September IP Breakfast Program
Strategies and Tactics in Patent Disputes – Selected Topics

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This morning's program will start with an overview of common problems that arise in patent disputes. Then, three topics – enablement, reexamination, and electronic discovery – will be discussed to illustrate how recent changes in the law affect the management of these types of disputes. If possible, please review this paper before the program begins. Questions are welcome at any time.

Pre-litigation: the Patent Owner

Notice

One fundamental question facing a patent owner is whether the potential defendant should be given notice that it is infringing. A downside to giving notice is that under *Medimmune* and later cases, this may establish a "controversy" that allows the accused infringer to file a declaratory judgment action.[1] Litigation could therefore start before the patent owner wants, in a jurisdiction that the patent owner would not choose. On the other hand, the *Seagate* decision suggests that pre-litigation notice of infringement may be the only likely way the patent owner can prove that the infringement was willful.[2]

Notice of infringement may also trigger the patent owner's duty to preserve information related to the dispute. To ensure compliance with relatively new rules regarding electronic discovery, the patent owner should have a document retention policy in place, and a "litigation hold" should be used to stop the destruction of relevant information that would otherwise be destroyed.[3]

Pre-filing Investigation

At a minimum, Rule 11 of the Federal Rules of Civil Procedure and Section 285 of the patent laws require a pre-filing investigation to establish that the accused device or method meets the limitations of at least one claim, based on a non-frivolous claim construction. In practice, it is better to go beyond this. Consider all possible claim constructions, both favorable and not, and study recent changes in the law to see if a formerly strong patent now has weaknesses. Get as much information as possible about the relevant product or process. If this information is not publicly available, ask the accused infringer.[4] Finally, perform a reasonable investigation to see if the patent would be easy to invalidate or design around.

[1] *MedImmune, Inc. v. Genentech, Inc*., 549 U.S. 118 (2007); *Prasco, LLC v. Medicis Pharmaceutical Corp*. (Fed. Cir. August 15, 2008).

[2] *In re Seagate Technology, LLC*, 497 F.3d 1360, 1374 (Fed. Cir. 2007).

[3] *Google, Inc. v. American Blind & Wallpaper Factory, Inc*., 2007 WL 1848665 (N.D. Cal. June 27, 2007); Docket No. 03-cv-4447 SI (EDL), Order dated August 12, 2008.

[4] In *Hoffman-La Roche, Inc. v. Invamed, Inc*., 213 F.3d 1359, 1364 (Fed. Cir. 2000), the court held that rule 11 was not violated when the plaintiff unsuccessfully attempted to get information from the defendant before suit was filed.

Experts

Experts should be hired as early as possible – preferably before the complaint is filed. In some fields, few experts are available. A good expert can help both with the pre-filing investigation and with discovery.

Where Should the Complaint be Filed?

For most large defendants, personal jurisdiction can be found almost anywhere in the country. Although the Eastern District of Texas has received lots of press, it is no longer as fast as it used to be and it is not the most popular venue for patent disputes. Companies such as LegalMetric sell statistical information showing relative success rates in different districts.

Finally, some courts (notably the Northern District of California and the Eastern District of Texas) have local rules specific to patent cases; whether these rules provide an advantage depends on the facts of each case.

Injunctions

Many of the cases following the *eBay* decision suggest that a plaintiffs that competes with a defendant or that is a research institution is more likely to get an injunction than an individual or patent holding company.[5]

Pre-litigation: the Accused Infringer

Electronic Discovery Obligations

Just as with patent owners, notice of infringement may trigger an obligation for the defendant to issue a "litigation hold" that will prevent the destruction of information relevant to the dispute.

Willful Infringement and Opinions of Counsel

What should an accused infringer do after receiving an accusation? Under *Seagate*, to avoid a willfulness finding the accused must not be "reckless" in the sense that it "acted despite an objectively high likelihood that its actions constituted infringement of a valid patent", and that it either knew or should have known of this risk.[6] Although there is no obligation to obtain one, an opinion of counsel is useful to defend against a willfulness allegation.[7] The Northern District of California's model jury instructions also specifically mention opinions of counsel as a defense,[8] and opinions can be used to rebut allegations of inducement of infringement and contributory infringement, which require a showing of intent to cause infringement.[9]

[5] See Bernard H. Chao, *After* eBay, Inc. v. MercExchange*: The Changing Landscape for Patent Remedies*, Minnesota Journal of Law, Science and Technology, 9:2, 543-572.

[6] *Seagate,* 497 F.3d at 1371.

[7] *Finisar Corp. v. DirecTV Group, Inc*., 523 F.3d 1323, 1339 (Fed. Cir. 2008).

[8] Model Patent Jury Instructions for the Northern District of California, section 3.11.

[9] Bernard H. Chao, *Obtaining Advice of Counsel after* Seagate*,* New Matter, Vol. 32, Number 4, 2007, citing *DSU Medical Corp. v. JMS Co., Ltd*., 471 F.3d 1293 (Fed. Cir. 2006).

Experts

Again, experts should be hired as early as possible, especially if litigation is likely. There may be few available experts, and good ones can help with invalidity and noninfringement defenses.

Transfer

A district court has the ability to transfer a case to any other district where it might have been brought. 28 USC §1404(a). Although it had been difficult to win a transfer of venue motion in the Eastern District of Texas, that court now seems more willing to grant them.

After the Complaint is Filed

The law has been evolving recently, notably in the areas of obviousness, patentable subject matter, inequitable conduct, reexam, enablement, indirect infringement, exhaustion, divided infringement, and electronic discovery. The balance of this paper will discuss the impact of recent changes in the law related to three of these areas: enablement, reexamination, and electronic discovery.

Recent Changes to the Law of Enablement[10]

Section 112 of the patent laws requires the specification to describe ". . . the manner and process of making and using [the invention], in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the [invention] . . .."

For two decades following *Spectra-Physics, Inc. v. Coherent, Inc.*, the general understanding was that in the "predictable arts", a claim that reads on an embodiment that is not enabled is still valid so long as the claim also reads on an embodiment of the invention that is adequately disclosed.[11] Starting in 2007, three decisions – *Liebel-Flarsheim v. Medrad; Automotive Technologies International v. BMW, et al.;* and *Sitrick v. Dreamworks, LLC* – changed the focus of this analysis towards the question of whether the specification enables the full scope of the claimed invention.[12] In each case, the Federal Circuit invalidated claims that were construed to be broader than the enabled embodiments.

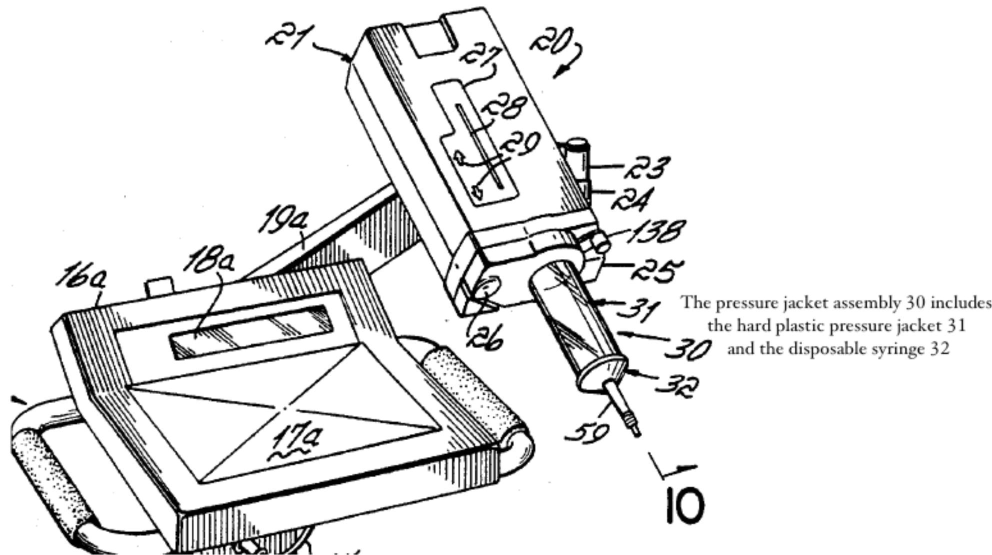
[10] This section is based on research performed by Bernard H. Chao.

[11] *Spectra-Physics, Inc.* v. *Coherent, Inc.,* 827 F.2d 1524, 1533 (Fed. Cir. 1987).

[12] *Liebel-Flarsheim v. Medrad,* 481 F.3d 1371 (Fed. Cir. 2007); *Automotive Technologies International v. BMW, et al.,* 501 F.3d 1274 (Fed. Cir. 2007); and *Sitrick v. Dreamworks, LLC* 516 F.3d 993 (Fed. Cir. 2008).

Liebel-Flarsheim v. Medrad

In *Liebel-Flarsheim*, the invention was to a medical device: a front-loading fluid injector system for delivering a contrast agent to a patient. The fluid injector has a "pressure jacket assembly 30" capable of withstanding high pressure:



"The syringe 32 is disposable, and includes walls which will withstand only moderate or low pressure…. The jacket 31 is made of a stronger transparent material that will withstand the operating pressures. When the syringe 32 is contained in the jacket 31, it is surrounded by the jacket 31 and supported by the jacket 31 against expansion caused by the fluid pressure within as the syringe 32 expands against the jacket wall."

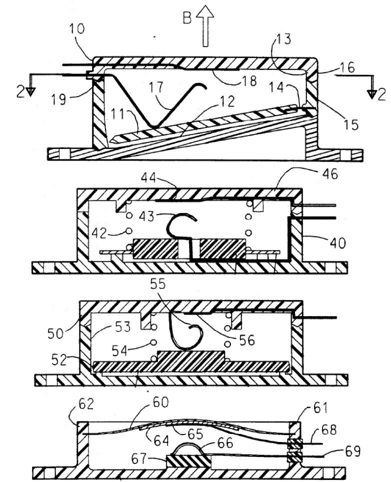
Patent 5,456,669 at 7:15-25.

Because the relevant claims did not mention a pressure jacket, the Court construed them to include an injector with and without a pressure jacket. In holding the patent invalid for failure to enable the full scope of the claims, the Court focused on the following: the specification only described an injector with a pressure jacket, gave no guidance on how to make or use an injector without a pressure jacket, and even taught away from fluid injectors without pressure jackets, calling them "expensive and impractical". The Court also noted that "[t]he inventors admitted that they had unsuccessfully tried to produce a pressure-jacketless system and that such a system would require more extensive experimentation and testing."

This holding in *Liebel-Flarsheim* was then used as the basis for the holdings in *Automotive Technologies* and *Sitrick.*

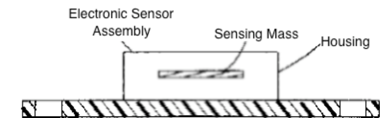
Automotive Technologies International v. BMW

In *Automotive Technologies*, the invention used velocity sensors – rather than the prior art crush sensors – in systems used to deploy side impact airbags. These velocity sensors were said to allow the detection of a side impact even when not directly hit. During the prosecution of the patent, the patent owner argued that this feature was the “essential concept of the invention”; that no one had thought velocity sensors would work for side impact detection; and that they had discovered that *properly designed* velocity sensors would work well to detect a side impact. The specification described several detailed embodiments of mechanical velocity sensors, as shown to the right. By contrast, the specification disclosed only a single conceptual diagram of an electronic sensor, explaining that it could be any known type of electronic sensor.



Some of the mechanical sensors disclosed in the Automotive Technologies patent.

The relevant claims were construed to cover both mechanical and electronic sensors. Relying on *Liebel-Flarshiem,* the panel held the patent invalid for failure to enable the full scope of the claims. The Court focused on the specification's failure to provide a meaningful description of how to make an electronic velocity sensor, and also noted that knowledge of one skilled in the art is unavailable in this case, since the patentee said that side impact detection is a new field. Since “[t]he novel aspect of this invention is using a velocity-type sensor for side impact sensing”, the Court said that it was insufficient to “merely state that known technologies can be used to create an electronic sensor.”

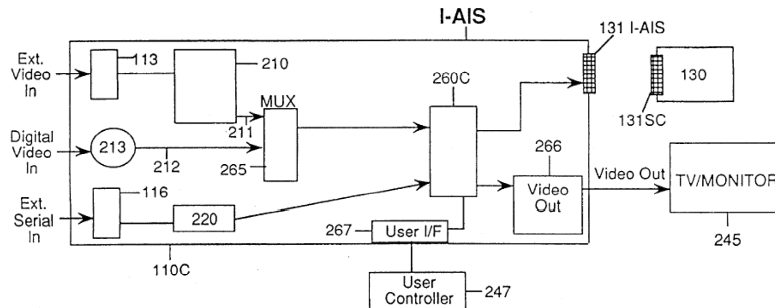


The only electronic sensor disclosed in the Automotive Technologies patent.

Sitrick v. Dreamworks

The patents in *Sitrick* involved techniques for removing the images and sounds associated with a character in a video game or movie, and then substituting different images and sounds. The patent specifications describe how an Intercept Adapter Interface System ("I-AIS") including a controller 260C would select, analyze and identify characters from video games to allow substitutions.

The I-AIS "analyzes the output of the image source … and identifies and intercepts selected predefined character images of the audiovisual presentation" and substitutes a user image…. "There are numerous ways to implement the analysis system 260. For example, address and/or control and/or data signal analysis, timing analysis, state analysis, signature analysis, or other transform or analysis techniques can be utilized to identify when particular predefined player graphic character segments are being accessed and transferred to the video game apparatus." Patent 6,425,825, 17:9-13; 22:47-54.



The specifications state that the same analysis and substitution techniques described for video games would also work for movies, but the defendant's experts demonstrated that this was not the case. Relying on *Automotive Technologies,* the panel held the patent invalid for failure to enable the full scope of the claims, which were construed to cover systems that could be used to substitute images in both video games and movies. The Court noted that "[m]ovies do not have easily separable character functions, as video games do", that the specification does not teach how to obtain character functions from a movie, and that the plaintiff's expert did not show that the disclosed analysis techniques would be applicable to movies.

Reexamination Before, During, and After Litigation[13]

It is now possible to seek reexamination of a patent before, during, and after litigation. It is even possible to request reexamination on the basis of a reference that had failed to persuade the district court. There are two forms of reexamination proceedings: *ex parte* and *inter partes*.[14] A reexamination request must cite "prior art consisting of patents or printed publications which that person believes to have a bearing on the patentability of any claim of a particular patent", and reexamination will occur if there is "a substantial new question of patentability affecting any claim of the patent."

Although an accused infringer can initiate *ex parte* proceedings and file one response, the accused infringer has no other ability to participate in *ex parte* reexamination proceedings. By contrast, *inter partes* proceedings allow the requester (usually the accused infringer) to comment upon any response filed by the patent holder and the accused infringer has a right to appeal the PTO's ultimate decision. There is also no right for the patent holder to interview with the examiner.

[13] This section is based on Jeffrey Fisher, *Reexamination Proceedings During A Lawsuit: The Accused Infringer's Perspective*, presented at the AIPLA 2007 Spring Meeting.

[14] Procedures relating to *ex parte* reexamination proceedings are set forth in 35 U.S.C. §§ 301-307, 37 C.F.R. §§ 1.510-1.570 and Chapter 2200 of the Manual of Patent Examination Procedure. Procedures relating to *inter partes* proceedings are set forth in 35 U.S.C. §§ 311-318, 37 C.F.R. §§ 1.510-1.570 and Chapter 2600 of the MPEP. *Inter partes* reexamination proceedings are only available for patents that were filed on or after November 29, 1999. *See* 37 C.F.R. § 1.913.

Some empirical evidence is emerging that *inter partes* reexamination proceedings may offer accused infringers a greater change of invalidating a patent than in litigation.[15] The downside to *inter partes* reexams is that if the effort fails, the accused infringer will be "estopped from asserting at a later time … the invalidity of any claim finally determined to be valid and patentable on any ground which the third-party requestor raised or could have raised during the inter partes reexamination proceedings."

[15] *See* R. Shang and Y. Chaikovsky, *Inter Partes Reexamination of Patents: An Empirical Evaluation*, 15 Tex. Intell. Prop. L.J. 1 (Fall 2006) (finding a "staggering" 57% all-cancellation rate in *inter partes* proceedings).

When should a reexamination request be filed, and by whom? Sometimes a patent owner will choose to file a reexamination request before or during a litigation if it feels it will ultimately prevail at the PTO, or if the patent's weaknesses make reexamination less of a financial risk than litigation. Accused infringers may also prefer reexamination, as there is no presumption of validity during the reexam proceedings. And when the patent enters reexam during litigation, the district court may issue a stay while the reexam is pending, which conserves resources, at least in the short term.[16] Delaying resolution of the district court action also allows more time to design a work around, to develop noninfringement or invalidity arguments, and seek to settle the case.

[16] District courts have discretion to stay litigation pending reexamination proceedings. *Ethicon v. Quigg*, 849 F.2d 1422, 1426-27 (Fed. Cir. 1988).

The ultimate impacts of a patent that survives a reexamination are the estoppel discussed above in the case of *inter partes* proceedings, and a greatly reduced likelihood that the patent will be held invalid by the district court.[17] And if the accused infringer decides to participate in reexamination proceedings, it should be aware that its own conduct in the proceedings may have adverse consequences in any later litigation.[18]

[17] *Kaufman Co. v. Lantech, Inc.*, 807 F.2d 970, 973-74 (Fed. Cir. 1986).

[18] *See*, *e.g.*, *Sensonics, Inc. v. Aerosonic Corp*., 81 F.3d 1566, 1571 (Fed. Cir. 1996) (failure of accused infringer to cite prior art reference to PTO in reexamination proceedings "weighs heavily" against argument that prior art was "material" prior art for purposes of inequitable conduct claim).

Finally, it is possible for a party found to be infringing to initiate reexam proceedings after litigation at the district court is complete (as happened in *eBay*) even if the patent's validity was never challenged in court. And one week ago, the Federal Circuit held that it is possible to initiate a reexam even if the prior art reference on which the request is based had been used in a failed attempt to invalidate the patent in the district court.[19] This may become a popular option for unsuccessful litigants.

[19] *In Re Melvin J. Swanson and Patrick E. Guire* (Fed. Cir. September 4, 2008).

Electronic Discovery

The preservation of evidence has long been an obligation imposed on litigants. As soon as a potential claim is identified, a litigant is under a duty to preserve evidence that it knows or reasonably should know is relevant to the action.[20] The dimensions of this obligation have grown substantially because most evidence is now stored electronically. Failure to comply with the obligation to preserve and produce electronically stored evidence can result in severe consequences. Courts can and do apply the full range of available sanctions – monetary, issue preclusion and terminating – against parties that destroy or fail to produce relevant electronic evidence.[21]

Federal Rule of Civil Procedure 37(e) provides a safe harbor in the case of electronic data. This rule states that absent "exceptional circumstances," a court may not impose sanctions for the failure to provide electronically stored information "lost as a result of the routine, good-faith operation of an electronic information system." In other words, a party will not typically be punished when electronic evidence is destroyed as part of a company's normal policy for the destruction of electronic information. However, the Rule 37(e) safe harbor will likely not apply to a party who destroys evidence, even as part of the routine deletion of information, after being put on notice of the need to preserve evidence for actual or potential litigation.

Two recent decisions from the Northern District of California illustrate the serious ramifications a party can suffer for failing to fulfill its obligations. In *Google Inc. v. American Blind & Wallpaper Factory, Inc.*,[22] Judge Seeborg imposed issue and monetary sanctions on American Blind for its loss of "a substantial amount of relevant material, particularly American Blind email," as a result of its failure to conduct an adequate search when initially put on notice of the potential litigation. Similarly, Judge Laporte imposed hundreds of thousands of dollars in sanctions (with the possibility of even more) and recommended that the district judge give an adverse jury instruction against the defendants in *Keithley v. The Home Store.com, Inc.*[23] Characterizing the defendants' actions as "reckless and egregious discovery misconduct," Judge Laporte based the sanctions award on their "large scale transfer of source code to a new source code control system without taking adequate precautions to safely maintain the older information . . . ," after defendants reasonably should have known that litigation was possible, and making material misrepresentation to the court and plaintiffs regarding the existence of documents.

[20] *In re Napster, Inc. Copyright Litigation*, 462 F. Supp. 2d 1060, 1067 (N.D. Cal. 2006).

[21] *Hynix Semiconductor Inc. v. Rambus, Inc.*, 2006 WL 565893 at 21 (N.D. Cal. 2006) ("Sanctions may be imposed on a litigant who is on notice that documents and information in its possession are relevant to litigation, or potential litigation, or are reasonably calculated to lead to the discovery of admissible evidence, and destroys such documents and information.").

[22] Docket No. 03-cv-5340 JF (RS), Order dated June 27, 2007.

[23] Docket No. 03-cv-4447 SI (EDL), Order dated August 12, 2008.

As the *Google* and *Keithley* cases demonstrate, the consequences for failing to produce relevant electronic evidence that existed at one time can be devastating. We offer a few tips:

- Put a litigation hold in place as soon as the possibility of litigation becomes apparent.
- Enforce the litigation hold as completely as possible.
- Work with the other side to define search terms, so that both sides agree as to what the scope of searches will be; if the parties disagree, request the court's assistance before the search begins.
- If a potential problem arises, deal with it promptly by notifying the other side and taking immediate corrective steps.