



NEW FRONTIERS: THE CLAMPDOWN ON PATENT INFRINGEMENT LITIGATION AND ITS EFFECTS ON CORPORATE LITIGATION

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The continuing hullabaloo over “patent trolls” and resultant clampdown on patent infringement litigation is having consequences — intended and unintended — for both the substantive framework of rewarding innovation upon which much of the American economy is based, and the federal litigation system by which disputes arising out of that framework are decided. We comment briefly here on both, as well as how these changes potentially impact the advice that company counsel of all stripes — not just patent counsel — should consider giving their clients.

Background

Much has been written about “patent trolls” and their impact on the American economy.¹

Defining a “patent troll” can be challenging. A patent conveys a right to exclude, not a duty to practice, the patented invention.² Universities and small inventors, among others, sometimes obtain patents that they themselves do not commercialize. It is oversimplistic to label as a “troll” any patent enforcer that purchased the patent in order to enforce it. Patent rights are commercial assets,³ which the purchaser presumably gave value to acquire. As a general proposition, it is no more desirable to chill trade in patent rights than in any other legitimate commercial asset.⁴

¹ See, e.g., EXEC. OFFICE OF THE PRESIDENT, PATENT ASSERTION AND U.S. INNOVATION (2013) (“patent assertion entities . . . (also known as “patent trolls”) have had a negative impact on innovation and economic growth”); Joel B. Carter, Responding to a Patent Troll’s Threats, 48 ARK. LAW. 30, 30 (2013) (patent trolls in the U.S. have “an annual price tag of at least \$30 billion”); James F. McDonough III, The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy, 56 EMORY L.J. 189 (2006) (discussing patent trolls as patent dealers who function as market intermediaries that “increase patent liquidity, set market clearing prices, and foster efficiency in the idea economy”).

² E.g., King Instruments Corp. v. Perego, 65 F.3d 941, 949 (Fed. Cir. 1995).

³ Cf. 35 U.S.C. § 261 (“Subject to the provisions of this title, patents shall have the attributes of personal property.”).

⁴ Cf. id. (“Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing.”).

At the other end of the spectrum, take a patent enforcer that acquired the patent from someone else and hasn’t commercialized it, but is using the patent to extract licensing fees from targets who may — or may not — be infringing, with said licensing fees set just low enough to make settling a superior option for the target than incurring the cost of defense, or even the cost of investigation.⁵ Many would label this enforcer a troll. Of course, if the target actually infringes, it is difficult to cast many aspersions on the vindicated owner of a federal property right.

In any event, the federal legal landscape as it relates to troll activity is changing rapidly.⁶ Legislative “fixes” have been adopted, and more legislative changes loom. Judicial “fixes” also have been implemented. We address some of these below.

We wonder whether changes — both legislative and judicial — have now reached the point where, consequentially, the downside exceeds the upside. Ideally, Congress and the courts would take a “time out” and wait to see how the dust

⁵ See, e.g., Hana Oh Chen, Combating Baseless Patent Suits: Rule 11 Sanctions with Technology-Specific Application, 54 JURIMETRICS J. 135 n.2 (2014) (defining patent assertion entities, “[s]ometimes referred to as ‘patent trolls,’” as “entities that frequently acquire weak or poorly granted patents, and file numerous patent infringement lawsuits against companies and inventors”).

⁶ For example, panels of the Patent Trial and Appeal Board, which conduct the inter partes reviews (IPRs) created by the America Invents Act of 2011, have been labeled as “death squads” for invalidating patents challenged under that procedure. Tony Dutra, Rader Regrets CLS Bank Impasse, Comments on Latest Patent Reform Bill, BLOOMBERG BNA (Oct. 29, 2013), www.bna.com/rader-regrets-cls-n17179879684 (quoting then Federal Circuit Chief Judge Randall Rader). See also Joseph Casino & Michael Kasdan, Trends from 2 Years of AIA Post-Grant Proceedings, LAW360 (Sept. 29, 2014), www.wiggin.com/files/29546_Trends%20From%202012%20to%202014%20Post-Grant%20Proceedings,%20Law360,%202014,%20Casino,%20Kasdan.pdf (discussing statistics regarding IPRs from 2012 through 2014 and noting that these proceedings “have become ubiquitous and quite successful[,]” changing the game in post-grant trial procedures). Yet IPRs’ impact on trolls is unclear. Compare Eric W. Schweibenz et al., Automatic Stay of Litigation Pending Inter Partes Review?: A Simple Proposal for Solving the Patent Troll Riddle, LANDSLIDE, Sept./Oct. 2014, at 40 (arguing IPRs “are a particularly attractive tool to use against nonpracticing entities (NPEs) or so-called patent trolls”), with Michael Gulliford, If Patent Reform Is Meant to Starve Patent Trolls, Why Is It Feeding Them Instead?, IPWATCHDOG (Sept. 8, 2014), www.ipwatchdog.com/2014/09/08/if-patent-reform-is-meant-to-starve-patent-trolls-why-is-it-feeding-them-instead/id=51067/ (arguing that susceptibility of patents to IPR forces patentees away from contingent fee representation and toward trolls).

settles before adopting any more large scale changes to the patent laws.

Legislative Patent Law Changes

The America Invents Act of 2011, the most substantial legislative reform of the patent laws in half a century, included changes designed to address “troll” lawsuits.⁷ These included, most notoriously, the creation of the Patent Trial and Appeal Board, which hears certain administrative challenges to issued patents. Recent reports indicate that these challenges result in invalidation of at least one claim in approximately 90 percent of the inter partes review proceedings resulting in written opinions.⁸ While this success rate has diminished since the proceedings first commenced in 2012 — suggesting to a degree that the earliest-challenged patents may have been “low-hanging fruit” — this percentage still is substantial.⁹

In addition to post-issuance proceedings before the PTAB, the AIA targeted patent trolls by limiting their ability to join numerous, unrelated defendants in a single suit — a common practice among trolls prior to the AIA.¹⁰ Section 299 now permits joinder of multiple accused infringers “only if (1) any right to relief is asserted against the parties jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences[.]”¹¹ Limiting joinder to the same transaction or occurrence confronts trolls with a substantial obstacle to doing business as usual.

Other legislative changes loom, depending upon whether Congress and the President can agree on a particular set of “reforms.” Here are some of the potential changes:

Fee-shifting. The current standard is “exceptional case”¹²; fee shifting is the exception rather than the rule even after the Supreme Court’s companion decisions in *Octane Fitness* and *Highmark*, discussed in more detail below. Potentially, fee-shifting would become more prevalent and perhaps, presumptive.¹³

Heightened pleading standards. Patent cases currently must be pleaded under the same “notice pleading” standards

⁷ Prior to the AIA, the last major legislative overhaul of the patent law was the Patent Act of 1952. Patent Act of 1952, ch. 950, § 1, 66 Stat. 792 (1952).

⁸ Amy Simpson & Hwa Lee, PTAB Kill Rates: How IPRs Are Affecting Patents, LAW360 (Sept. 15, 2015), www.law360.com/articles/699860/ptab-kill-rates-how-iprs-are-affecting-patents.

⁹ BIO 2015: IPR Not Petitioner Friendly, USPTO Judge Claims, WIPR (June 17, 2015) (citing Jacqueline Wright Bonilla, an administrative judge at the US Patent and Trademark Office, for stating that these “figures reflect the very first patents to be tested by the proceedings—the ‘low-hanging fruit’ patents that petitioners knew to be weak”).

¹⁰ 35 U.S.C. § 299; see also Wes Klimczak, IP: How the AIA Has Affected Patent Litigation, INSIDE COUNS. (June 18, 2013), www.insidecounsel.com/2013/06/18/ip-how-the-aia-has-affected-patent-litigation.

¹¹ 35 U.S.C. § 299(a)(1); see also Joe Matal, A Guide to the Legislative History of the America Invents Act: Part II of II, 21 FED. CIR. B.J. 539, 590-91 (2012).

¹² 35 U.S.C. § 285.

¹³ Innovation Act, H.R. 9, 114th Cong. § 3 (2015); PATENT Act, S. 1137, 114th Cong. § 7 (2015).

as other cases. Interestingly, absent congressional action, the “fairly conclusory”¹⁴ form patent infringement complaint (Form 18) in the federal rules’ Appendix of Forms will be abrogated as of December of this year — a change which will eliminate one argument that current standards do not require much detail.¹⁵ Proposed legislative changes would require still more specificity in patent infringement complaints.¹⁶

“Customer stay” provisions. Merely using, offering to sell, or selling a patented invention suffices for infringement liability.¹⁷ Thus, a common troll tactic is to send demand letters to downstream users or sellers of a patented invention since, economically, these targets may be more inclined to just write a check rather than fight. Proposed legislation would address this tactic by permitting such a target to seek a stay of the litigation.¹⁸

Demand letter restrictions. Trolls often obscure the true holder of patent rights, among other reasons to make it difficult for a victorious defendant to collect a fee or cost award.¹⁹ As have several states, proposed federal legislation would impose restrictions on the content of patent infringement demand letters, such as requiring identification of the ultimate holder of patent rights and detail on how the target is infringing.²⁰

Mandatory discovery stays, pending resolution of certain early motions including motions to dismiss, could be required.²¹ One would think this change would ensure that such motions would be filed, even where they otherwise would not have been.

One wonders whether these and other proposed changes are effecting a fundamental shift in the balance between inventor and follower rights that has sustained the modern American economy. The Federal Circuit was created to help foster innovation by promoting uniformity in interpretation of the patent laws,²² in an environment where “widespread disregard of patent rights was undermining the national innovation incentive.”²³

¹⁴ Andrew F. Halaby, Pleading Analysis Under Iqbal: Once More Unto the Breach!, Arizona Attorney, at 36 (Dec. 2009), www.azattorney.com/azattorney/200912/?pg=39#pg39.

¹⁵ See Leeron Morad & Andrew Bramhall, 3 Potential Consequences of Losing Rule 84 and the Forms, LAW360 (June 24, 2015), www.law360.com/articles/665511/3-potential-consequences-of-losing-rule-84-and-the-forms.

¹⁶ Innovation Act § 3; PATENT Act § 3.

¹⁷ 35 U.S.C. § 271(a).

¹⁸ Innovation Act § 5; PATENT Act § 4.

¹⁹ See Nicholas M. Kunz & Andrew F. Halaby, Troll Fighter: An Interview with Vermont Attorney General William J. Sorrell, LANDSLIDE, Jan./Feb. 2015.

²⁰ Targeting Rogue and Opaque Letters Act of 2015, H.R. 2045, 114th Cong. § 2 (2015).

²¹ Innovation Act § 3; PATENT Act § 5.

²² See Paul R. Gugliuzza, Rethinking Federal Circuit Jurisdiction, 100 GEO. L.J. 1437, 1453-54 (2012); Christopher A. Cotropia, Determining Uniformity Within the Federal Circuit by Measuring Dissent and En Banc Review, 43 LOY. L.A. L. REV. 801, 806 (2010) (citing H.R. REP. NO. 97-312, at 22 (1981)).

²³ Knorr-Bremse Systeme Fuer Nutzfahrzeuge gmbh v. Dana Corp., 383 F.3d 1337, 1343 (Fed. Cir. 2004) (en banc).

Yet, as discussed in more detail below, some of the Supreme Court's recent patent jurisprudence appears designed to discourage the filing of patent infringement lawsuits by creating uncertainty. Many would argue that, in an economy and culture that rest fundamentally on the predictability of return on profit-seeking investment, purposefully generating unpredictability in enforcing a property right constitutionally designed to "promote the Progress of Science and useful Arts"²⁴ is anathema.

Judicial Patent Law Changes

A. Recent History

Beginning with Justice Kennedy's concurrence in *eBay v. MercExchange* in 2006,²⁵ trolls have loomed large in the Supreme Court's treatment of patent cases, for the Court's recent decisions generally have evinced hostility to utility patents and a motivation to limit the reach of those who would seek to impose infringement liability.²⁶ Statistically, the Supreme Court has expressed more interest in patent cases in the last 10 years (29 cases)²⁷ than in the prior 23 years (7 cases).²⁸ *eBay* was interesting in another respect as well. There, the Court held that the usual common law factors supporting entry of a permanent injunction apply in the patent context too.²⁹ Setting aside the rigor of this decision as a jurisprudential matter, the net effect was to change the law against patentees — the right to exclude being the quintessential patent right.³⁰

In 2007, the Supreme Court lowered the standard for holding a purported invention obvious, and therefore unpatentable under 35 U.S.C. § 103. In *KSR v. Teleflex*, the Court replaced the (more predictable) teaching, suggestion, or motivation standard for determining obviousness with a new, more flexible standard.³¹

That same year, the Supreme Court held in *Microsoft v. AT&T* that supplying software copied abroad is not supplying a component under 35 U.S.C. § 271(f), which provides "that infringement occur[s] when one 'supplies . . . from the United

States,' for 'combination' abroad, a patented invention's 'components.'"³²

In 2008, the Court held in *Quanta Computer v. LG* that patent exhaustion applies to method patent claims, meaning that sale of an item embodying the method exhausted the patent right.³³

In 2011, the Court held in *Global-Tech v. SEB* that induced infringement under 35 U.S.C. § 271(b) requires knowledge that the induced acts constitute patent infringement.³⁴ The Court rejected an alternative reading of the statute which would have held that knowledge of the patent, coupled with knowledge that "the component is 'especially adapted for use' in a product that happens to infringe" the patent, would suffice for inducement liability.³⁵

The apparently purposeful use of uncertainty to chill the filing of patent infringement suits again appeared in the Supreme Court's recent decisions addressing the standard for determining patentability under 35 U.S.C. § 101, which provides that "[w]hoever 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." The upshot of these decisions — *Bilski v. Kappos*³⁶ in 2010, *Mayo v. Prometheus*³⁷ in 2012, and *Alice v. CLS Bank*³⁸ in 2014 — is that the standard for judging patent eligibility for method patent claims has changed from the Federal Circuit's previous (and more predictable) machine-or-transformation test — under which a method is patent eligible only if "it is tied to a particular machine or apparatus or . . . it transforms a particular article into a different state or thing"³⁹ — to a two-step calculus the focus of which is whether the claimed method adds an inventive concept to an otherwise patent ineligible law of nature, natural phenomenon, or abstract idea.⁴⁰

In its 2013 decision in *Gunn v. Minton*, the Court held that "state legal malpractice claims based upon underlying patent matters will rarely, if ever, arise under federal patent law for purposes of [28 U.S.C.] § 1338(a)."⁴¹ State court determinations of legal malpractice claims based upon application of the patent laws almost certainly will be less uniform and predictable than would those decisions if

24 U.S. CONST. art. I, § 8, cl. 8.

25 *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) ("An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent." (citations omitted)).

26 A utility patent can protect the way a thing is used and how it works. 35 U.S.C. § 101. "Patents," in the context of discussing modern reform, usually refers to utility patents.

27 Lisa L. Ouellette, *Supreme Court Patent Cases*, WRITTEN DESCRIPTION, writtendescription.blogspot.com/p/patents-scotus.html (last visited Sept. 30, 2015).

28 Clifton E. McCann, *Supreme Court Patent Cases: Past and Pending*, LAW360 (Jan. 5, 2011), www.law360.com/articles/216758/supreme-court-patent-cases-past-and-pending.

29 *eBay*, 547 U.S. at 391-92.

30 See King, 65 F.3d at 950 ("The [Patent] Act supplies a carrot in the form of economic rewards resulting from the right to exclude."); see also ALAN DEVLIN, *FUNDAMENTAL PRINCIPLES OF LAW AND ECONOMICS* 264 (2015) ("The quintessential characteristic of property — a right to exclude — is common to ownership of patented technology, realty, and chattels."); Neal R. Stoll & Shepard Goldfein, *Patent Antitrust Equilibrium — A Quintessential Type 1 Error*, 298 N.Y. L.J. 1 (Nov. 13, 2012), www.skadden.com/sites/default/files/publications/070111209%20Skadden.pdf ("A valid, enforceable patent provides its owner with the right to exclude or limit others from practicing the patented property for a defined period of time.").

31 *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 419-22 (2007).

32 *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 441 (2007) (quoting 35 U.S.C. § 271(f)(1)).

33 *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 638 (2008).

34 *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2068 (2011).

35 *Id.* (quoting 35 U.S.C. § 271(c)).

36 *Bilski v. Kappos*, 561 U.S. 593, 602 (2010).

37 *Mayo Collaborative Servs. v. Prometheus Labs.*, 132 S. Ct. 1289 (2012).

38 *Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2354-55 (2014).

39 *Bilski*, 561 U.S. at 602.

40 *Alice*, 134 S. Ct. at 2354-55.

41 *Gunn v. Minton*, 133 S. Ct. 1059, 1065 (2013).

rendered by federal district courts subject to review by the Federal Circuit.⁴²

The Court's 2014 companion decisions of *Octane Fitness v. ICON Health & Fitness* and *Highmark v. Allcare* changed several aspects of fee shifting under the patent laws. Under 35 U.S.C. § 285, fees may be awarded only in "exceptional" cases. The Federal Circuit standard was that entitlement to attorneys' fees had to be established by "clear and convincing evidence," with district court decisions on fees reviewed *de novo*.⁴³ After these decisions, the totality of the circumstances determines entitlement to attorneys' fees, and the district court's decision on attorneys' fees is reviewed for abuse of discretion.⁴⁴

In its 2014 decision in *Nautilus v. Biosig*, the Court loosened the standard for patent indefiniteness under 35 U.S.C. § 112. Before, the standard was whether the claim was "amenable to construction" and whether the claim, "as construed, is not so 'insolubly ambiguous.'"⁴⁵ Now, "a patent is invalid for indefiniteness if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention."⁴⁶

The anti-patent, anti-predictability trend continued in 2015.

In *Teva v. Sandoz*, the Supreme Court held that certain aspects of patent claim construction must be reviewed for clear error rather than *de novo*,⁴⁷ the standard of review universally applied by the Federal Circuit since its 1998 decision in *Cybor v. FSA*.⁴⁸ There are substantial questions as to the degree to which this change will in fact alter Federal Circuit deference to district court claim construction decisions, because "most claim construction issues remain questions of law reviewed without deference to the trial court's findings."⁴⁹ The net effect, however, is to vest at least some additional authority in district courts at the expense of the uniformity imposed by the Federal Circuit through its less deferential standard of review.

And in *Kimble v. Marvel*, the Court confirmed its 1967 holding in *Brulotte v. Thys Co.* that post-patent-expiration

royalties are *per se* unlawful.⁵⁰ Viewed in the context of its recent antitrust jurisprudence tending to favor rule-of-reason analyses over "per se" rules,⁵¹ this decision may be viewed as an outlier. Viewed in the context of its recent patent law jurisprudence, the case is not.⁵²

B. The "Next Big Thing"

At the time of this writing, two petitions for certiorari⁵³ and one request for rehearing *en banc* at the Federal Circuit⁵⁴ ask the respective courts to revisit the Federal Circuit's current standards for awarding enhanced damages under 35 U.S.C. § 284. That statute provides, simply, "[T]he court may increase the damages up to three times the amount found or assessed." Since the Federal Circuit's 2007 *en banc* decision in *In re Seagate*, only "willful infringement" suffices to establish entitlement to enhanced damages under the statute.⁵⁵ Generally speaking, willful infringement can be proven only by establishing (1) objectively, that the infringement case wasn't close, and (2) subjectively, that the risk of infringement was either known or so obvious it should have been known to the accused infringer.⁵⁶ Moreover, since the Federal Circuit's 2012 decision in *Bard v. Gore*, willfulness determinations under the objective component of this standard have been reviewed *de novo*, leaving the Federal Circuit as the ultimate arbiter of which cases are — or are not — close enough to warrant enhanced damages.⁵⁷ Noting the similarities between the Federal Circuit's pre-*Octane/Highmark* standards and the Federal Circuit's current enhancement standards, the petitioners in these cases maintain that the latter standards ought to be revisited.⁵⁸ Potential changes include holding that other types of conduct, besides "willful" infringement, ought to subject the infringer to enhanced damages, as well as greater deference being accorded to trial court enhancement determinations. Ironically, relaxing the current standards — i.e., making it easier to get and keep enhanced damages awards — might

50 *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2406 (2015) (citing *Brulotte v. Thys Co.*, 379 U.S. 29 (1964)).

51 Cf. *FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2237 (2013) ("abandonment of the 'rule of reason' in favor of presumptive rules (or a 'quick-look' approach) is appropriate only where 'an observer with even a rudimentary understanding of economics could conclude that the arrangements in question would have an anticompetitive effect on customers and markets'").

52 Some decisions within this history could be viewed as pro-patent. This year, in *Commil v. Cisco*, the Court held that a defendant's good faith belief of patent invalidity would not supply a defense to an induced infringement claim under 35 U.S.C. § 271(b). *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1929 (2015). And the Court's 2011 decision in *Microsoft v. i4i* held that patent invalidity must be proved by clear and convincing evidence — a result that one would have thought compelled by 35 U.S.C. § 282's statutory presumption of validity. *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2242 (2011). Nevertheless, the overall trend is anti-patent and anti-certainty.

53 *Petition for Writ of Certiorari, Stryker Corp. v. Zimmer, Inc.*, No. 14-1520, 2015 WL 3898662 (June 22, 2015); *Petition for Writ of Certiorari, Halo Elecs., Inc. v. Pulse Elecs., Inc.*, No. 14-1513, 2015 WL 3878398 (June 22, 2015).

54 *Petition for Rehearing En Banc, Carnegie Mellon Univ. v. Marvell Tech. Grp., LTD.*, No. 14-1492 (Fed. Cir. Sept. 3, 2015).

55 *In re Seagate Tech., LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007).

56 *Id.* at 1371.

57 *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1006-07 (Fed. Cir. 2012).

58 See *Petition for Writ of Certiorari, Stryker Corp. v. Zimmer, Inc.*, No. 14-1520, 2015 WL 3898662, at *18-19; *Petition for Writ of Certiorari, Halo Elecs., Inc. v. Pulse Elecs., Inc.*, No. 14-1513, 2015 WL 3878398, at *2, 10-11, 14-18.

42 *Dennis Crouch, Gunn v. Minton: Supreme Court Narrows Arising Under Jurisdiction for Patent Cases*, PATENTLY-O (Feb. 20, 2013), patentlyo.com/patent/2013/02/gunn-v-minton-supreme-court-narrows-arising-under-jurisdiction-for-patent-cases.html ("[T]he reality is that it is well within a state court's power to unsettle issues seemingly well-settled by Federal Circuit precedent.")

43 *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1754 (2014).

44 *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748 (2014).

45 *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2124 (2014) (quoting the Federal Circuit's decision below).

46 *Id.*

47 *Teva Pharms. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831, 835 (2015).

48 *Cybor Corp. v. FSA Techs., Inc.*, 138 F.3d 1448, 1454 (Fed. Cir. 1998), abrogated by *Teva*, 135 S. Ct. 831.

49 *Dennis Crouch, Teva v. Sandoz: On Remand, Still No Deference and Claim Is Indefinite*, PATENTLY-O (June 18, 2015), patentlyo.com/patent/2015/06/remand-deference-indefinite.html.

be considered “pro-patent.” For this reason, the Supreme Court may leave the Federal Circuit standard intact or, at least, allow the Federal Circuit to determine on its own whether and how Octane and Highmark should impact its enhanced damages jurisprudence.

Economic Impacts

We have, traditionally, been an innovating country rather than a copying country.⁵⁹ Being an innovating country, with concomitant strong intellectual property protections for that innovation, has served us well. Accordingly, our traditional preference for incremental rather than seismic patent law changes has made sense.

With all the doubt being sown in patents’ enforceability, as well as uncertainty as to whether attempting to enforce patent rights will lead to adverse attorneys’ fees outcomes, there is little question that utility patents have, over the last 10 years, suffered erosion as a value-holding asset class in the American economy.⁶⁰ The amount of this erosion is difficult or impossible to quantify, but it is real. Indeed, the erosion is rippling through to other intellectual property rights as well. eBay’s holding has been applied both to trademark cases and to preliminary injunctions.⁶¹ Octane’s and Highmark’s holdings applied to the patent fee-shifting statute, but the trademark fee-shifting statute is identical.⁶²

One need not rely on the most overt efforts to exploit this erosion in the force of patent rights, such as hedge fund efforts through PTAB IPR proceedings to invalidate the particular companies’ patents.⁶³ All companies to which patent rights are important in establishing value and competitiveness confront substantial risks to those assets since, of course, the assets require enforceability in court to have value. Fear and uncertainty as to enforcement “is toxic for businesses who absolutely require legal and regulatory certainty in order to thrive and ultimately maximize business

opportunities.”⁶⁴ This uncertainty has, it has been argued, led to decreases in licensing patented technology in favor of “efficient infringement.”⁶⁵ That is, infringers increasingly opt to pursue IPRs, in hope of invalidating the patent, rather than paying for a license.⁶⁶ The net effect of this approach decreases the value of patent rights and, at least arguably, stifles innovation.⁶⁷

One must wonder whether, in view of the erosion of patent rights, a patent-reliant public company’s portrayal of its financial condition which does not take this erosion into account might subject the company to investor claims based on the securities laws.⁶⁸ Pursuant to Sections 13 and 15(d) of the Securities Exchange Act of 1934 (“Exchange Act”), public companies are required to provide detailed annual reports.⁶⁹ Rule 10b-5 of the Exchange Act adds teeth to these requirements by subjecting companies that publish untrue statements of material fact or engage in deceptive practices to severe penalties.⁷⁰ Among other things, companies must explain in their annual reports the most significant risks they face.⁷¹ The erosion of patent rights and the attendant threat to their value may well count among the risk factors that the company is required to report — if, at least, the company substantially relies upon patent rights.⁷² At a minimum, it may make sense for such companies that have not done a rigorous IP audit in some time to do one now.

Conclusion

Patents remain under attack. The degree of harm done to them, and the impact that harm will cause on the rest of us, may become more apparent in the coming years. Even setting aside more direct impacts on the economy from these changes, judicial changes to the patent laws are rippling through to other areas of the law as well. Vigilant company counsel, outside the patent world as well as inside, would be well-served to take these changes into account as they advise their clients.

⁵⁹ Eamonn Fingleton, *America the Innovative?*, N.Y. TIMES (Mar. 30, 2013), www.nytimes.com/2013/03/31/sunday-review/america-the-innovative.html?_r=0 (analyzing the cause of the United States’s innovation dominance).

⁶⁰ Paul Morinville & Gene Quinn, *A Toxic Concoction of Myth, Media and Money is Killing the Patent System*, IP WATCHDOG (Sept. 30, 2015), <http://www.ipwatchdog.com/2015/09/30/a-toxic-concoction-of-myth-media-and-money-is-killing-the-patent-system/id=62134/> (because of the uncertainty regarding enforcement of patent rights, “[t]here is no way to show with reasonable certainty that the investment [in a patent] will ever be returned, let alone at a profit”).

⁶¹ *Herb Reed Enters., LLC v. Fla. Entm’t Mgmt., Inc.*, 736 F.3d 1239, 1249 (9th Cir. 2013) (“We now join other circuits in holding that the eBay principle . . . applies to a preliminary injunction in a trademark infringement case.”).

⁶² Compare 35 U.S.C. § 285 (“The court in exceptional cases may award reasonable attorney fees to the prevailing party”) with 15 U.S.C. § 1117(a) (“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”).

⁶³ See, e.g., Joseph Walker & Rob Copeland, *New Hedge Fund Strategy: Dispute the Patent, Short the Stock*, WALL ST. J. (Apr. 7, 2015), www.wsj.com/articles/hedge-fund-manager-kyle-bass-challenges-jazz-pharmaceuticals-patent-1428417408.

⁶⁴ Gene Quinn, *Patent Reform Fuels Fear, Paralyzes U.S. Innovation Market*, IP WATCHDOG (June 15, 2015), www.ipwatchdog.com/2015/06/15/patent-reform-fuels-fear-paralyzes-innovation-market/id=58743/.

⁶⁵ *Id.*

⁶⁶ *Id.* (discussing comments from former Federal Circuit Chief Judge Paul Michel).

⁶⁷ *Id.* (“without a thriving marketplace for the exchange of patent rights[,] we will see far less innovation”); see also PATENT ASSERTION AND U.S. INNOVATION, supra note 2, at 9 (“Patent suits initiated by . . . fourteen entities [during the years 2000 to 2010] were associated with a decline of \$87.6 billion in defendant company share value over the same period, implying that the financial award experienced by winning PAEs amounts to less than 10% of the lost share value in this sample”).

⁶⁸ Efrat Kasznik, *The Impact of the Alice Decision on Corporate Assets*, IP WATCHDOG (Sept. 26, 2014), www.ipwatchdog.com/2014/09/26/the-impact-of-the-alice-decision-on-corporate-patent-assets/id=51374/ (“From a valuation and financial reporting perspective, there needs to be a serious examination of the post-Alice landscape implications on the value of patents as corporate assets.”).

⁶⁹ Securities Exchange Act of 1934 §§ 13, 15(d), 15 U.S.C. § 78m (2012), available at www.sec.gov/about/laws/sea34.pdf.

⁷⁰ Kasznik, supra note 69 (“rule 10b-5 lays the foundation for the SEC to investigate possible security fraud claims”); see also 17 C.F.R. § 240.10b-5.

⁷¹ SEC, *HOW TO READ A 10-K* (2011), www.sec.gov/answers/reada10k.htm (explaining that companies must list the “most significant risks that apply to the company or to its securities”).

⁷² Kasznik, supra note 69.

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An experienced business trial lawyer, registered patent attorney, and former professional engineer, Andy Halaby focuses his practice on intellectual property and technology litigation and professional responsibility matters.

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Professional Responsibility and Other Matters. Having focused upon professional responsibility issues for many years, Andy also counsels lawyers and law firms on professional responsibility matters. The Chair of Snell & Wilmer's Ethics Committee, he also serves as a member of the State Bar of Arizona Committee on the Rules of Professional Conduct and as a member of the Supreme Court of Arizona's Independent Bar Counsel Attorney Panel, whose members serve as volunteer bar counsel investigating and prosecuting disciplinary complaints on the Bar's behalf. From 2011 through 2014, he chaired the State Bar of Arizona's Conflict Case Committee, which performed similar functions.

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