Patent Litigation Trends - The Effects of PTAB Proceedings, Rules Amendments, and Supreme Court Decisions

IPO Annual Meeting
September 12, 2016
Panelists

Panelists
Hon. Michael Hammer, Magistrate Judge, District of New Jersey

Jim Sherwood, Google, Inc.

Michael Timmons, Johnson & Johnson

Moderator

Eric C. Cohen, Brinks Gilson & Lione
Issues

1. Have the changes to the Federal Rules had a significant effect on patent litigation?
2. How are courts and parties handling electronic discovery under the amended Federal Rules?
3. What is the likely impact of the Supreme Court’s decision in *Halo* on patent litigation?
4. How have IPR and CBM proceedings affected patent litigation, and what is the potential effect of the Supreme Court’s decision in *Cuozzo*?
5. How has the Supreme Court’s *Alice* decision affected patent litigation?
6. Has *Octane* affected parties’ behavior?
Changes to the Federal Rules

1. Overview – Rule 1, the obligation of parties to litigate in a responsible and reasonable manner
2. Changes in requirements for pleading direct infringement in patent infringement cases due to the elimination of Form 18
3. Initial motion practice
4. Changes to the scope of discovery
5. Case management considerations
Federal Rule Changes
Rule 1

Rule 1 was amended to emphasize that the *parties* and the court share the responsibility to manage cases in an efficient manner:

”Rule 1. Scope and Purpose
These rules govern the procedure in in all civil actions and proceedings in the United States district courts, except as stated in Rule 81. They should be construed, and administered, and employed by the court and the parties to secure the just, speedy, and inexpensive determination of every action and proceeding.”
Prior Law - *In re Bill of Lading Transmission and Processing System Patent Litigation*, 681 F.3d 1323, 1334 (Fed. Cir. 2012), held that *Twombly-Iqbal* applied to pleading indirect infringement but that Form 18, which did not meet the *Twombly-Iqbal* standards, governed pleading direct infringement (citing Rule 84)
Federal Rules Changes - Heightened Standard for Pleading Infringement

**Amendment** - Form 18 and Rule 84 have been abolished.

**Consequence** - The *Iqbal-Twombly* plausibility standard now governs pleading direct infringement: A complaint must plead “enough factual matter” that, when taken as true, “states a claim to relief that is plausible on its face.” *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007). *Plausible* does not mean *probable*. Id.

What does this mean for pleading direct infringement?

- Claim charts?
- Something less?
- Identifying all asserted claims and all accused products?
Federal Rules Changes – Relation of Rule 11 to Heightened Pleading Standards

Rule 11. Signing Pleadings, Motions, and Other Papers; Representations to the Court; Sanctions

(b) Representations to the Court. By presenting to the court a paper an attorney or unrepresented party certifies that to the best of the person's knowledge, information, and belief, formed after an inquiry reasonable under the circumstances:

(1) it is not being presented for any improper purpose,
(2) the claims, defenses, and other legal contentions are warranted by existing law or by a nonfrivolous argument for extending, modifying, or reversing existing law or for establishing new law;
(3) the factual contentions have evidentiary support; and
(4) the denials of factual contentions are warranted on the evidence or, if specifically so identified, are reasonably based on belief or a lack of information.
Federal Rules Changes – Rule 11 and Content of a Complaint

A reasonable pre-suit investigation requires counsel to read the claims on the accused device, *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1329 (Fed. Cir. 2011), and to “interpret the asserted patent claims . . .” *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1300 (Fed. Cir. 2004).

**Best Practices** – Is it a “best practice” to include at least one claim chart in a complaint for patent infringement?

What should be pled when the plaintiff needs discovery under Rule 11(b)(3) (e.g. software or information regarding an accused process)?
## Pleading Requirements – Proposed Legislation

<table>
<thead>
<tr>
<th>Past Rules</th>
<th>Amended Rules (12-1-2015)</th>
<th>HR 9</th>
<th>S 1137</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rules 8, 84 and Form 18</td>
<td>Rule 8 Prevailing Standard</td>
<td>Heightened Standard</td>
<td>Heightened Standard</td>
</tr>
<tr>
<td>Form statement: “The defendant has infringed and is still infringing the Letters Patent by making, selling, and using [product/process] that embody the patented invention”</td>
<td><em>Iqbal/Twombly</em> Plausibility Standard</td>
<td>Specify: -Each patent and each claim -Each accused product/process -Claim chart specifically demonstrating infringement -Plaintiff’s authority to assert patent</td>
<td>Specify: -Each patent and each claim -Each accused product/process -Claim chart specifically demonstrating infringement</td>
</tr>
</tbody>
</table>

Federal Rules Changes
Initial Motion Practice

1. Motion to dismiss/judgment on the pleadings
   a. Rule 12(b)(6) – strategy for insufficient pleading under Twombly; file motion or wait for infringement contentions under local patent rules?
   b. Alice
      1) Should section 101 “Alice” issues be raised by these motions?
      2) Should section 101 issues be postponed until after claim construction?

2. Venue, transfer, jurisdiction issues

3. Stay pending IPR or CBM petition
Changes to the Scope of Discovery
Amendments to Rule 26

Amended Rule 26(b)(1) (redlined & highlighted)

(1) **Scope in General.** Unless otherwise limited by court order, the scope of discovery is as follows: Parties may obtain discovery regarding any nonprivileged matter that is relevant to any party’s claim or defense and proportional to the needs of the case, considering the importance of the issues at stake in the action, the amount in controversy, the parties’ relative access to relevant information, the parties’ resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit. Information within this scope of discovery need not be admissible in evidence to be discoverable. * * *

Relevant information need not be admissible at the trial if the discovery appears reasonably calculated to lead to the discovery of admissible evidence. All discovery is subject to the limitations imposed by Rule 26(b)(2)(C).
Changes to the Scope of Discovery Requirement of Proportionality

1. The scope of discovery is defined in part by proportionality

2. “Relevant to any party’s claim or defense” includes information that “may also support amendment of the pleadings to add a new claim or defense that affects the scope of discovery.” Advisory Committee notes.

3. What information is needed in a patent infringement case to determine proportionality?
Is the Requirement of Proportionality a Significant Change?

The scope of discovery is now defined in terms of relevance and proportionality, but the factors defining proportionality were incorporated from former Rule 26(b)(2)(C)(iii).

Will courts view the requirement of proportionality as a significant change from practice under the former rules?

Is the removal of the “likely to lead to the discovery of admissible evidence” clause more significant?
1. Consider requiring early disclosure of sales information to determine proportionality
2. Early disclosure of infringement/invalidity contentions per local patent rules
3. Consider phasing discovery
Changes to the Scope of Discovery Best Practices

4. Should discovery be limited by relevance if a complaint specifically identifies only one of a number of accused products?
5. Effect of potentially dispositive issues on the timing of discovery
6. Timing of core discovery
7. Consider timing and extent of e-discovery
Case Management Considerations

Case Management Conference
   Parties must discuss:
       Proportionality
       Discovery of electronic information

Parties should discuss
   Potential for early dispositive motions
   Staging discovery
   Limiting number of asserted claims
   Limiting number of terms for claim construction
Case Management Considerations
Early Motion Practice

Does the concept of proportionality play a role in early motion practice
Should discovery be stayed pending resolution of an early potentially dispositive motion (e.g., *Alice*)
How should motions to stay pending IPR or CBM proceedings be handled?
Case Management Considerations

Claim Construction

Timing of claim construction hearing

Early in case if parties identify potentially dispositive issue that does not require significant discovery?
Later in the case if discovery is needed?
Not necessary in some cases?

Limit number of asserted claims?
Limit number of terms to be construed?
Identify claim terms that are potentially dispositive?
In appropriate cases, couple claim construction hearing with summary judgment motion?
Case Management Considerations
Dispositive motions

Identify truly dispositive issues
Pre-screen potential summary judgment motions to avoid undue burden on the court or parties
Require lead counsel sign and present summary judgment motion
Determine whether to permit multiple summary judgment motions at different points in case, and if so, under what circumstances
Avoid summary judgment motions filed for improper purpose (e.g., “to educate the judge”)

20
Other Amendments To The Rules

Rule 26(c)(1)(B) specifically authorizes the court to limit discovery by “specifying terms,” including “the allocation of expenses for the disclosure or discovery.”

Rule 26(d)(2)(A) permits early Rule 34 requests, which may be served more than 21 days after service or the summons and complaint. The request is considered to have been served as at the first Rule 26(f) conference. Rule 26(d)(2)(B)

Rule 26(d)(3) permits the parties to stipulate to the sequence of discovery

Rule 26(f)(3) requires that a discovery plan include issues about preservation of e-discovery and whether to ask the court to include any agreement regarding privilege in an order under F.R. Evid. 502.
Other Amendments to the Rules
Responses to Document Requests

Rule 34(b)(2) now requires

-- That a party “state with specificity the grounds for objecting” to a request
-- That “production must . . . be completed no later than the time for inspection specified in the request or another reasonable time specified in the response”
-- That an “objection must state whether any responsive materials are being withheld on the basis of that objection”
HOW ARE COURTS AND PARTIES HANDLING ELECTRONIC DISCOVERY UNDER THE AMENDED FEDERAL RULES?
Duty to Preserve Documents

• Applies to both parties
• How does proportionality limit, if at all, the scope of document preservation?
• What type of documents need to be preserved?
Timing of electronic discovery in patent cases

Core Discovery
Local patent rules require production of “documentation sufficient to show the operation composition, or structure of any aspects or elements of an Accused Instrumentality identified by the party asserting patent infringement in its L. Pat. R. 3.1(c) chart.” New Jersey L. Pat. R. 3.4

Should electronic discovery of emails be postponed until after core discovery and/or claim construction?

- See General Order 14-6, [Model] Order Regarding E-Discovery in Patent Cases, (E. D. Tex., March 19, 2014)(Limiting e-discovery requests to 8 custodians. “E-mail production requests shall be phased to occur timely after the parties have exchanged initial disclosures, a specific listing of likely e-mail custodians, a specific identification of the fifteen most significant listed e-mail custodians in view of the pleaded claims and defenses.”)
Examples of E-Discovery Local Rules

W.D. Wash. (2015)
N.D. Cal. (Dec. 2015)
N.D. Ohio
N.D. Illinois (5/11/11)
D. Colo. (2014)
Common Features of Model E-Discovery Rules

- Phased e-discovery
- Limitations on the number of custodians
- Cooperation between the parties to specify the manner in which e-discovery documents will be produced
  - Usually TIFF images
  - Except for certain documents (e.g. spreadsheets)
- Limitation on production of metadata
Amended Rule 37 – Failure to Preserve ESI

Rule 37(c) provides that if ESI is lost because a party failed to take reasonable steps to preserve it and it cannot be restored or replaced, the court:
(1) upon finding prejudice to another party from loss of the information, may order measures no greater than necessary to cure the prejudice; or
(2) only upon finding that the party acted with the intent to deprive another party of the information’s use in the litigation may:
(A) presume that the lost information was unfavorable to the party;
(B) instruct the jury that it may or must presume the information was unfavorable to the party; or
(C) dismiss the action or enter a default judgment.
HAS THE SUPREME COURT’S OCTANE DECISION CHANGED THE MANNER IN WHICH CASES ARE BEING FILED AND LITIGATED?
Effect of *Octane*

*Octane* defines “exceptional case” under Section 285 as “one that stands out from others with respect to the substantive strength of a party’s litigating position . . . or the unreasonable manner in which the case was litigated.”

District courts have awarded fees based solely on the unreasonable manner in which a case was litigated.

How will this affect cooperation between counsel in the discovery planning process?
Overview
Effect of *Octane* Decision

In patent cases, courts have increased power to punish litigants who bring frivolous cases or litigate in an irresponsible manner.

Consider how the Supreme Court's *Octane* and *Highmark* decisions, giving trial courts greater latitude to award fees, impact decision-making by counsel and the courts on litigation strategy and compliance with the amended rules.
## Post Octane Data

<table>
<thead>
<tr>
<th>Table of Defendants’ Motions for Fees Before and After Octane</th>
<th>365 Days Pre Octane</th>
<th>Decisions Broken Down in Three to Four Month Periods Post – Supreme Court Decision in Octane (4/29/14) Decisions from 4/30/14 through 3/31/16</th>
<th>23 Months Post Octane Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accused infringers’ motions granted</td>
<td>6</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Accused infringers’ motions denied</td>
<td>40</td>
<td>18</td>
<td>24</td>
</tr>
<tr>
<td>Total motions filed</td>
<td>46</td>
<td>26</td>
<td>35</td>
</tr>
<tr>
<td>Percentage granted</td>
<td>13%</td>
<td>31%</td>
<td>31%</td>
</tr>
</tbody>
</table>
HAVE THE CHANGES TO THE FEDERAL RULES HAD A SIGNIFICANT EFFECT ON PATENT LITIGATION?
Effect of Rules Changes
Elimination of Form 18

Have patent infringement complaints become more detailed in any significant respect?

Have there been more motions to dismiss?

Given that almost all courts require the patent owner to provide infringement contentions early in the case, do more detailed patent infringement complaints significantly improve the system?
Effect of Rules Changes
Discovery

Has amended Rule 26 had a significant effect on discovery in patent cases?

Have judges cited proportionality in discovery rulings?

Has amended Rule 26 caused parties to negotiate proportionality in discovery disputes before requesting a ruling from a judge?
WHAT IS THE LIKELY IMPACT OF THE SUPREME COURT’S DECISION IN HALO ON PATENT LITIGATION?
Halo – Standard for Awarding Enhanced Damages

Halo rejected the Federal Circuit’s restrictive Seagate decision that required clear and convincing evidence

- That the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent ("objective recklessness"), and
- That the risk of infringement was known or so obvious that it should have been known to the accused infringer

Halo held that courts may exercise their discretion in awarding enhanced damages, but that such punishment should be reserved for egregious cases typified by willful misconduct
Effect of *Halo*

*Halo* makes it easier to plead entitlement to enhanced damages

*Halo* makes it much easier to justify discovery into “knowledge of the [defendant] at the time of the challenged conduct.” Slip op. at 10. Query whether this justifies broader discovery of email correspondence.
HOW HAVE IPR AND CBM PROCEEDINGS AFFECTED PATENT LITIGATION, AND WHAT IS THE POTENTIAL EFFECT OF THE SUPREME COURT’S DECISION IN CUOZZO?
Initial Motion Practice
Motions to Stay Pending IPR or CBM

**Timing**

File motion as soon as PTAB petition is filed?

OR

File motion after PTAB grants petition?

*See VirtualAgility, Inc. v. Salesforce, Inc., 759 F.3d 1307 (Fed. Cir. 2014)* (measuring factors at time motion is filed).
Initial Motion Practice
Motion to Stay Pending IPR or CBM

Wait to file PTAB petition after plaintiff serves infringement contentions to eliminate burden and expense of determining patentability of claims not at issue, BUT,

1. Can plaintiff add claims to infringement contentions?
2. Will plaintiff serve infringement contentions soon enough so that petition is timely?
HOW HAS THE SUPREME COURT’S ALICE DECISION AFFECTED PATENT LITIGATION?
Effect of Alice

Since Alice, significant number of courts have granted early motions to dismiss or for judgment on the pleadings finding patents invalid for patent-ineligible subject matter