

# Patent Law Update



**IRWIN IP**

INTELLECTUAL PROPERTY LITIGATION

July 13, 2016

**Barry F. Irwin**  
**Jared E. Hedman**

# Overview



- ▶ Patent law fundamentals
- ▶ Recent patent law developments regarding:
  - Definition of patentable subject matter
  - Invalidity procedures
  - Definiteness standard
  - Damage proof requirements
  - Treble damages and attorney fees
- ▶ The patent law horizon
- ▶ Refresher on first-inventor-to-file system
- ▶ New federal trade secret law

# Patent Fundamentals

- ▶ What is a patent?
  - Right to exclude others
  - Not a right to use invention
- ▶ Types of patents
  - Utility - useful creations
  - Design - decorative rather than useful
- ▶ Patent term - 20 years from filing for utility
  - 15 years from issuance for design



# Patent Fundamentals

## ▶ Patent Requirements

- Patentable subject matter
- New
- Useful
- Non-obvious
- Described properly
- Conclude with “claims” that set out scope of the invention



# Patent Fundamentals

- ▶ Enforced in federal court:
  - Injunction
  - Lost profits
  - Royalties
  - Treble damages in “egregious” cases
  - Attorneys’ fees in “exceptional” cases
- ▶ Decisions appealed to one appellate court
  - Court of Appeals for the Federal Circuit (CAFC/Fed Cir)





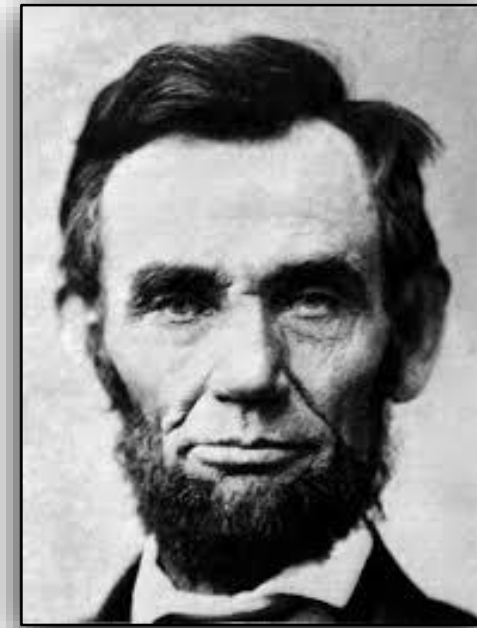
Why grant patents?

# Patents Incentivize Innovation

Founding father's recognized the value of patents and specifically authorized Congress to enact patent laws to "promote the progress" of science and useful arts

"The U.S. patent system adds the fuel of interest to the fire of genius in the discovery and production of new and useful things." - *Abraham Lincoln*

"Patents are... a critical part of the competitive market process that advances invention and innovation." - Small Business & Enterprise Council, November 18, 2011



# Patents Benefit Society and Patent Holders

- ▶ Congressional motivation for allowing patents
  - Incentivize innovation
  - Encourage disclosure of new inventions
- ▶ Benefits patents bring to businesses
  - Secure market share
  - Scare off competitor lawsuits
  - Monetize portfolios



# Perceived Negative Aspects of Patents

- ▶ Patents stifle innovation
  - Increase price of products, which reduces the incentives for bringing products to market and raise prices for consumers
- ▶ Leads to expensive litigation, which favors large corporations
- ▶ Patents are written vaguely and owners stretch them to claim rights to technology they did not invent
- ▶ Certain patent owners assert frivolous claims to extort settlement payments



# DRASTIC CHANGE IN PATENTABLE SUBJECT MATTER

Impact of *Alice v. CLS* (US 2014)

# Patentable Subject Matter

## Origins

- ▶ 35 U.S.C. §101 - “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.”
- ▶ Judicial Exceptions
  - Laws of Nature
  - Natural Phenomena
  - Abstract Ideas



# Patentable Subject Matter

## Landscape before *Alice v CLS*

### ▶ Two areas of debate:

- Methods of doing business, weight of authority: not patentable
- Software, weight of authority: patentable provided UCTR

### ▶ *State Street* (Fed. Cir. 1998)

- Patent covered method of using data processing system to trade stock
- CAFC upheld patent as producing “useful, concrete and tangible result”
- Business methods assessed with under same standards
- Result: Large increase in business-method and software patents

# Patentable Subject Matter

## Landscape before *Alice v CLS*

- ▶ Public outcry
  - Patents should not be allowed on methods of doing business
  - “Opened flood gates” of patent filing and litigation for business methods
- ▶ Amazon 1-click patent



# Patentable Subject Matter

## Landscape before *Alice v CLS*

### ▶ *Bilski* (U.S. 2010)

- Patent covered method on hedging risk when purchasing energy commodities
- CAFC (*en banc*) tried to curb “business method” patents by adopting a “machine-or-transformation test”
- Supreme Court - machine-or-transformation test not the exclusive test
- Supreme Court still found patent invalid as an abstract idea

# Patentable Subject Matter

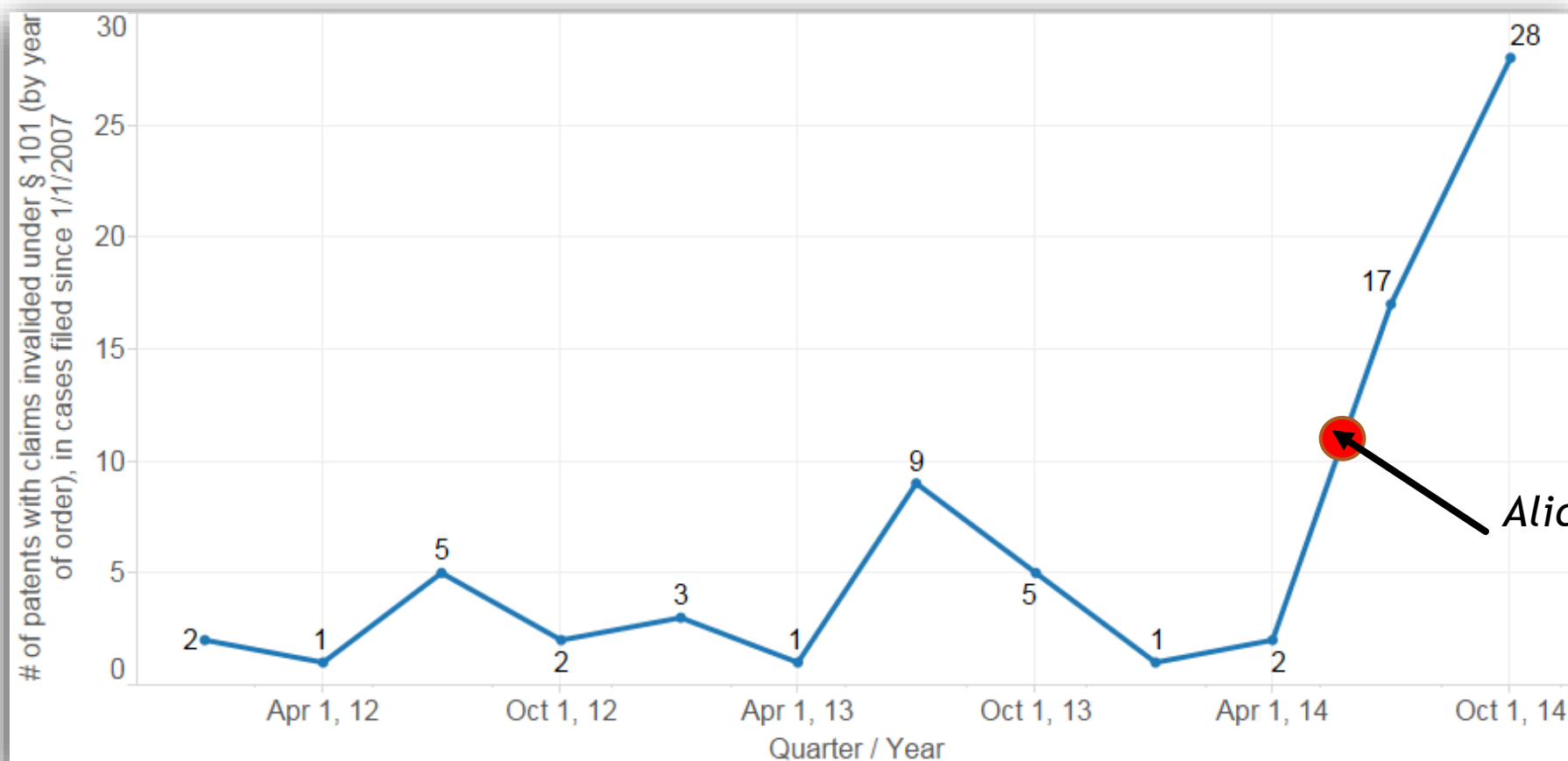
*Alice v. CLS* (U.S. 2014)

- ▶ Patent covered computer scheme to mitigate settlement risk in transactions
- ▶ CAFC found patent not patentable
- ▶ Supreme Court agreed, finding that claim that involves abstract idea is patentable only if rest of the claim adds ***something of significance*** to idea.
  - Just implementing an abstract idea on a computer does not add anything of significance.

# Patentable Subject Matter

*Alice* has an instant impact

Immediate jump in patents invalidated under §101





# Patentable Subject Matter

## Landscape after *Alice*

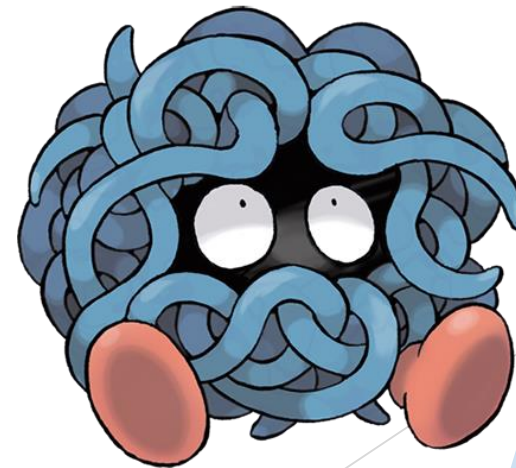
“When I first read the decision, I thought *Alice* was going to be atrociously terrible. And I think it has more or less lived up to that.”

- Gene Quinn, editor of IP Watchdog.com blog, ABA IP Section Conference, March 26, 2015

“[T]he Supreme Court...has left us with a test that is not very logical, not very rational and cannot be consistently applied. We are left with a morass of uncertainty that is plaguing everyone.

- Paul Michel, former Chief Judge of the Federal Circuit,

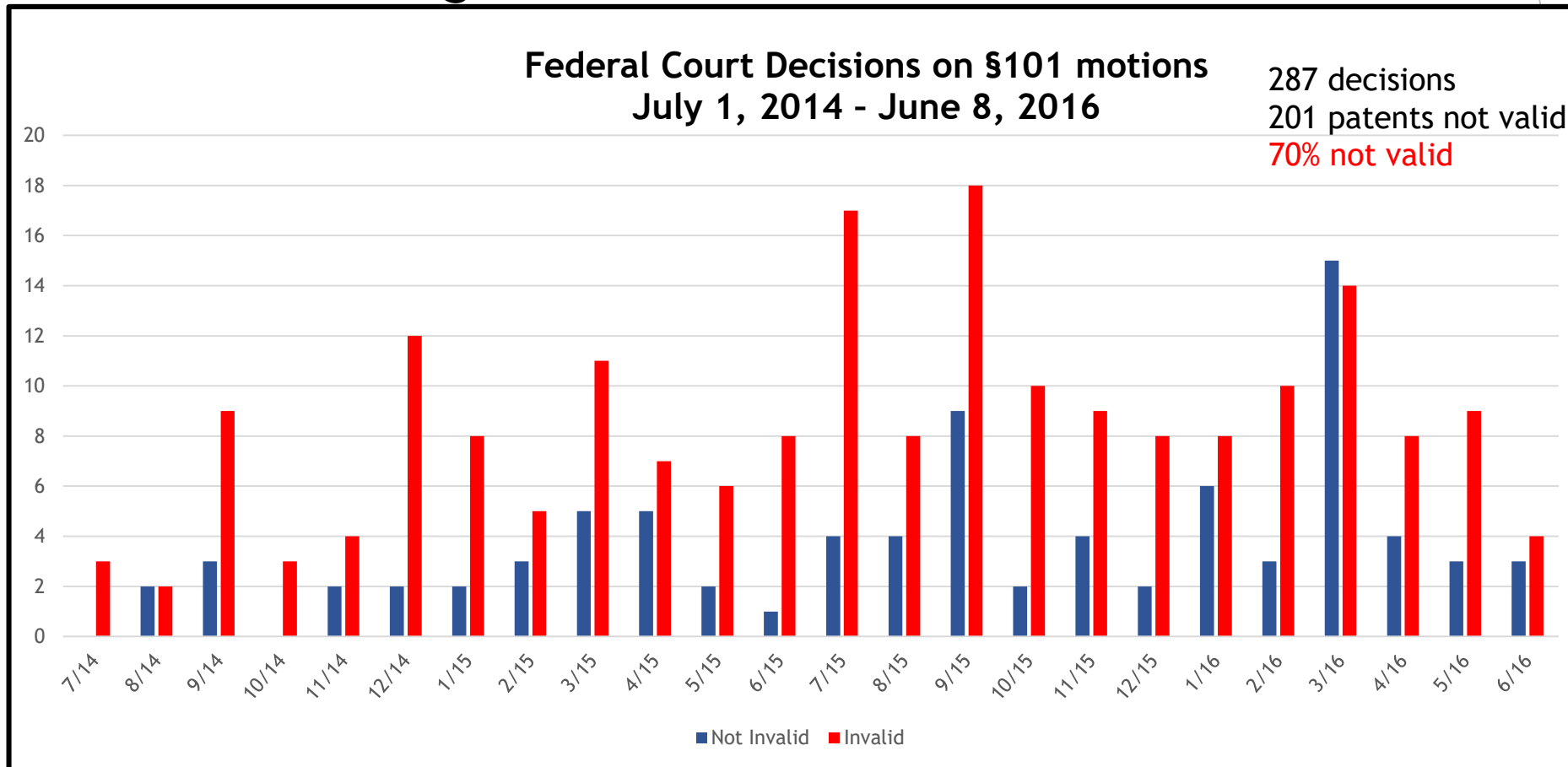
ABA IP Section Conference, March 26, 2015



# Patentable Subject Matter

Alice continues to annihilate patents

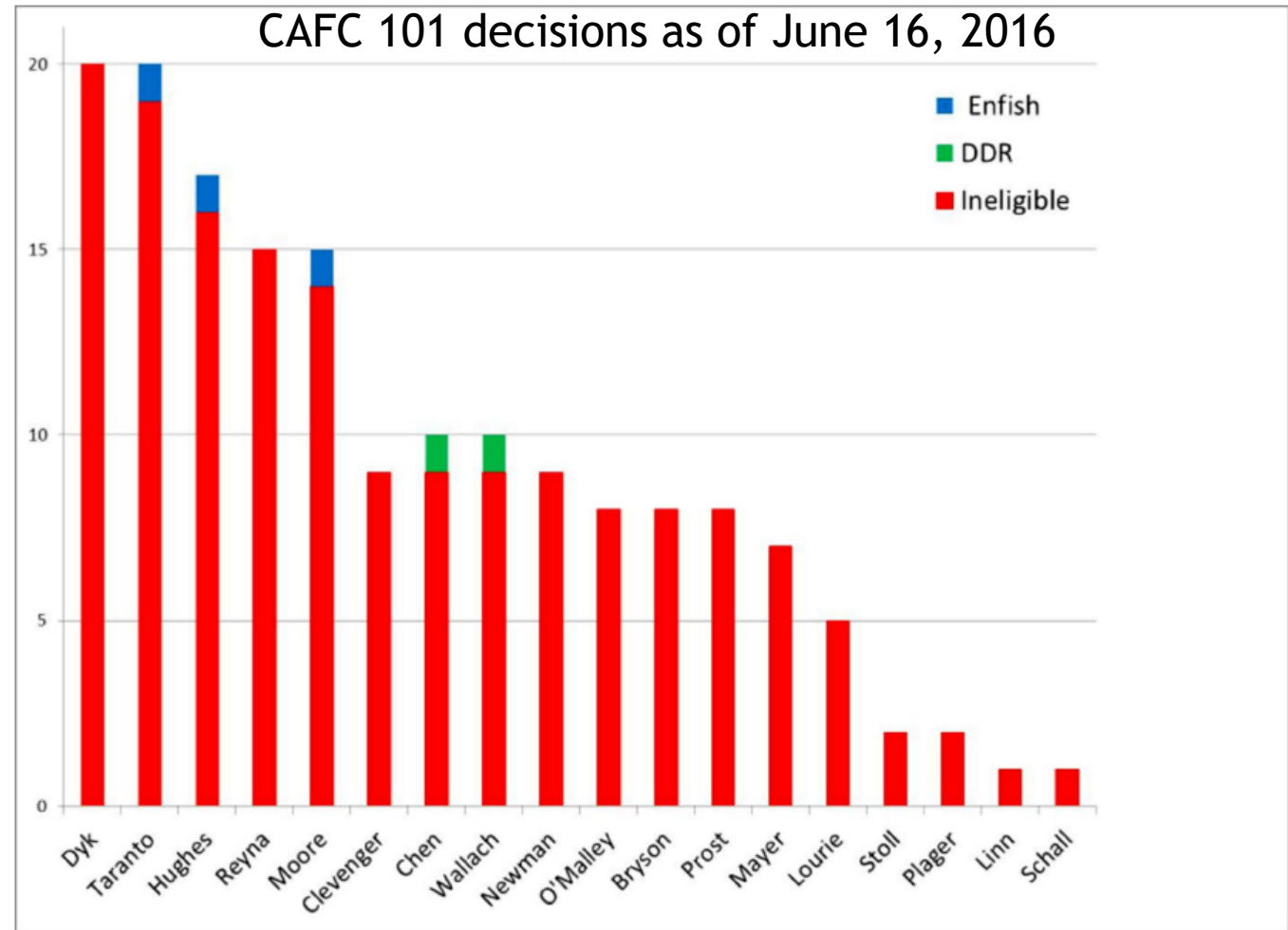
101 Challenges Granted Far More Often Than Denied



# Patentable Subject Matter

## Federal Circuit decisions after *Alice*

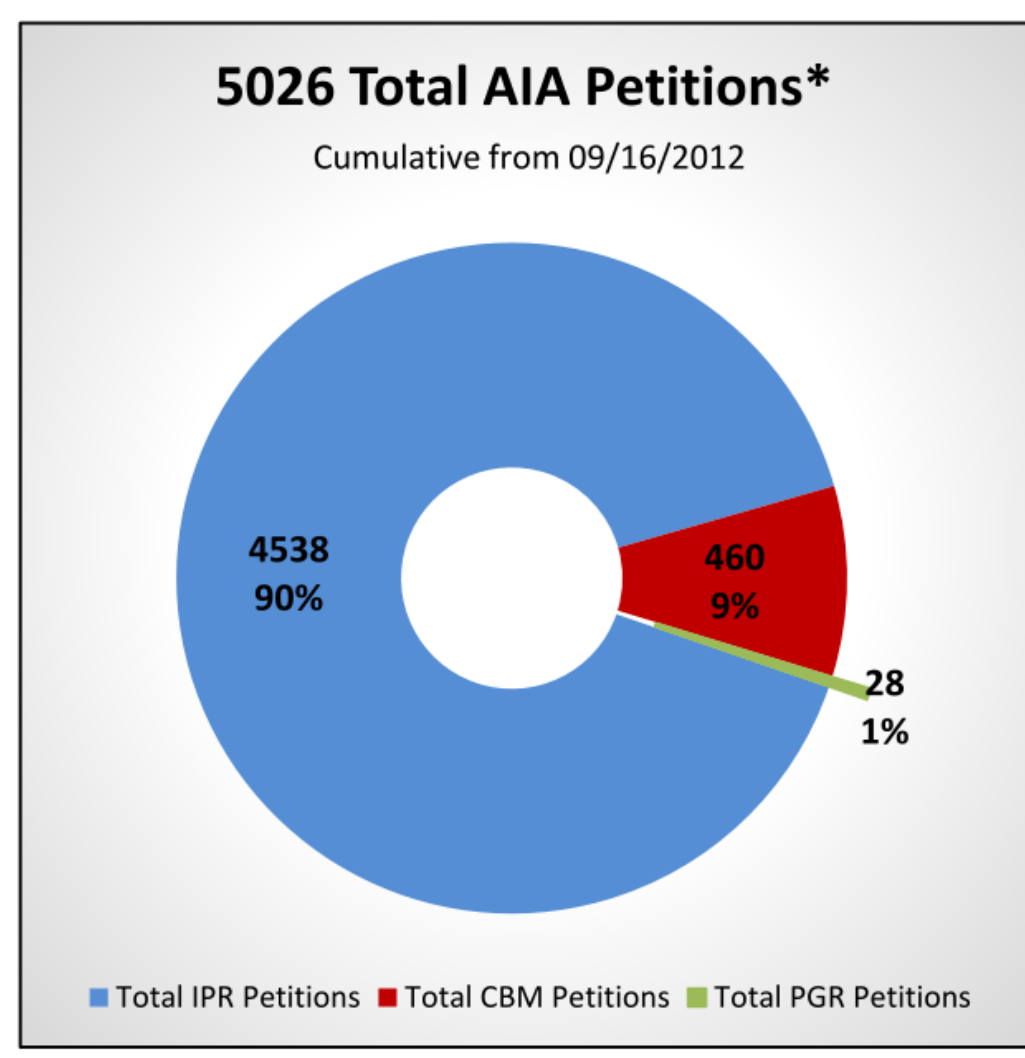
- ▶ 40 substantive decisions
- ▶ Only 2 patents have been found valid:
  - *DDR Holdings v. Hotels.com* (Dec. 5, 2014)
  - *Enfish v. Microsoft* (May 12, 2016)



# NEW PROCEDURES TO CHALLENGE PATENT VALIDITY

# New Patent Office Reviews

- ▶ Three types of reviews: PGRs; CBMs and IPRs
- ▶ IPRs most common (by far)
- ▶ Challengers have been fairly successful invalidating patents through these proceedings



# Patent Office Review

## Post-Grant Review

- ▶ Can challenge on any invalidity ground: patentable subject matter, all forms of prior art, indefiniteness
- ▶ Only available for patents issued under first-inventor-to-file system (patents filed after March 16, 2013)
- ▶ Only available for 9 months after patent grant
  - Must monitor competitor patents and be prepared
- ▶ Standard
  - Using broadest reasonable interpretation, patent “more likely than not” invalid

# Patent Office Review

## Covered Business Method Patent Review

- ▶ Just like Post-Grant Review
- ▶ Except:
  - No time limit
  - Not limited to first inventor to file patents
  - Claims must be directed to a financial product or service that do not cover a “technological invention”
  - Transitional program only available until 2020

# Patent Office Review

## *Inter Partes* Review (most common)

- ▶ Available for all patents
- ▶ Challenge can only be based upon a small subset of prior art: patents and printed publications
- ▶ Must be filed within 1 year of being sued
- ▶ Standard
  - Using broadest reasonable interpretation, “reasonable likelihood” that at least one challenged claim will be found invalid



# Claims invalidated by IPR

As of May 31, 2016



- ▶ 47,364 challenged
- ▶ 20,991 instituted - 44%
- ▶ 14,882 considered to final decision
- ▶ 10,597 found invalid

**71% INVALID**

# Claims invalidated by CBM

As of May 31, 2016



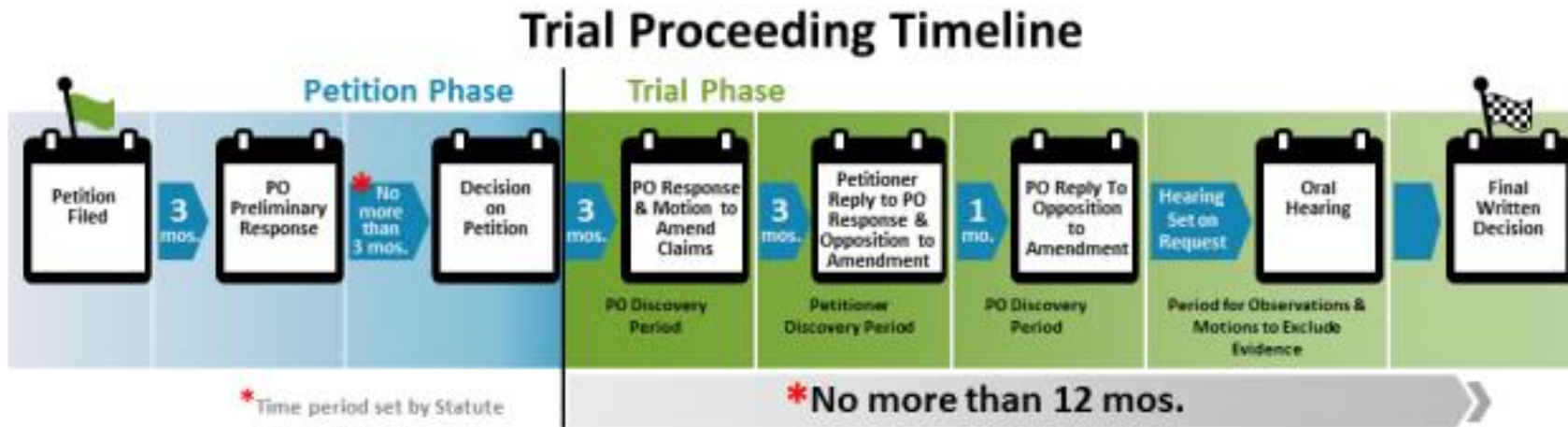
- ▶ 6,893 challenged
- ▶ 3,205 instituted - 46%
- ▶ 2,245 considered to final decision
- ▶ 1,871 found invalid

**83% INVALID**

# Patent Office Review

## Timing

- ▶ Must be completed within 12 months from institution, with 6 months good cause exception possible



[www.uspto.gov](http://www.uspto.gov)

# Patent Office Review

## Estoppel

- ▶ Estopped from asserting invalidity for arguments that were raised or reasonably could have been raised
- ▶ But, only if FINAL determination after exhausting all appeals (approximate 20 - 22 months)
- ▶ Takeaway: time filing to get decision after trial decision but before appeal of the challenge had been heard

# Patent Office Review

## *Ex Parte* Reexamination (Old)

- ▶ **Grounds (Patentability)**
  - Patents or printed publications
- ▶ **Standard**
  - Substantial and new question of patentability
- ▶ **Availability**
  - Any patent
- ▶ **Timing**
  - 24-28 months

# NEW DEFINITENESS STANDARD

# New Definiteness Standard

AIA 35 U.S.C. §112(b)

The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the inventor or joint inventor regards as the invention.



# New Definiteness Standard

## *Nautilus v. Biosig (US 2014)*

- ▶ Claims typically construed in a “claim construction” process
- ▶ Before *Nautilus*
  - Claims are not indefinite unless they are not amenable to construction
- ▶ Supreme Court changed standard
  - New Standard - A patent is invalid for indefiniteness if its claims ... fail to inform, ***with reasonable certainty***





# Curbing Damage Awards



# Curbing Lost Profits

## *Lucent v. Gateway* (Fed. Cir. 2009)

- ▶ Patent covered method of entering information into fields on computer screen without using keyboard
- ▶ District Court found infringement, awarded \$358 M based upon profits of smallest saleable unit
- ▶ CAFC overruled verdict ruling profits must be apportioned to the allegedly infringing feature
  - Customer survey evidence now critical to prove value of patented feature

**Figure 2. Median damages award**

Median damages award (in \$M)



The number of identified decisions is indicated in the top corner.

# Curbing Royalties

## 35 U.S.C. §284

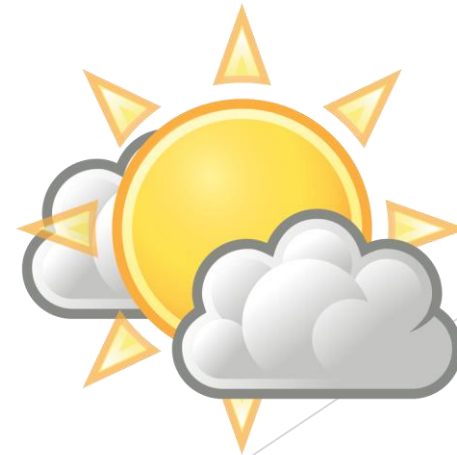
- ▶ “[T]he court shall award [] damages adequate to compensate for the infringement, but in no event less than a ***reasonable royalty*** ....”
- ▶ “[T]he court may receive ***expert testimony*** as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.”
  - Goldscheider Rule: patentee earns 25% of expected profits
  - *Uniloc v. Microsoft* (Fed. Cir. 2006)
    - Federal Circuit rejected Goldscheider approach as an arbitrary rule
    - Must demonstrate licenses are comparable

# Doom and Gloom for Patentees?



- ▶ Patentable subject development - negatively impacts patents
- ▶ New Patent Office Validity Challenges - negatively impacts patents
- ▶ Indefiniteness development - negatively impacts patents
- ▶ Curbing damages - negatively impacts patents
- ▶ **NOT SO FAST!**

- Increased potential for recovery of attorney fees and for treble damages



# NEW LAWS IMPACTING ATTORNEY FEES AND TREBLE DAMAGES

# Early Treble Damages Standard

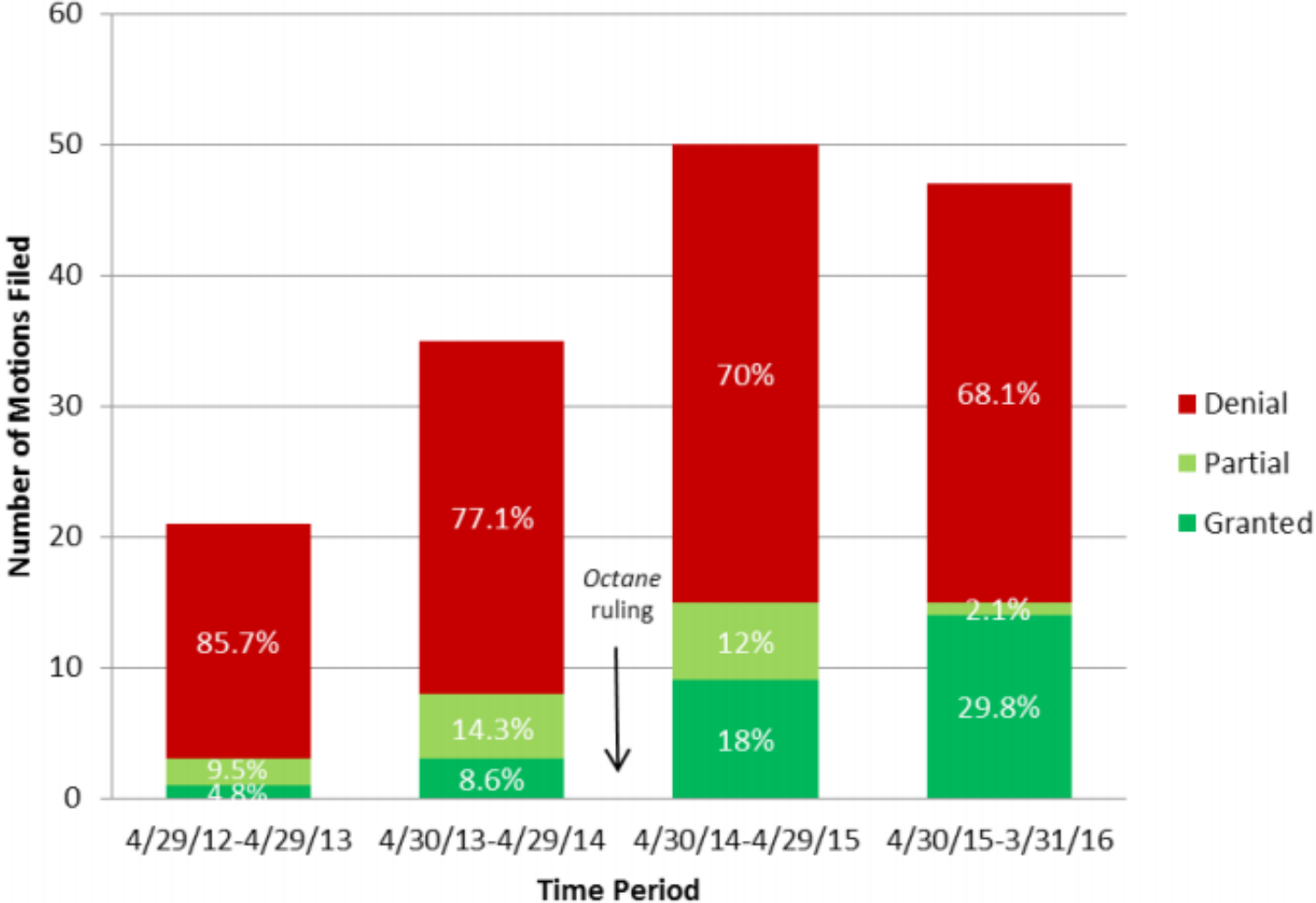
- ▶ *Seagate* (Fed. Cir. 2007):
  - Willfulness is a prerequisite for enhanced damages
  - Willfulness only appropriate if clear and convincing evidence infringer was objectively and subjectively reckless
- ▶ *Halo Electronics v. Pulse Electronics* (June 13, 2016)
  - Reversed *Seagate* test as too rigid
    - Objective reckless not required
    - Courts have discretion, but enhanced damages should typically be reserved for cases of “egregious” infringement
    - Preponderance-of-evidence standard, not clear-and-convincing-evidence standard

# Attorney Fees Standard

- ▶ Prior Standard, Fees only if:
  - 1) Some material inappropriate conduct; OR
  - 2) Litigation is:
    - a) Brought in subjective bad faith; AND
    - b) Objectively baseless
- ▶ Supreme Court opened door to attorney fees
  - *Octane Fitness* (U.S. 2014)
    - “Stands out from the others,” considering:
    - Totality of circumstances
      - ❖ Substantive strength of positions, OR
      - ❖ Unreasonable manner in which case was litigated

# Impact of *Octane Fitness*

Disposition of \$285 motions in E.D. Tex., D. Del., and C.D. Cal.





# Take Aways

- ▶ For Potential Defendants
- ▶ For Patent Owners
  
- ▶ Questions?

# Recent Legislative Changes and Proposals

- ▶ The “Patent Troll”
- ▶ First-to-File Inventors
- ▶ Defend Trade Secrets Act (2016)



# What is a Patent Troll?

- ▶ **Non-Practicing Entities (NPEs)**
  - Shell companies for holding patents and filing lawsuits
  - Not an actual manufacturer of patented invention
- ▶ **Lawsuits filed by NPEs**
  - 67% of all patent lawsuits
  - 88% of high-tech lawsuits
- ▶ **Tactics**
  - Demand letters
  - Nuisance litigation

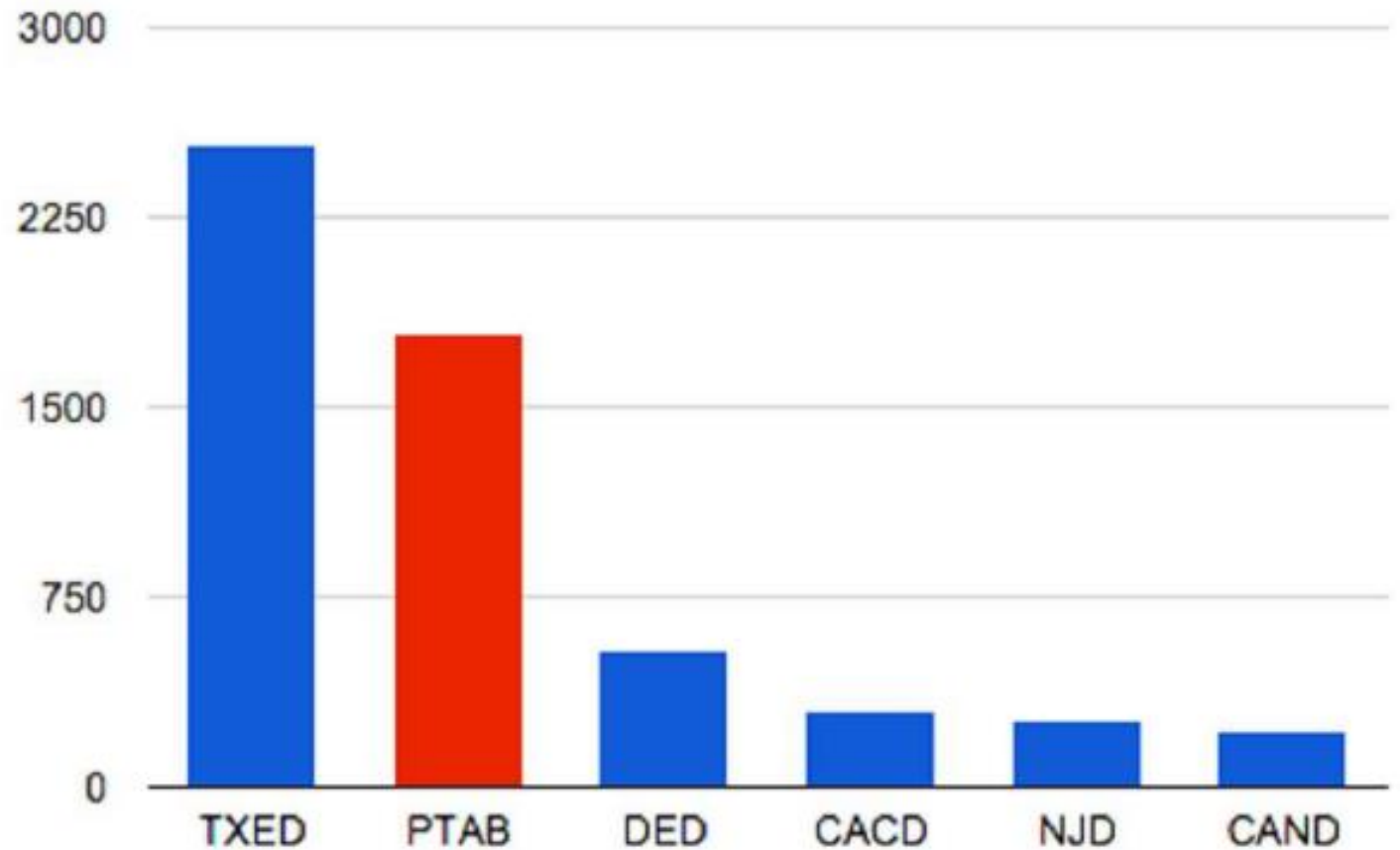


# How Patent Trolls Operate

- ▶ Forum shopping
  - Eastern District of Texas
    - 44% of all patent cases
    - 95% initiated by NPEs
    - 25% of patent cases nationwide heard by Judge R. Gilstrap
  - IPRs - causing NPEs to settle for less?

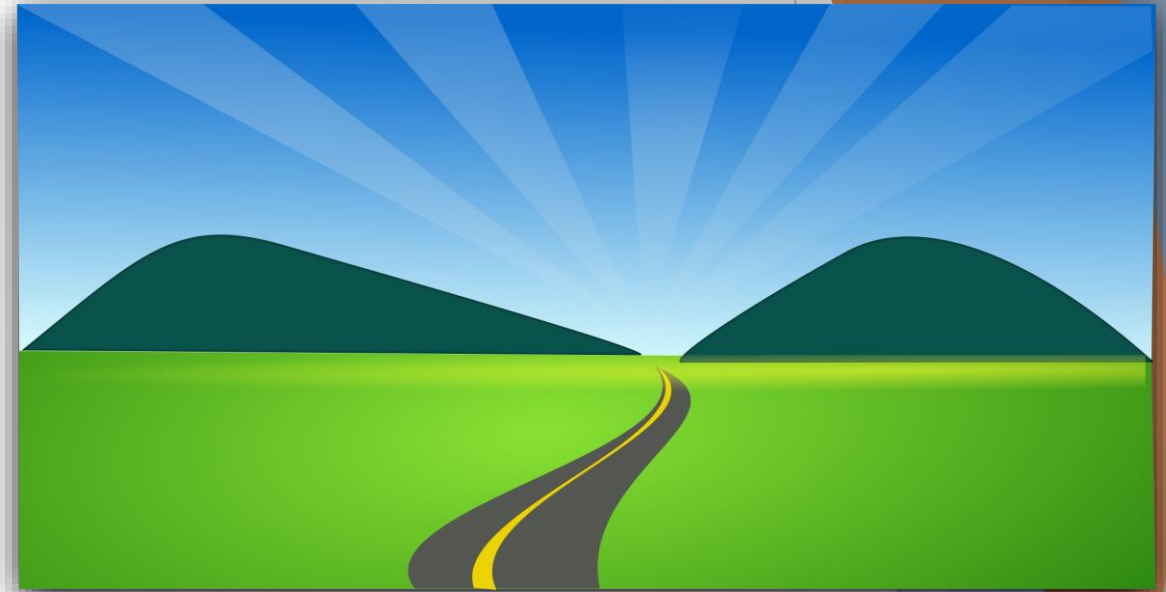
What to do? REFORM!

Top Venues for Patent Disputes in 2015



# Proposed Reform

- ▶ Pending proposed legislation
- ▶ Secretary Clinton's technology and innovation agenda



# MOVEMENT TO FIRST-INVENTOR-TO-FILE PATENT SYSTEM

# Conception v. First Filer

- ▶ Old system
  - When did inventor “conceive of” the invention?
- ▶ New system
  - When was the patent applied for and by whom?



# Movement to First-Inventor-to-File System

- ▶ More in line with EU and Canada
- ▶ Old system
  - Lengthy and expensive
- ▶ New system
  - Favors big companies v. smaller companies (Or does it?)
    - Large companies - more financial resources
    - Smaller companies - more agility to identify innovations





# Movement to First-Inventor-to-File System

## First-to-invent system (old system)

- ▶ 1952 Patent Act
  - First to conceive, subject to certain statutory bars
  - Difficult for third parties to know when conceived
- ▶ Not entitled to patent if before conception date:
  - Known or used by other in this country (domestic), or
  - Patented or described in printed publication anywhere (global)



# Movement to First-Inventor-to-File System

## First-to-invent system (old system)

### Statutory Bars

- §102(b) - No patent if more than one year prior to application, invention:
  - Patented or described in printed publication anywhere, or
  - In public use or on sale in U.S.
- §102(d) - No patent if, more than one year prior to application, patented by applicant in another country



# Movement to First-Inventor-to-File System

## Leahy-Smith America Invents Act (2011)

- ▶ Major changes from 1952 Act
  - Converts from first-to-invent to first-inventor-to-file
  - Prior art (fundamental change)
    - Any patent anywhere in the world before filing date
    - Any prior public use or on sale anywhere, subject to one-year grace period for inventor's own public disclosures



# Movement to First-Inventor-to-File System

## Leahy-Smith America Invents Act (2011)



### Exceptions to first-inventor-to-file

- Public disclosure
  - Most important exception
  - The second filer was first to “publicly disclose” the invention.
- Derivation
  - The first filer derived invention, directly or indirectly, from second filer
- Application abandonment
  - The first filer abandoned the application prior to publication or issuance.

# Movement to First-Inventor-to-File System

## Leahy-Smith America Invents Act (2011)

### ► Takeaways

- Get application of file as soon as you are able!
- Secret sale is not prior art, no matter how long ago it happened
- No geographic limitations of any prior art categories
- If another entity independently arrived at invention and published an article before first inventor filed, first inventor who filed will be unable to obtain a patent.



# NEW FEDERAL TRADE SECRET LAWS

# What is a trade secret?

- ▶ Confidential business information which provides an enterprise a competitive edge
- ▶ E.g., sales methods, advertising strategies, client lists, manufacturing processes, software, etc.
- ▶ Advantages of trade secret over patent
  - No time limit
  - No registration costs
  - Immediate effect
- ▶ Disadvantages of trade secret over patent
  - Reverse engineering
  - May be patented by independent inventor
  - More difficult to enforce than a patent

# New Federal Trade Secret Law

## Defend Trade Secrets Act of 2016 (May 11, 2016)

- ▶ Amends chapter 90 of title 18, USC, to provide Federal jurisdiction of theft of trade secrets.
- ▶ 18 U.S.C. §1836(b)(1) - “An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.”



# New Federal Trade Secret Law

## What is the DTSA?

- ▶ Similar definition of trade secret (to 18 USC §1839(3))
  - All forms of information, “whether tangible or intangible, and whether how stored”
  - Reasonable measures taken to protect the information which derives independent economic value from not being generally known
- ▶ Three-year statute of limitations
- ▶ Remedies similar to current state laws



# New Federal Trade Secret Law

## What is the DTSA? (cont'd)

- ▶ *Ex parte* seizure procedure in extraordinary circumstances
  - Immediate seizure and hearing within 7 days
- ▶ Protects whistleblowers from retaliatory accusations of trade secret misappropriation
- ▶ Does not preempt existing state law
- ▶ Does not require that plaintiff describe trade secret with particularity
- ▶ Prohibits injunctive relief based on inevitable disclosure doctrine

# Takeaways

- ▶ Definable trade secrets
- ▶ Internal policies
- ▶ Access
- ▶ Patent v. Trade Secret
- ▶ Review of policies



# Questions



Thank you for listening

**IRWIN IP**

INTELLECTUAL PROPERTY LITIGATION

Barry F. Irwin

[birwin@irwinip.com](mailto:birwin@irwinip.com)

O: (630) 756-3101

C: (312) 663-4101

Jared E. Hedman

[jhedman@irwinip.com](mailto:jhedman@irwinip.com)

O: (630) 756-3102

C: (815) 735-7007