appealed construction that is a subset of the district court construction can also avoid waiver.

When a party fails to include an issue in a Rule 50(a) motion and then asserts it in a Rule 50(b) motion, the other party must object in its response to the Rule 50(b) motion or risk waiving its objection.

Appeal of a summary judgment determination can involve unique record issues and also raises the risks of a reversal when the appellee is not aware of that risk. Judgments with finality problems can be fixed during the appeal. The Federal Circuit has allowed those problems to be fixed even during argument at its discretion. But the better approach is to preserve any errors that occur in the trial court in the first instance.



Tom Adolph and Andrew Spangler.

### The Ethics of Alternative Fee Arrangements for Financing Patent Litigation

Tom Adolph of Adolph Locklar and Andrew Spangler of Spangler & Fussell presented on ethical issues in alternative financing for patent litigation.

One source of confusion may come from the

difference between the ABA Model Rules and the Texas Disciplinary Rules of Professional Conduct. First, the language of the rules is different. Rule 1.04(a) of the Texas Disciplinary Rules of Professional Conduct states that “[a] lawyer shall not enter into an arrangement for, charge, or collect an illegal fee or unconscionable fee. A fee is unconscionable if a competent lawyer could not form a reasonable belief that the fee is reasonable.” ABA Model Rule 1.5(a), however, states that “[a] lawyer shall not make an agreement for, charge, or collect an unreasonable fee or an unreasonable amount for expenses.” By and large the difference in the language of these two rules have not been explored.

Second, there are conflicting interpretations about whether the rules apply only when the fee arrangement is made or also when the attorney tries to collect the fee. Comments to the Texas rule provide that “except in unusual circumstances,” the determination of unconscionability should focus on the time the arrangement was made. The ABA rule does not address this issue.

More complicated issues arise when the client assigns a portion of the claim in exchange for financing, such as in the case of alternative litigation financing (ALF) agreements. In most states, a lawyer cannot refer a client to an ALF firm that is owned by the lawyer. In addition, the ALF agreement with the client may put the attorney in a conflicting position by requiring disclosure of privileged information, or by impeding the client’s ability to direct the engagement.

Ultimately, do not hesitate to use the State Bar’s ethics helpline to address any questions you may have. Be sensitive to the fact that you might not have encountered all the ethical issues in financing patent litigation, given the high cost of litigation and the increasing and ever-evolving need for creative funding sources by litigants.

## Joint Infringement/Indirect Infringement

Casey Griffith of Klemchuk Kubasta LLP informed attendees about the new standard of liability for divided infringement of method claims set forth by *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301 (Fed. Cir. 2012). *Akamai* concerned two different district court cases: *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, 614 F. Supp. 2d 90 (D. Mass.) and *McKesson Information Solutions LLC v. Epic Systems Corp.*, No. 1:06–CV–2965–JTC, 2009 WL 2915778 (N.D. Ga. Sept. 8, 2009). Both district court cases involved divided infringement of method claims, in which a single act of direct infringement occurs through combined actions of multiple parties.



The claims in *Akamai* were directed to a method of delivering web content. Limelight maintained servers that performed certain steps of the claimed method, but Limelight itself did not modify the content of providers’ pages. The Federal Circuit’s opinion states that Limelight instead instructed its customers on how to modify that content. The district court granted Limelight’s motion for JMOL to negate the jury’s finding of infringement, reasoning that direct infringement of method claims required more than control over access to an Internet-based system and instructions to customers on how to use that system.

The claims in *McKesson* were directed to a method of electronic communication between healthcare providers and patients. McKesson sued Epic for inducing infringement by patients and healthcare providers, both of which performed steps of the asserted claims. The district court granted Epic’s motion for summary judgment because McKesson could not

demonstrate that a single party directly infringed the claims.

The Federal Circuit held that “all the steps of a claimed method must be performed in order to find induced infringement, but”—in a shift from its own precedents—“that it is not necessary to prove that all the steps were committed by a single entity.” *Akamai*, F.3d at 1306. In doing so, the Court overruled its own prior decision in *BMC Resources*, which held that the direct infringement required for inducement must be satisfied by the actions of a single entity, either personally or under its direction and control. *Id.* (citing *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed.Cir.2007)). The Federal Circuit reasoned that requiring “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.” *Akamai*, 692 F.3d at 1308–09. In fact, reasoned the Court, one who induces others to act collectively in a way that practices the claim has the same effect on the patent owner as one who induces the same infringement by a single actor. Both of the underlying cases were therefore reversed and remanded to allow *McKesson* and *Akamai* to pursue inducement theories under the Court’s new standard.

Mr. Griffith specifically noted the criticism of the majority by Judges Newman and Linn. Judge Newman argued that the majority’s decision unnecessarily strayed into a new induced-infringement standard, when the question on appeal was one of direct infringement. *Id.* at 1321. Judge Newman further argued that the better result would be a *direct* infringement standard that permits the steps of the method to be conducted by multiple actors, with liability then apportioned among the actors according to traditional tort principles. *Id.* at 1331–32. Judge Linn, joined by three other judges, advocated maintaining the single-direct-

infringer standard of *BMC Resources*. *Id.* at 1337–38. Judge Linn noted that “infringement” under Section 271(a) requires all steps to be performed, personally or vicariously, by a *single* actor, and reasoned that the statute offers no basis for finding a different standard of “infringement” under Section 271(b). *Id.* at 1339–40. Judge Linn further argued that that a traditional vicarious-liability test should govern whether a single actor has directly infringed, and offered the example of a “joint enterprise,” the acts of which are imputed to all members. *Id.* at 1348–49. Mr. Griffith noted that even the dissenting opinions advocated for expanding the scope of direct infringement liability beyond the strict “direction or control” agency analysis previously recognized by the Court.

Interestingly, Mr. Griffith noted that some district courts have looked at applying the *Akamai* standard to direct infringement cases. So far, however, the Federal Circuit has not offered subsequent guidance on the scope of direction or control by a defendant that justifies vicarious liability for direct infringement.

### Construing the Claim Construction

Kristen P. Foster with the Austin office of Vinson & Elkins provided attendees with a presentation on construing claim construction. Claim construction is just replacing one set of words with another, so it isn’t surprising that the new set of words is not perfectly clear. At some point, the fact finder will be using those words to make its determinations.



Kristen Foster

The Federal Circuit has approved construing portions of a previous construction, even where it reversed the previous construction based on the usual rules for construction. A

derivative construction may be necessary to elucidate the claim's meaning or to clarify the initial construction. According to the Federal Circuit, these constructions can be performed at almost any point in the litigation process before the jury verdict.

In some cases, the Federal Circuit has held that claim constructions don't need to be perfectly precise and that the trier of fact can have some discretion. The court need not construe the words of constructions in order to resolve all disputes. However, where the lack of precision rises to the level of a dispute as to whether a disclaimer had occurred, the decision is one of claim construction.

The Federal Circuit is more willing for courts to consider the infringement analysis as a way of setting the scope for claim construction. District courts can perform or refuse further construction based on how important the further construction would be to the actual issues in the case. Tentative claim constructions prior to the Markman hearing may identify claim terms that need further clarification. Performing claim construction as part of summary judgment gives context to the detail needed for the fact finder.

It can be a difficult decision whether to leave an ambiguous term for the jury to define or to ask for clarification by the judge. Your odds with the jury and the potential standards of review can both factor into the decision.

### **IP in the Supreme Court**

Michael G. Locklar of Adolph Locklar in Houston, Texas, discussed recent IP cases in the Supreme Court.



The Supreme Court has decided five cases of potential import. In *Gunn v. Michael Locklar*

*Minton*, the Court held that patent infringement malpractice cases are for the state courts, because the claims do not raise a substantial issue of federal patent law. Practitioners now have to deal with 50 different standards for their conduct in patent litigation.

In *Bowman v. Monsanto*, the Supreme Court allowed a patentee to sue despite the patent exhaustion doctrine when a farmer chooses to make a new patented seed by planting a licensed seed. The case does not broadly cover all self-replicating technologies. Only those technologies where the purchaser at the time agrees not to replicate the technology.

In *Association for Molecular Pathology v. Myriad Genetics, Inc.*, the Court was concerned whether various types of human genes are patentable. The Supreme Court held that isolated genes are not patentable subject matter under section 101. However, the Supreme Court found that cDNA was patentable.

In *FTC v. Actavis*, the Supreme Court decided that reverse payment settlement agreements could be antitrust violations, even if a generic drug falls within the scope of the patent claims. The agreements are to be analyzed under the rule of reason doctrine. The value of the agreements is in foreclosing the 180-day exclusivity period, so the patentee can continue to avoid competition a little longer. Older Supreme Court cases had found that patent holders' cross-licenses, price controls, and misuse could be antitrust violations when those agreements unreasonably harmed the public.

In *Kirtsaeng v. John Wiley & Sons*, the Court held that copyright materials purchased overseas falls within the first-sale doctrine. As a result, U.S. copyright owners cannot sue alleged infringers in the U.S. for resale

of the materials in the U.S. As of now, the first-sale doctrine for overseas purchases and imports into the U.S. applies only in the copyright context. The Federal Circuit and the Supreme Court have declined to extend the doctrine for overseas purchases of U.S. patented products. But stay tuned, the doctrine may soon apply in the patent context as well.

### **The Ethics of Retaining Fact Witnesses as Litigation Consultants**

Tom Graves with the Dallas office of McKool Smith presented a paper by Scott Hejny discussing the use of fact witnesses as paid litigation consultants and, more specifically, the use of an inventor as a consulting expert in patent litigation. Mr. Graves and Mr. Hejny are both Principals in McKool Smith's Dallas office.



Most jurisdictions permit a fact witness to be paid for time and expenses incurred in preparing for and providing testimony. In Texas, for example, a lawyer may advance or guarantee payment of expenses reasonably incurred by a witness and reasonable compensation to a witness for loss of time in attending or testifying. Tex. Disciplinary Rules Prof'l Conduct R. 3.04. Be sure, however, to review the law of the specific jurisdiction, as well as any other law that might apply, such as if the agreement with the witness was made in a forum other than where the case is pending.

Mr. Graves stressed that there is a cost to paying witnesses—namely, credibility in front of a jury—and advised the attendees to never offer to pay a fact witness. In some instances, however, a fact witness might ask to be paid, such as when the witness is outside of subpoena range or the witness is an inventor of patented technology and

needs to spend time reviewing the prosecution history of a patent.

If you decide you need to pay a fact witness, apply the “keep whole” principle—that is, keep the witness whole for what the witness sacrifices in time and expenses. A witness should not be worse off by agreeing to testify. You should, however, be conservative in your estimates of time and expenses. Be prepared to explain and provide documentation to the court for your reasoning.

Case law recognizes that a witness can be a fact witness and a litigation consultant, but there is no clear case that addresses what constitutes appropriate compensation under those circumstances. See *Sensormatic Elecs. Corp. v. WG Security Prods., Inc.*, No. 2:04-CV-167, 2006 U.S. Dist. LEXIS 30591 (E.D. Tex. May 11, 2006) (“one may simultaneously be a litigation expert with Rule 26(b)(4) protection as to some matters and simply an unprotected actor or witness as to others”). Generally, a party cannot give an inventor-witness an interest in the case, but an inventor-witness can be compensated if the inventor still has an interest in the patent. See *Ethicon, Inc. v. U.S. Surgical Corp.*, 135 F.3d 1456 (Fed. Cir. 1998)(finding acceptable the promise of a lump sum payment to an omitted inventor in exchange for the inventor's cooperation because the inventor still purported to have an interest in the disputed patent); *ESN, LLC v. Cisco Sys. Inc.*, 685 F. Supp. 2d 632 (E.D. Ark. 2009) (relying on *Ethicon* in permitting a promise of payment to an inventor-witness in exchange for cooperation in perfecting assignment of the patent rights, because the payment was contingent on a favorable court result).

A special thanks to our contributing writers who shared their summaries of the CLE presentations for this edition of the Advanced Patent Litigation CLE Report.



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*The above reports express the views of the authors and not that of the State Bar of Texas IP Law Section.*

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## Mark Your Calendar



**State Bar of Texas 2014 Annual Meeting** will be held on June 26-27, 2014 at the Hilton Austin, in Austin, Texas. On Friday, June 27, our section will once again offer a full day of high-quality CLE. Block out June 26 and 27 now, and make plans to attend the Annual Meeting in Austin.