A Startup Perspective: The Steady Bulldozing of Patent rights

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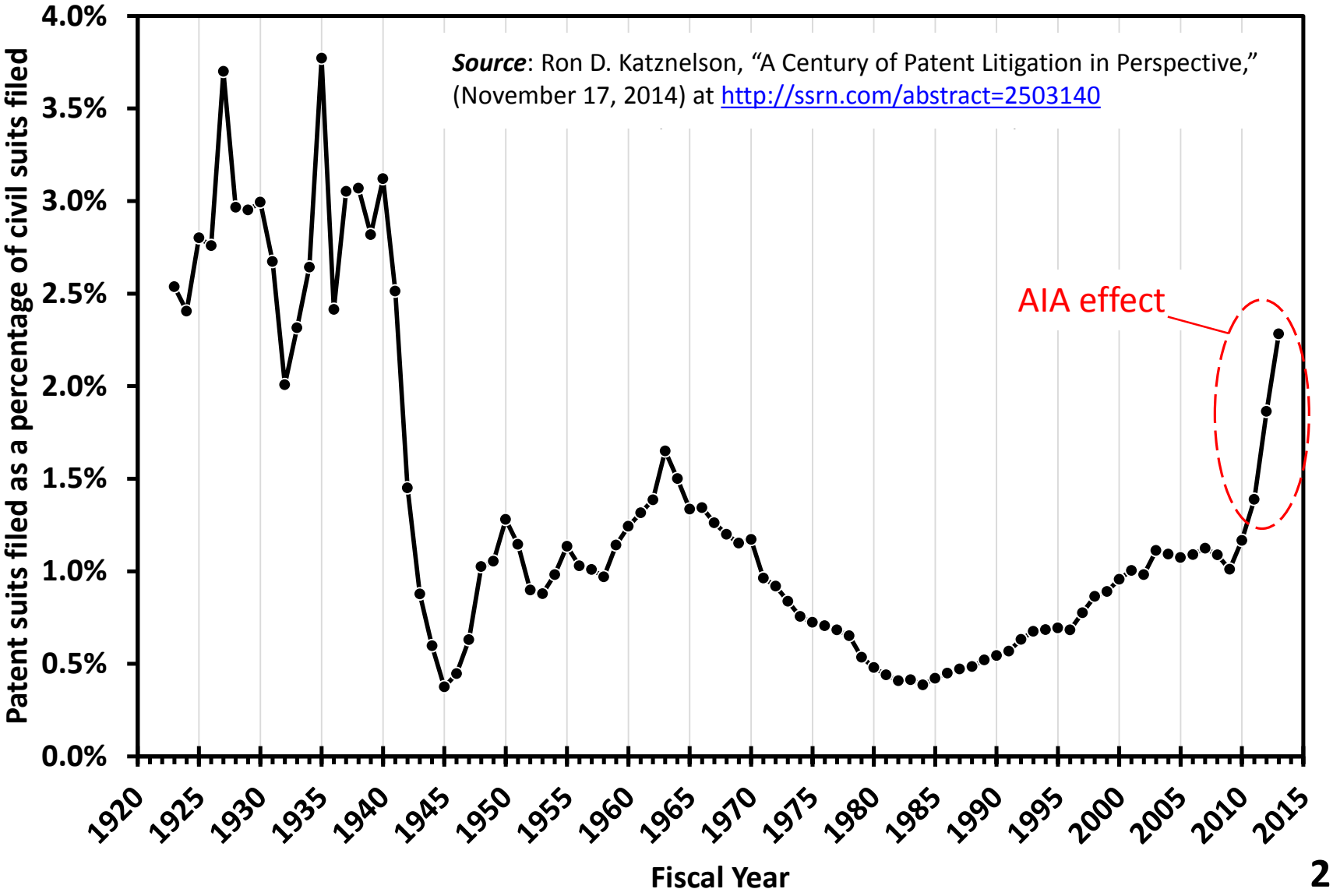
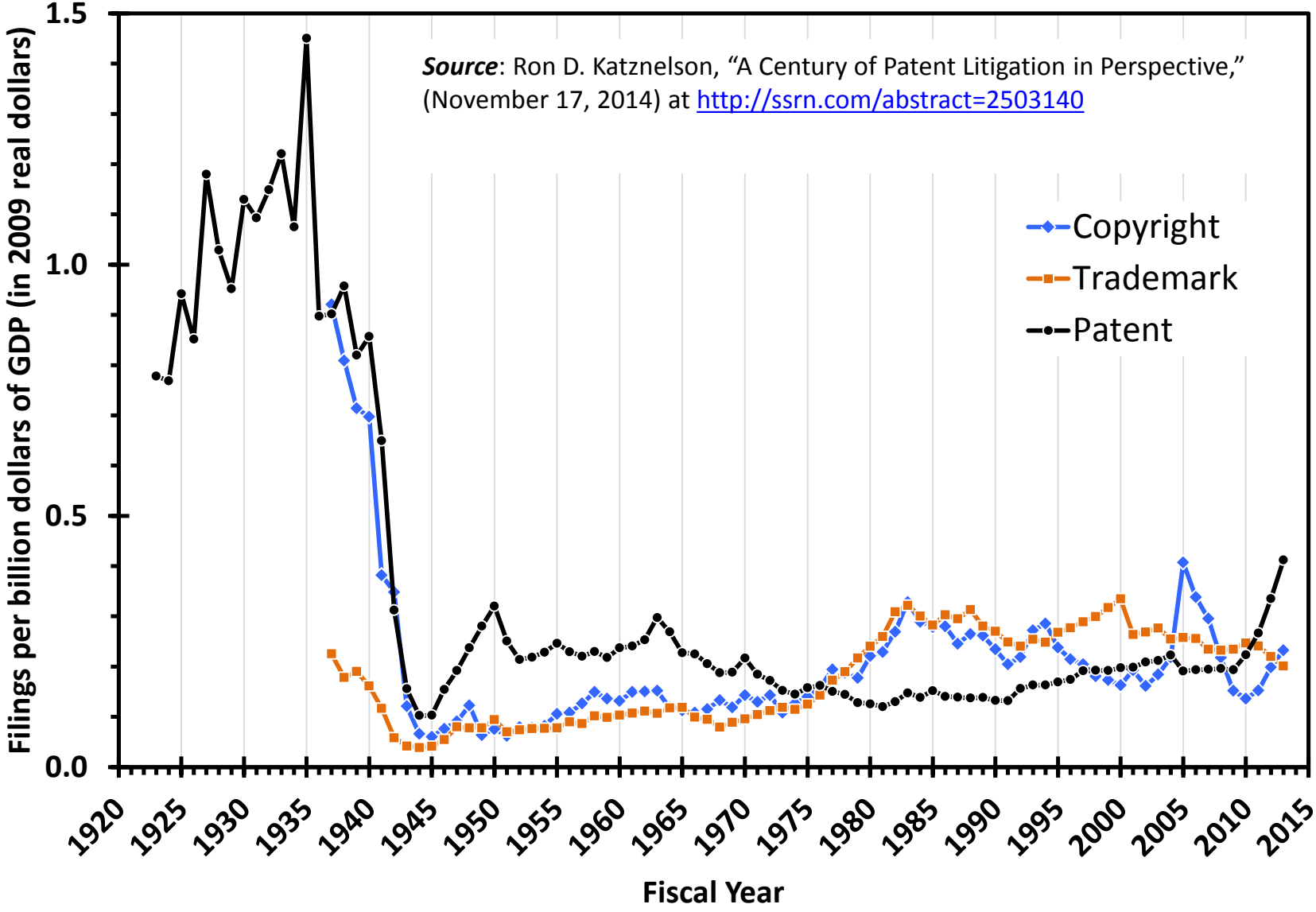
Patent suits as a fraction of all civil suits, U.S. district courts, 1923-2013



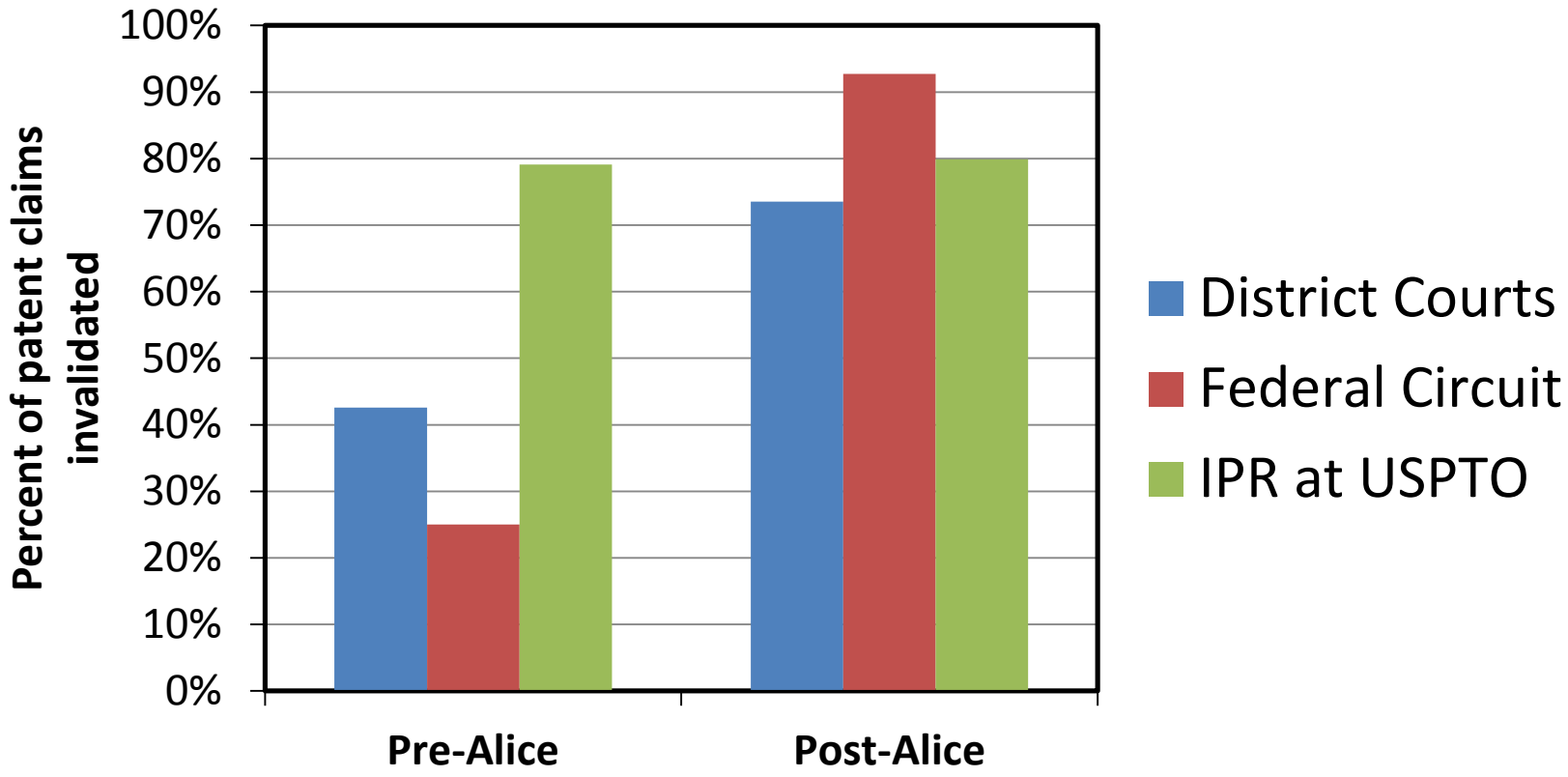
IP lawsuits per billion dollars of gross domestic product, U.S. district courts, 1923-2013



Steady erosion in patent protection

- America Invents Act (2011)
  - Effectively guts the 1-year Grace Period for "public use" and "on sale"
  - Established PGR/IPR/CBM at PTO to improve patent quality
- PTO (2014), denial of claim amendments in almost all IPR proceedings turned it into a patent "death squad"
- Supreme Court
  - *Mayo v. Prometheus* (2012) and *Alice v. CLS* (2014), damaging conflation and uncertainty on patent-eligible subject matter
  - *Octane Fitness v. ICON Health & Fitness*, and *Highmark Inc. v. Allcare* (2014), de facto "loser pays"
- Cumulative impact of these developments already making easier defeat of patents; chilling assertion of meritorious claims

Post-*Alice* surge in patent invalidity decisions



Sources: Pre-Alice: J. Allison, M. Lemley, & D. Schwartz,"Our Divided Patent System," 82 U. Chi. L. Rev. (forthcoming 2015); White Paper, "United States Patent Invalidity Study 2012," Morgan Lewis (Sep. 18, 2012); Kyle Gottuso & M. Taylor, "Statistical Overview of the First Twenty Months of Inter Partes Review Final Decisions," Senninger Powers (June 26, 2014); Post Alice: R. Sachs, "A Survey Of Patent Invalidations Since Alice," *Law360* (January 13, 2015).

Despite all these trends, lobbying for proposed patent legislation continues forcefully in the 114th Congress

Fee shifting – "Loser pays"

- Awards costs and attorney fees to prevailing party unless position and conduct of non-prevailing party reasonably justified in law and fact
- If losing party unable to pay, court may join >5% investor as "Real party of interest" for recovery
  - *"Good luck in getting investors for your tech company"*
- Party asserting claim, who later settles and extends covenant not to sue, is deemed "non-prevailing party"
  - *Discourages settlement of genuine disputes – increases number of cases tried in federal courts*

One-sided barriers against patentees

- Heightened pleading obligations only on patentees – not on alleged infringers
  - Requires pleading with particularity each asserted patent claim, allegedly infringing product, and theory of how each accused item infringes each asserted claim, without benefit of discovery
  - ***"Watered Down:" No*** similar requirement in a declaratory action against patentee for pleading with particularity a theory of non-infringement for each accused item, or invalidity of each patent claim, identifying prior art relied upon
- Fee shifting joinder of "Real Party in Interest" applies only against non-prevailing patentees but not against non-prevailing filers of declaratory actions against patentees

Prospects for enduring patent rights are extinguished

- Piecemeal erosion of patent rights has become a fixture in every session of Congress and every patent decision of the Supreme Court
- Uncertainty harm is created even by legislation that does not pass
- For many startups the “Patent Bargain” is no longer credible
- Substantial shift to business models that can rely on trade-secret protection

Thank You!

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