

**The Sedona Conference Working Group 9/10  
Midyear Meeting  
May 18-19 at The Four Seasons Hotel, Miami, Florida**

*A special note of thanks to our volunteer scriveners for taking notes during the meeting, observing the “Sedona Rule” of respecting individual speakers’ anonymity. Please bear in mind as you read these notes that the standard to be applied should not be one of perfection, but rather one of reasonableness!*

**Notes:**

**Green highlighting** indicates a possible Best Practice (BP) or action for Working Group consideration

**Yellow highlighting** indicates issue for consideration by the appropriate WG10 drafting team

**Q:** indicates a dialogue leader or a participant’s open-ended question

**P:** indicates a Participant’s comment or response

**J:** indicates a Judge’s comment or response

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## **I. *Panel 0: Mission and Overview. May 18, 8:30-8:45 AM***

- The mission of WG9, formed in November 2010, is “to create guidelines that will help to clarify and guide the evolution of patent damages and remedies considerations to encourage patent damages and remedies law to remain current with the evolving nature of patents and patent ownership.”
- The mission of WG 10, formed in late 2012, is developing Best Practices to improve the system for resolving patent disputes and make it more fair and efficient. These Best Practices are to apply to and benefit all stakeholders in patent litigation, both bench and bar, and to and for all types of patent holders and accused infringers. These Best Practices should further the goals of Federal Rule of Civil Procedure 1 and “should be construed and administered to secure the just, speedy, and inexpensive determination of every action and proceeding,” all to help ensure a non-frivolous patent litigation system.
- The 7 reports of these working groups have been published and having been receiving public comments. In addition, new topics are currently being worked on and several of these are among the topics being discussed at this conference.

### **Agenda Topics**

- In the first category, we landed on 3 important patent law developments:
  - Teva vs. Sandoz on claim construction
  - Octane Fitness and Highmark on attorney’s fees; and
  - Alice on Section 101 patentability
- In the second category, we identified 5 topics where we thought there was some room for discussion about various stages of the patent litigation process. And there we have lined up discussions on:
  - Heightened pleading standards;
  - Infringement and invalidity contentions, and the extent to which amendments and supplementations should be permissible;
  - The idea of incorporating damages contentions into the process, and what that might look like;
  - How the patent litigation process might better take advantage of mediation and special masters to focus cases and facilitate settlement; and finally,
  - Best practices for coordinating patent office proceedings with district court litigation
- In addition to these two categories on new developments and process, we also have two additional thought provoking topics for our two morning sessions.
  - First, for today’s morning session, we will explore the topic of patent reform, comparing the legislative efforts with those of the bench and bar.
  - Tomorrow, have a discussion lined up for the morning session on Standard Essential Patents and FRAND. This is an issue of importance and prominence in patent litigation today. We have put together a small group of folks looking at the issues that often arise in these cases, and we are interested in assessing whether this is an area where Sedona can develop a commentary and help to move the law forward in a reasoned and just way.

## II. *Panel 1: Achieving the goals of patent reform: legislative efforts v. bench and bar. May 18, 8:45-10:00 AM*

### A. The Innovation Act S. 1137 – The PATENT Act

- Patent reform – sometimes an undefined term; definition:
  - if something makes creation or enforcement of patent rights more transparent, predictable, and simple, then it's patent reform.
  - if not – it's just another change to the patent law.

### B. Sedona WG10 Overarching Principle

- WG10 is developing these Best Practices to improve the system for resolving patent disputes and make it more fair and efficient. These Best Practices are to apply to and benefit all stakeholders in patent litigation, both bench and bar, and to and for all types of patent holders and accused infringers. These Best Practices should further the goal of Federal Rule of Civil Procedure 1 and “should be construed and administered to secure the just, speedy, and inexpensive determination of every action and proceeding,” all to help ensure a non-frivolous patent litigation system.

### C. Litigation Reform Topic #1: Loser Pays Attorney Fees

- H.R. 9—award mandated absent “reasonably justified.”
  - Took language from a case remanded on appeal.
- S. 1137—motion for award requires finding of “not objectively reasonable” positions/conduct.
  - Different approach than H.R. 9
  - Require a motion [not automatically arising]
- Supreme Court—strength of litigation position stands out from others.
  - *Octane Fitness*
- Q: What would the House or Senate bill accomplish the current Supreme Court precedent does not?
- Q: Would HR 9 address concerns over “abusive patent litigation”? If so how?
  - Q: How many here abuse the patent system? [none]
  - Q: How many here have seen the abuse of the patent system? [all]
  - P: I don't see how H.R. 9 can address concerns given the above.
  - P: System can't ever completely solve this. Question: will legislation help get over the bump. I don't think they ever will.
  - P: if patent system has an Achilles rule, it is the enforcement of patent rights; patent litigation is “hopelessly probabilistic.”
    - One of biggest patent reforms you could take is to make it a loser pays systems. Would discourage plfs. from asserting speculative cases.
    - But patent is a *property right*. Loser pays directly detracts from such a right.
- Q: how likely are H.R. or S. 1137 to pass?

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- P resp: S.1137 is a bipartisan agreement at high level amongst several forces in Senate (which is most difficult part of the leg. process). It will likely be this bill or nothing.
  - H.R.9 will likely pass House, but not likely the Senate.
- Q: S.1137 term “objectively reasonable” – what does this mean? It combines an objective and a subject term.
  - P resp: this term came from case law; only thing it really means is you’re not looking at state of mind of the specific individuals.
  - Q: what standard of review will “objectively reas.” determinations be made under?
    - P resp: based on Supr Ct case from which “objectively reas.” term came from, it says trial court should have wide discretion. I think we’ll find an abusive of discretion standard.
    - P resp: then you’ll have forum shopping based on this issue.
  - Q: are we going to end up with satellite motions?
  - Q: will passage of either bill do anything beyond what would happen/would have happened post-*Octane*?
    - WG10 resp: Both bills seem unlike *Octane*. By design, they are creating barriers to entry so plf will have to factor this into enforcement calculus. Maybe this is good/maybe it’s bad.
    - P resp: deprives patentees of access to justice
    - Standards set by proposed bills v. *Octane* don’t seem that different.
  - WG10 Q: is there a body of evidence showing fee shifting has a deterrent effect on litigation? Any studies?
    - P resp: I can cite anecdotal evidence. Settlement value of case exceeds cost of litigation. But it’s hard to put into data terms – wish we could
    - WG10 resp: UK litigation – known for fee shifting. I thought this would deter litigation. But counsel on both sides agreed there’d be a cap. Lawyers have a way to get around any rule.
      - P resp: inc. in personal injury cases in UK has occurred. They got b/c plf bar allowed to get contingency fees.
  - P: “successful” party?. If I assert 3 patents, win on 1 and lose on 2 – who won?
    - J resp: people will argue this is just like language in “Equal Access to Justice” - don’t need to succeed on all claims; just on one. Judges are not going to like this.
    - Q: if parties start filing cross motions; judges will find a way to say a pox on both of your houses, right?
    - P resp: Many tools available to use to determine who is the prevailing party.
      - My own reaction to these amendments is that judges don’t like punishing lawyers; all these are essential punitive. People still have hangover from Rule 11 motion issue, which collapsed under its own weight. Either this will do the same, or it will get shut down early on b/c judges don’t like to punish.
    - Q to Judges – do you anticipate judges being willing to apply fee shifting?
      - J resp: Yes there is law re determining who the prevailing party is, but only where fee shifting goes in one direction. Here you have potential fee shifting in both directions. At some point, cross-motions will become warfare; judges will have to step in and say

applies only in cases where clear cut. You will have to trust that judges know it when they see it.

- WG10: “guarantee” payment language in some proposed legislation. Bonding has been discussed.
  - P resp: there have been proposals. Most have been abandoned.
  - P resp: there’s state laws involved on this issue as well.

#### **D. Litigation Reform Topic #2: Interested Party and Joinder**

- H.R. 9: “If nonprevailing party is unable to pay an award...the court may make a party that has been joined...liable for the unsatisfied portion of the award.”
- S.1137: Patentee certification required if accused infringer files statement that accused infringer is a PAE—
  - (i) sufficient funds to satisfy attorney fees award.
  - (ii) primary business not PAE.
  - (iii) identifies “interested parties.”or (iv) avers that there are no “interested parties.”  
*Interested parties cannot be liable for attorney fees if patentee certifies under (i) or (ii).*
- Exceptions
  - Senate bill has a carve out for universities.
  - As w/ many provisions, this has a special exception for Hatch-Waxman (for which Octane Fitness would control)
    - more likely to get atty fees here than in non-Hatch-Waxman cases).
- Definition of “interested party” is complicated. If goal is transparent, simple, etc., then this term fails this test.
- Q: What are the implication for having a “patent assertion entity” trigger for “interested parties” liability?
  - P resp: this is a result of the sausage making political process at work.
- P: Senate bill – achieves goals of H.R.9 but w/o the bizarre formality of requiring joinder; is cleaner.
  - P resp: Under H.R.9, you can go thru years of litigation, get all the way to the end, then one party says I have no money, and a non-party gets put on the hook for the award, without having opportunity to represent itself.
  - Senate bill better. Says that nonparties “may be held accountable for any fees...”
- Q: how determine who is a PAE?
  - P resp: if you’re a defendant, you can file statement saying I believe other party has primary business in asserting patents. Presumably Rule 11 applies – you need to have some basis. Then ball in patentee’s court to deny.
  - WG10 resp: this is like a McCarthyism approach. Are you now or have you ever been...
- P: satellite litigation unavoidable under this provision of proposed leg.
- WG10: on face, making interested parties accountable looks like a good idea. But this implicates lots of other substantive law, e.g., joint and several liability; piercing corporate veil. Will have to ignore a lot of substantive law to get this into effect. Will have to litigate this issue for many years before anything is actually done.

- WG10 resp: Entities we most want to be impacted by this provision will simply form offshore entities, then fund them w/ just enough money to fund litigation. Can't get them b/c don't have personal jurisdiction.
  - P resp: law firms are exempted, so even simpler end around available thru law firms.
  - P resp: I think large companies can structure their deals to avoid these problems.

#### E. Litigation Reform Topic # 3: Mandatory Discovery Stays

- P: House bill is identical to that that passed House in 2013 – it's a 3 year old bill that hasn't fundamentally changed.
  - But everyone expects House to move closer to the Senate.
- P: Senate bill – result of more discussion.
- H.R. 9 – stay discovery until after Markman process completed
  - Some exceptions – Hatch Waxman (probably makes sense here – there's a 30 mo. stay provision in Hatch Waxman); manifest injustice; motion; AND if seeking preliminary injunction.
- S.1137 – entirely different approach
  - “Discovery shall be stayed if...motion to dismiss; motion to transfer; and motion to sever”
  - No mention of stay of discovery until Markman is complete.
- Q: Is legislatively mandating stays better than judicial discretion to stage discovery?
  - P resp: hard to get judges to all do the same; if such uniformity is deemed best, then only way would be thru legislation.
  - P resp: H.R.9 is probably not the best way to go. Staging discovery after claim construction may be appropriate in some cases (but not all).
    - S.1137 – used to allow court to do a pocket veto, before the case gets going. I don't see how Senate version takes much away.
    - J resp: proposed bills do take a great deal away from the courts and the process. As soon as you say every court/case will be handled the same way, you will institute injustice b/c not all cases are the same.
      - In particular, the Markman first provision. I think this is faulty b/c many cases, parties don't know what's actually going to be dispositive in the case until after discovery. You can argue early Markman w/o discovery violates the case and controversy clause of Art. III. Courts would be rendering advisory opinions.
- WG10 resp: I think Markman issue is dead. Do you have the same negative view toward the Senate version?
  - J resp: transfer? No. Motions to dismiss? This can be very problematic. Parties will disguise matters that are effectively SJ motions, and file as motions to dismiss instead. Waste of time. This seems like sledge hammer....



- J resp: but can be problematic. Whether you're here or there, you're going to be in case anyway right, so why not start discovery?

J resp: "shall" doesn't mean required.

- J resp: Another problem re motions to dismiss, if they also incl. requiring contentions in the complaint, then you'll see lots of motions to dismiss on these, prior to any discovery? [problematic.]

- J: if passes, you'll get motion in every case b/c of automatic stay of discovery, as happened in securities litigation.
- P: one of goals is to curb abuse. But will we increase complexity and costs; slow down process?
  - P resp: from plf side, company A B C are publicly traded. Company D – not big enough to fight. Plf will file in favorable district. Cost of extortion around \$75K to \$100K. I don't think any of these provisions will stop this business model. If passed, the bills will add ~\$25 K to getting around cost of extortion. Unless get rid of the patent system, we'll never stop extortion. Key is helping targets build a war chest.
  - J resp: this is why have to leave it to the courts. If you have a valid patent, you will need to weigh all of these things – you may lose patent rights b/c of this.

#### F. Litigation Reform Topic #4: Manufacturer Defends Customer?

- If you're an end user customer, both H and S. bills provide way for manufacturers to defend customers.
- S. 1137 – customer stay definitions:
  - Sale of product etc. "without material modification of the product or process..."
- P resp: House bill is so broad, that Fortune 500 companies can take advantage of stay provision, send liability to supplier. It's a profound thing to tell plf. you can't sue an infringing in your venue and say you can only sue upstream supplier. Forces litigant upstream into an indirect infringement postures.
- WG10 resp: does this assume manufacturer DJ'd?
  - P resp: there are cases when customer will tell supplier – you have to indemnify us here.

#### G. Judicial Conference New Rules

- HR9 – once enacted, the Judicial Conference shall – develop rules and procedures to implement this legislation.
  - Q: what role should Judicial Conference play?
    - P: early version of proposed legislation tried to specify roles. Now the proposed leg is more open ended.
- Q: "core discovery". Is this still at issue?
  - P resp: original version did mandate what kind of discovery limitation rules [WHAT IS THE STATUS IN S.1137 WITH RESPECT TO "CORE DISCOVERY"?]
- Q: are judges coming to the hill to address proposed patent reform?

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- J resp: there's a very formal process; there's informal discussion as well

**III. Panel 2: A fresh look at the timing and substance of preliminary infringement and invalidity contentions and amendment practices – Should “preliminary contentions” be considered as “final contentions” absent showing good cause for changing? May 18, 10:15-11:15 AM**

**A. INTRODUCTION OF TOPIC - QUESTIONS HAVE BEEN RAISED OVER WHEN CONTENTIONS SHOULD BE SUBMITTED, WHETHER INITIAL CONTENTIONS SHOULD BE PRELIMINARY OR FINAL AND WHEN AMENDMENTS TO THE CONTENTIONS SHOULD BE ALLOWED**

**B. HR 9 (GOODLATTE BILL) AND S 1137 (GRASSLEY BILL) BOTH HAVE HEIGHTENED PLEADING REQUIREMENTS**

**C. NORTHERN DISTRICT OF CALIFORNIA – HISTORY OF ADOPTION OF CONTENTIONS AND DECISION TO CALL THEM FINAL CONTENTIONS –**

- “Golden age” of patent litigation – pre-2000 when monetization of PAEs didn’t dominate the purpose; but rather used to eliminate competition.
  - CJ N.D. Cal. commissioned J. Whyte to consider adopting patent rules.
  - 1991 – Rule 26 disclosure methodology. Looking at taking a number of case mgmt. orders and adopting them into local rules.
    - While occurring, Markman dec. came down. Originally – no one sure when to handle Markman.
    - With judicial advisory counsel, N.D. Cal. introduced 1<sup>st</sup> set of local rules in 2000. Considered innovative and welcome.
    - Consensus procedure
      - preliminary contentions, sequenced after case mgmt. conf.
      - then Markman hearing.
      - then specific time frame after Markman when had right to amend both in light of construction.
      - also some reqs that you generally identify means pls function.
      - If had 102(b) defense, need to contend date of first sale.
- These rules reviewed over next 6-8 yrs. Rules themselves became extraordinarily influential outside of ND Cal.
  - E.D. Tex. adopted own set of rules
    - set precedent that it didn’t adopt N.D. in entirety.
    - Critical difference – they said NO two sets of contentions; instead – 1 set and amendment only with good cause
- In 2000 – N.D. cal. – then adopted E.D. rule, along with some others.
  - Plf req’d:
    - to identify product that embodies the patents.
    - to disclose means plus function – software.
  - Def. req’d:
    - to state all grounds for invalidity incl 101 or might be waived.
    - to provide substantial evidence as to theory of invalidity – 102(e) and (f) etc.;

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- BUT no longer req'd to disclose motivation to combine for obviousness determination
- In 2008 – N.D. Cal. amendments. Were these changes wise?
  - N.D. adopted them in hopes would streamline litigation, reduce costs, etc. Good cause standard – give judges discretion.
  - What has practically happened – a cottage industry has been created.
    - Result of early decision after N.D. rules were adopted – incorporated into prelim infr. contentions that plfs must disclose Rule 11 basis.
      - This led to series of motion practice in N.D. and other districts: def. seek contentions to be reviewed in same way as motion practice
      - motions to dismiss or stay of discovery are filed as matter of course
  - Smaller cottage industry – plf arguing invalidity contentions are inadequate. Esp. w/ obviousness.

#### **D. DIFFERENT TOPICS REGARDING REQUIREMENT FOR EARLY FINAL CONTENTIONS - CONCERNS OF PLAINTIFF, DEFENDANT, CORPORATE AND COURT**

##### **1. Infringement Contentions.**

- Requiring assertion of all (actual and potential claims)
- Requiring all supporting evidence and analysis before significant discovery has occurred, and specifying documents relied on
- Requiring disclosure of priority dates/dates of invention.
- Q: Defense perspective?
  - P: Problem of priority dates disclosure
    - original N.D. Cal. rule required plf to identify priority date; this rule was removed.
    - Plf should always disclose early in the case good faith priority dates, with investigation requirement.
      - Either has access to the inventors or original inventor agreements. There's no reason it should be held back.
      - Yes sometime discovery may reveal new info; but defendant shouldn't be subject to "at least as early as" date of application language deep into the litigation.
  - P: Problem of generic infringement contentions – your X product infringes (and left to guess why).
    - Typically contentions parrot patent claims; show figures from marketing documents;
    - VERY generic; left to guess what claim language is satisfied by that figure.
    - Defendant's inhouse counsel has to ask engineers how it works; get all documents. Creates real problems when don't know what the accused functionality is.
    - Plf should be required to provide infr. contentions clearly disclosing accused infringing functionality.
  - J resp: always better when parties can work it out themselves.

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- tend to see fights only after the Markman stage.
  - If need something more definitive at infr. contentions stage, then may need more tighter requirements in local rules.
- P resp: issue often starts w/ the complaint – says we own patent, you infringe it (and that's it).
  - Most cases, infr. contentions are inadequate. Courts need to look carefully if this is a trial by ambush.
- P resp: Plaintiff may not know details re how defendants' product works. Not fair. System needs way to get plf information it needs quickly and inexpensively, while requiring plf give def. specific notice/infr. theory.
- P resp: for infr. contentions to work requires a level of good faith on both sides.
  - Software patents, inducement of infringement issues, etc. do require discovery.
  - how can we foster the process; encourage good faith disclosures?
- P resp: patent reform is inevitable in this area, like it or not. More will be pushed into the pleading stage. Motions re inadequate contentions will become motions to dismiss at pleading stage. Frustration in tech companies is behind this. I don't know what the remedy is, but the remedy is NOT the status quo.
- J resp: amendments to FRCP later this year. Elimination of reference to subject matter – NOT limited to just claims and defenses. All has to be proportional.
  - new rules will impact how much discovery you're going to get; what scope of discovery will be.
- P resp: N.D. 2008 amendments –
  - New requirement to identify the 10 terms you think might be dispositive.
- P resp: Mandatory limitation of no. of claims asserted/ prior art asserted? This may be the hammer necessary to achieve reform. Lack of specificity/limitation of claims asserted imposes unreasonable burden on def. to investigate/defend against undefined infringement
  - J. resp: I think you'll get this under new proportionality rule. You may have better argument to raise this issue to the court.
- Q: has anybody known of a case actually dismissed b/c of insufficient infr. contentions?
  - WG10 resp: I've seen this happen. Claims have been dismissed.
  - See Pfizer/Anticancer case. S.D. Cal. judge – found prel. infr. contentions inadequate; other side moved for SJ; Judge allowed plf to amend contentions if you pay atty fees for other side's mtn for SJ; they did not do this and case dismissed. Fed. Cir – reversed.
  - WG10 resp: in N.D. have been successful in getting case stricken.
- WG10: I haven't seen much problem w/ plf or def. not giving good contentions b/c of risk of losing JMOL on a claim.
  - WG10 resp: In courts with local rules w/ contentions, I think things work OK. Priority date issue/ "at least as early as"? Courts are pretty good about requiring parties to disclose. I always assume there will be at least 1 motion re adequacy of contentions. This is an effective process for flushing out issues that matter.
- P: problem arises when inventor is now working for a competitor; require service of a subpoena.

## 2. Invalidity Contentions

- P: proposed reform to limit no. of prior art.
  - There's an asymmetric knowledge/notice element when case is filed. Plf has more time pre filing of complaint, so should be able to outline basis of infringement.
  - Def. when accused – has to start from square 1 of invalidity analysis. Much pressure of identifying all prior art and fast. Historically – due dates are staggered.
- Proposed solutions: limiting no. of prior art. If you have 100 prior art, you should be able to identify 2 or 3 that are good; and you have to do this anyway in filing any IPR. Now there's such an incentive to get this info as early as possible. Before AIA, I could more easily make the argument of unfairness. Now – harder.

## E. AMENDING CONTENTION

- J: we can't control it until motions filed.
  - Best to give reasonable guidance, like Sedona Discovery Ch., BP14.
  - Can be tough for the courts to manage b/c don't know the case; up to the parties to educate.
  - Courts are reluctant to dismiss case unless absolutely clear that abuse is going on.
  - Motion to strike contentions entirely? Most judges will say unless abuse, you will get at least 1 opportunity to amend.
- P: practical challenges with invalidity contentions/trying to come to consensus re limits of prior art in a joint defense group context.
  - Part of the problem is fear, and waiving right to assert a volume of prior art based on assessment of another party. When have a case with 25 references against 1 patent. Very rare that all parties on litigation team can assess all. When talk about trying to reduce prior art refs., it's challenging.
- WG10 resp:
  - My experience – sometimes have litigants/ very well run cases b/c attys on both sides are experienced etc.
  - So much of unreasonably litigation costs is lawyer driven. If discovery too expensive – lawyers are making it expensive.
  - Clients need to get more comfortable with idea – the more you disclose sooner, the quicker it goes to resolution. Attorneys should encourage clients to get more courage. Get it out on the table. It's the lawyers that are causing the problems.
- Q: When should courts allow amendments?
  - J: late amendments are always problematic
    - If there's no time limit, you get the late filings. Firm time limit after Markman prevents the problem.
    - Sedona is trying to point to situations when need amendment. "Good cause" – is amorphous.
  - P resp: hardest issue is when find prior art reference late in the case. It is hypothetically known at day 1. But lots of expensive prior art searches can produce garbage. You find it thru extensive research beyond what was available early the case. In particular expert report process sheds light. Can be unfair that this research element produces prior art late in the case, and this rule kicks in to exclude it.

#### **IV. Panel 3: Heightened pleading standards. May 18, 11:15 AM - 12:15 PM**

##### **A. FORM 18 – STATUS QUO – IS THERE A PROBLEM AND WHAT IS IT**

- **Q:** Let's start from a plaintiff's perspective –Is there a problem with patent pleadings, and if so, what is it?
  - No. If add requirement that plf's must do claim charts, this is not hard to do.
  - Most courts are receptive to requiring detailed contentions as part of discovery process. Switching all of this into the pleadings stage -> satellite motion practice; not much benefit.
- **Q:** From the defendant's perspective - Is there problem with patent pleadings, and if so, what is it?
  - Previous panel stated well: inhouse counsel – nothing more frustrating than to see generic pleading. But we've lived with this kind of pleading for a very long time, and we've worked it out; especially in conjunction with local rules requiring contentions.
  - If we are going to get more info on def. side under Iqbal/Twombly. How much?
    - There will be forum shopping
  - **WG10: how are defendants supposed to do an investigation on "this product and everything that is similar to it"?** One of purposes of a heightened pleading requirement is to allow def. to conduct reasonable investigation.
    - **P resp: but notice pleading standard. Is patent so special as to deviate?**
    - **P resp: but it's not notice if defendant is not noticed as to how it is accused of infringing**
    - **WG10 resp: notice pleading make sense in the context of invalidity contentions – have limited amt of time (30 days)**
      - **But for complaint, plf should have its theories developed when filing.**
    - **P resp: under Twombly, at a minimum plfs must identify accused products. And claims. But I don't think should require element by element charts based on reverse engineering. BUT I agree – def. should have right what product it is accusing, as soon as plf knows.**
- **Q:** From the Bench's perspective: Is there problem with Patent pleadings, and if so, what is it?
  - **J resp: I haven't had problem w/ plf's coming in w/ not enough specificity in complaints. But systemically, there are differences throughout the country in specificity requirements. There's a difference btw what's minimally necessary for purposes of notice and what is optimally appropriate for purposes of moving litigation along. Clients want to see Rule 1 met; see lawyers be forthcoming re complaints and answers. This is impetus for changes in FRCP meant to accomplish. There's a real opportunity for Sedona to come up with optimal complaint and answer. Sedona need not go thru Judicial Conf./ can take it directly to the individual courts.**

##### **B. FORM 18 – DEMISE?**

- Q: Does the abrogation of Rule 84 mean that Form 18 is completely dead?
  - J resp: in approving abrogation of Rule 84 and the forms, Supr Ct asked for only a couple of changes: in committee note to Rule 84 abrogation now states – the availability of other websites incl. administrative office of US courts, etc. w/ commercially published forms that are alternative sources of forms.
    - And adds – doesn't alter a \_\_ pleading standards etc. of Rule 8.
    - There was a controversy wrt elimination of the forms. One of forms Form 12 was simple form for negligence in a car accident. Academic community took position that Iqbal/Twombly wrongly decided – inconsistent w/ Rule 8 and Rule 12 etc.; feared elimination of forms would be an endorsement of Iqbal/Twombly.
    - Now Advisory Committee Note says: We will continue to discuss what appropriate pleading standards under Rule 8 and Iqbal/Twombly.
    - Where does this leave Form 18? Not many supporters out there. Eliminate appendix to forms b/c old, too hard to change (has to go thru whole Rules Enabling Process – 5 yr process). Made more sense to make available forms from many sources. Form 18 never approved by Supreme Court. In re Bill of Lading – J. Newman goes through reasons why Forms should be so inflexible. I expect Form 18 will not be cited much going forward.

### C. IQBAL/TWOMBLY

- Q: If we don't have Form 18, and we don't have any patent reform, where will that leave us? What do we expect heightened pleading standards to look like?
  - P resp: absent anything else, Iqbal/Twombly will rule.
    - Some may argue – look at Form 18 as starting point. Then add cite to specific product by trade name. Some indicator of infringement.
    - But there's some language in Iqbal/Twombly that would suggest this wouldn't be enough.
- Q: What issues do you see arising from applying Iqbal/Twombly in the context of a complaint for patent infringement?
  - P resp: Form 18 at least gave certainty. Knew would be filed, then follow the process of that court.
  - Under Iqbal/Twombly - we don't have that certainty.
    - No matter what I put into the complaint, I will face mtn to dismiss -> Iqbal/Twombly raises more upfront litigation.
    - More notice? Iqbal/Twombly don't define what notice is necessary.
    - Will create forum shopping. Some courts will require more specificity than others.
  - Iqbal/Twombly implications - not just in the complaint.
    - Invalidity – what facts can you plead on invalidity? Iqbal/Twombly doesn't provide this info.



## D. LEGISLATION

- **Q:** approaches to patent pleadings are being debated on Capitol Hill these days:
  - S. 1137 – does streamline H.R. 9 re description of elements that are infringed.
  - **H.R. 9 – if “information not readily accessible”, then that info may be generally described along with explanation of why not readily accessible; and any efforts made to access such info.**
    - **This gives rise to work product protection concerns**
  - S. 1137 – if information is “not accessible” [no “readily” language]; standard for required investigation: “consistent with FRCP rule 11”.
- **Q:** Do either bill address counterclaims?
  - **P resp:** NO, nothing in either bill that discusses w/ specificity

## E. COURT’S PERSPECTIVE

- **Q:** From the Court’s perspective, what are you looking for when it comes to standards for pleading a claim of patent infringement?
  - **J resp:** I would think at a minimum – pls should have to identify patent and claim in patent, and infringing product. Beyond this; it’s not clear to me.
    - **Q:** all claims? Representative claims?
    - **J resp:** to start suit, just need patent, a claim, a product

## F. SPECTRUM

- **Q:** What are the range of options available for the appropriate amount of detail in a patent pleading?
  - 1. Form 18
  - 2. Identify representative products/methods accused of infringement
  - 3. Identify all products/methods accused of infringement
  - 4. Identify the specific functionality of the product/method that is accused of infringement
  - 5. Identify representative claims asserted
  - 6. Identify all claims asserted
  - 7. A short explanation for how each accused product/method infringe at least one claim
  - 8. A short explanation for how each accused product/method infringe all asserted claims
  - 9. Provide a claim chart for one representative claim of each asserted patent as to each accused product/method.
  - 10. Provide a claim chart for all asserted claims against all accused product/methods
- **P:** I think charting all claims for all products and all patents – this is antithetical to notice pleading; goes too far.
  - What is the right place? I don’t think Iqbal/Twombly provides any guidance.
  - What is fair notice? Must be fair to plf – especially if in complex systems (not most medical devices)

- I think fair middle ground is: a brief statement of how each accused product infringes a rep claim of each asserted patent.
  - This in conjunction with infr. contentions in some courts will provide a process disclosing sufficient notice so parties can move forward.
- WG10 resp: as we move down this list, we need to recognize the likelihood that will get bogged down in mtns to dismiss. Don't want to enc. Defs to use this as a discovery tool.
- J. : many overstate impact of Iqbal/Twombly. Don't often result in dismissal.
  - Purpose of notice pleading requirement comes from view of Fed. Rules and the courts is that access to justice is to be prized.
- Q: why not ask patent holder to disclose claim construction in the complaint? There's really no reason to delay in getting those claim construction.
  - P resp: I would disagree. There may be 1 of 3 ways product could infringe. Yes patents should be construed in a vacuum, but don't know where rubber hits the road until you know more about the products.
  - P resp: this could lead to endless litigation.
- Q: is there anyone who thinks 1 accused product and 1 claim goes too far? [NO. WE HAVE CONSENSUS].
  - Q: should anything more be required?
    - WG10 resp: should be required to identify all claims that will be asserted at the outset. Just like concept of listing all causes of action.
      - BUT all products? Too hard/ unknown to def.
      - Explanation requirement/claim charts? Too far for notice pleading.
    - Q: any onus re how rep claim is being met?
      - WG10 resp: some level of general explanation is usually provided. Should address at least one product.
      - WG10 resp: I disagree
        - from plf perspective it can be hard to identify all claims out of the box; some will depend on info you get later.
        - From def. perspective – I want to know more what products are accused than what claims are accused – I need this info to conduct investigation. Plfs can generally figure this out – products are not a secret – they're being marketed.
    - WG10 resp: tied to infr. contentions/ setting up clear deadlines – this is where the action is. Should keep this consistent w/ notice pleading. Otherwise will get useless claim charts – insane to get motion practice on this.
      - P resp: Plf - always much easier to identify and assert independent claims.
        - But oft don't have Rule 11 basis to ID dependent claims. Would be unfair to impose req. to assert all dependent claims at pleading stage.
    - Q: How about requiring disclosure of all accused products?
      - P resp: could do this re all products I can see.

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- P resp: in addition to identifying on product. Sometimes there's a certain feature in a chip; if you identify a rep product for each category, this helps.
- WG10: oft thinking about utility patents; NOT process patents. Should keep this in mind.
- WG10 resp: Sometimes plf knows what the products are; other cases do not know. If we shoe horn one size fits all, we'll create unfair burdens.
  - We should stick with notice pleading to avoid motions to dismiss, motions to get discovery; followed by infr. contentions.
- Q: how should this play out re Def. E.g. where they file a DJ?
  - P resp: problem – there is no guidance re specificity is.
  - P resp: diff jurisdictions handle this issue differently. I do think there's a difference btw notice pleading v. contention phase. But there's a good argument that if you're going to a DJ invalidity, you should provide much prior art (not nec all).
- WG10: if you require claim identification, don't you need to also require description of how infringes. Trying to flip process and saying what satisfied the standards in each instance is a very difficult proposition. Courts can figure out notice sufficient to do what and look at the complaint. My own reaction – we should flip the question – rather than prescribe specific pleading standards that every complaint must meet, we should instead ask what are we trying to accomplish in a pleading and determine whether a given complaint meets this standard.
- Q: Res judicata issues. Can a court impose? Or do we want to have plfs file serial actions.
  - P resp: Right now – plf files case, does early discovery; then files infringement contentions. This works. I think leg. takes us in the wrong direction.
  - WG10 resp: I think it's true there's some cases where that's a minimum. But there are other cases where that's not needed. If we see it's a BP for all, then we'll get lost of motions to dismiss where it's not appropriate. If we list something as a BP, and don't make clear that they're not ALL required in ALL cases, then will give rise to problems.
  - P resp: I do think list of claims asserted, in context of IPR world, I think this is important. Having list of claims to trigger the IPR clock would be very useful. Forcing plf to identify is a good idea.
    - Only thing left is with accused products – most would say 1-2 rep products in complaint.
  - WG10 resp: what will chart, long list of products get us. Don't want pleading reqs that promote more motion practice. I look at this and all this will just cost me money. It's not helpful to me as a defendant.

- Q: How many in the room believe:
  - EVERY claim should be identified in complaint – [2 hands]
  - All products? – [about 15 people.]
    - P resp: I come out other way. Products are hard.
    - WG10 resp: similarly situated in what way? Plf should define this in the complaint that someone can understand what similarly situated.

**V. *Panel 4: Development of a preliminary compensatory damages contentions (PCDCs) process, including the drafting of local patent damages rules. May 18, 1:30-2:45 PM***

**A. PURPOSES AND CONSIDERATIONS**

- Purposes: management of discovery, facilitate early resolution, identify key damages disputes earlier than otherwise might be the case
- Considerations: flexibility (not all patent cases are the same), consistency with Rule 26 (already provides for computation of damages to occur early), encourage full disclosure by making non-binding, but, having teeth, by requiring disclosures to obtain discovery, timing (just when in the life of the case is the right time)
  - N.D. Cal. – reached impasse on timing issues when trying to develop local rules re damages

**B. WALK THROUGH RULE**

- Overview of timing and content of rule to orient audience
- Plaintiff's:
  - Rule 26f meet and confer & Rule 16 Conference
    - Parties should discuss any deviation from this rule. [flexibility]
    - Rule 16 conference – what should be disclosed?
      - Lack of consensus re damages estimate.
  - Rule 26(a)(1)(A)(iii) Initial Disclosures
    - Hoping to give this rule some more teeth.
    - Can't compute all up front b/c not enough info.
    - BUT can give theories – lost profits, reas. royalty; price erosion
    - Can be amended/supplemented
  - Initial Discovery Period: 60-90 days after service of Initial Disclosures
    - After disclosures – initial discovery period
    - Nonlimiting – this is a minimum requirement.
  - PCDCs by Patentee
    - This rule presupposes infr and invalidity contentions. Would follow.
    - Damages contentions w/in 30 days of infr. contentions
    - Contentions include:
      - Economic advantages of asserted patents
      - Computations, categories of damages and base
      - Timing of claimed damages
      - Any add'l discovery required. Here's what I need to give more detailed info. And re responsive
  - Add'l damages related discovery to be produced following patentee's preliminary compensatory damages contentions
- Accused Infringer's Response to PCDCs.
  - Should there be any requirement; should it be limited to responding to plf, or should it be presenting its alternative theory.
  - Economic advantage of the asserted patent(s)
  - Form of damages and bases
  - Timing of damages
  - Additional discovery required.

- Appendix – goes thru in much greater detail.

### **C. HEADINGS I & II. FROM MODEL RULE: DISCUSSION OF DAMAGES ISSUES VERY EARLY ON IN CASE: RULE 26F CONFERENCE, RULE 16 REPORT, RULE 16 CONFERENCE, INITIAL DISCLOSURES**

- Patent damages often an afterthought; not tackled up front.
- A lot to do in a patent case, but the cases get bogged down and burden courts where earlier attention to damages issues/exposure might facilitate early settlement and save the parties litigation costs through streamlining of issues if not settlement
- Get the court engaged early
- Lack of consensus as to providing early damages estimates at Rule 16 conference
- Rule 26 provides for a computation of damages to be included in initial disclosures – let's do more early on rather than just kicking the can down the road
- Q : how many in the room have been required by a court to exchange damages info? [3-4]  
How many made to discuss? [3-4?] Was this process helpful?
  - WG10 resp: NO. Didn't have enough info. Plf just threw out a number; Def. just said we can't say until you tell me what scope of patents are.
    - Q: Did you have to supply specific damages info.? WG10 resp: NO
  - WG10 resp: this process can be useful. If parties aren't in same ballpark, it's good to know this up front; lots can be done. I have undergone such a process twice and it led to early settlement both times.
  - J resp: Mandatory mediation/ADJ – interest in court is always for parties to engage in some sort of discussion to bridge gap/ come up with numbers that make sense.
  - WG10 resp: I've done it 3-4 times. Once led to early settlement; once went nowhere but at least brought the issues to the table.
    - Q: what should judge have done to make the discussion more productive?
      - P resp: At that time? Nothing. Today with proportionality, I would hope judges will engage in analysis.
    - Q: what do when parties genuinely have no idea? If there is gamesmanship?
      - WG10: Ed. Tex. Plan B – used in 15-20 cases so far. Cases that settle are where sales of accused products is low.
        - If there's a large royalty base, I would guess only 25% settle; but perhaps worth undergoing the process for that 25%.
      - P resp: purpose of PCDCs process is:
        - early resolution when numbers are low; AND
        - identify cases where not in same ballpark.
          - If so, someone is wrong, and the court should know this and explore why.
          - My experience – cases don't settle not b/c incapable, but b/c one party's numbers are unrealistic
      - WG10: there's often a disconnect between liability part and damage part. But there's a significant overlap btw too. Emphasis should be on what's the benefit to the market of the tech (NOT just focus on do you infringe). Even if don't get to quantification to damages numbers, having theories out there helps focus issues; can focus discovery.

## D. INITIAL DISCOVERY PERIOD

- P: I would be disappointed if law firms don't focus on damages. But will PCDCs just be gamed?
  - From plf's perspective, I think this should be doable. We should have a (not fully informed) point of view re economic value is of patented feature; relevant revenue base); this info is what plf should have at beginning.
  - BUT should have reciprocity. My concerns it that defendants will receive pfs' PCDCs and then stonewall.
  - Coming forth with an estimate is tricky. Ground is shifting under feet. But with proportionality being something we have to address, plf should have a reasonably view as to what the ballpark should be.
    - BUT shouldn't be used as a sword by the other side.
  - P resp: people make settlement demands very early on from publicly available info. I completely agree it's doable. It begins the dialogue of here's what I think and here's why you are wrong. Can do top down or bottoms up. Will start the debate.
- P: are PCDC's proposals reasonable?
  - WG10 resp: some yes. But how about process patents? How provide numbers?
    - P resp: well, if you're asserting a process patent, how were you planning on proving your case? What damages are you seeking? Some disclosure on this should be reasonable, right?
    - WG10 resp: some cases – this info comes out of the production that comes out of the assembly line process; some cases – what benefit do you get in utilizing this process over the previous process. I'm not sure if we can standardize across. If you look at a product and apportion, while difficult, it's tangible and doable. With processes, it's harder.
    - WG10 resp: if process is a method of inspecting, then the value is value of data you're getting, which is measureable.
      - BUT real problem is how does defendant keep its financial records? The earliest disclosure should be – how do you keep your records? What do they show that are related to this lawsuit? Can't have this conversation until how the records would be.
      - P resp: I'm not sure what the answer would be. If you ask: What are your sales records?, then this is useful. Then you can bound the dispute, and some will go away. I think you want to see the records, not know "how they are kept".
    - WG10 resp: asking for costs and profits gets defendants all bollixed up. BUT if you ask for documents relevant to it, this can advance.
      - P resp: def. doesn't like to disclose, unless it helps them.
    - Q: what is meant by sales/revenue? Market share? In high tech, much of sales is international. Client asks, are you asking for worldwide sales? Or just US?
      - P resp: of course there will be difficulties, but goal is to encourage some disclosure to start discussion earlier.
    - WG10: I favor earlier damages disclosure b/c can lead to early resolution. One thing that may add teeth: after parties supply info, there is an early neutral evaluation of damages theories.
    - WG10: We act as if damages calculations are rational. But if you ever watch a mock jury, they just develop rough justice. It's important the parties

recognize, there's a certain amount of magic/mystery that should be taken into account.

- P resp: Damages experts need to be involved early. Pre-filing. Industry knowledge – tech and damages experts need to understand each other's worlds. I don't know how you can have a credible position to articulate unless you have this conversation early.

## E. TIMING & CONTENT OF PCDCS BY PATENT OWNER

- P: early on, ask client – what information do you want?
  - I need early on sales records; profit records; licenses; market analyses. With these, I'm 85% the way there.
  - Economist resp: if you get economists involved early, will this reduce costs? Of course not. BUT if economists not involved earlier, I'm not sure we can live with earlier representations of counsel.
    - I find as much with my own client as I do from the other side.
    - Helps focus on damages issues earlier as opposed to at the eve of trial excluding damages report, etc.
- WG10 Q: did you consider what level of confidentiality early disclosures would be appropriate with respect to evidence for admission. Like a mediation disclosure.
  - P resp: yes. Assumption is that many courts have default PO; where no agreement.
- P: should PCDCs be binding/nonbinding? Will they be meaningful w/o teeth? But at the same time, don't want to create more satellite litigation.
  - J resp: judges don't want to create satellite motion practice.
    - Binding/nonbinding? If they may be used against me in some form later, then I want them to be as sketchy as possible, so efforts to make them binding may be counterproductive
    - From court's perspective – want as much info early as possible. But if case doesn't resolve, how use info going forward?
  - WG10 resp: no I don't think client will be forthcoming if binding. But if truly binding, I would feel more comfortable if there could be no examination on them (like statements made in mediation). This is a form of forced settlement negotiation. Almost like premediation (better to think this way than having a seeking truth perspective).
  - P resp: infr. and invalidity contentions are somewhat binding. Why should damages be different?

## F. CONTENT OF PCDCS BY ACCUSED INFRINGER

- WG10 resp: as a def., I would gladly consent to PCDCs being binding, if we could get binding PCDCs from plfs. I don't think preclusive effect matters so much from defendant's perspective.
- P resp: if specific numbers aren't required, only a framework is required, would this be acceptable?
  - WG10 resp: I think the number is the most important thing early on for early settlement. But then damages framework is important to case mgmt..
  - J resp: should this then be a disclosure btw parties w/o court involvement?



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- WG10 resp: if both parties operating in good faith then you don't need the court's involvement. BUT in reality, plf counsel says this case is worth \$1B, the judge will have opportunity to rein them in.
- Wg10 resp: I think having a third party does enforce some discipline.
- Q: Should there be 2 stages of contentions: 1.) number; 2.) theory.

#### **G. USE OF CONTENTIONS: NON-BINDING NATURE/ADMISSIBILITY ISSUES**

- We want litigants to be forthcoming
- Going back to purposes: shape/limit discovery and facilitate settlement
- Don't want litigants to feel that they will be trapped and therefore give meaningless contentions and responses
- But, also want information to be real – not just inflated numbers or wild theories
- Can treat these like merits contentions – limit what an expert may later say if s/he is far off of the contentions.
- Probably don't want to allow for use on cross at trial–chilling effect. But, perhaps in extreme circumstances?

**VI. Panel 5: Impact of Teva v. Sandoz on the claim construction process. May 18, 2:45-3:45 PM**

**A. Intro**

- P: Drafting team has not yet come up with proposed best practices on Teva.
  - Teva – appellate court must apply clear error standard, not de novo, we thought.
    - BUT scanned the literature. Some said patent cases more expensive; some said less expensive – most cases not going to be reversed. Some said no impact on case mgmt.; some said significant impact.
  - Team consensus– we are not convinced will be huge impact but will watch closely
  - J. Michel – quoted at recent conference – he thinks there will be a huge sea change that will change Markman process.
- The impact of Teva
  - J: preliminary BPs. Not consensus, but are conversation starters.
    - I have advocated for some time that we shouldn't call things questions of law when they really are questions of fact.
    - So I was very excited when Teva came down. But the excitement has kind of worn off.
    - I don't think Teva will make a big difference. Can already see how fed. cir. is approaching this
      - Jason Rantanen's article (included in the meeting written materials) looked at Nautilus and Teva. Conclusion: Supr. Ct. didn't touch Phillips – only get to subsidiary questions of fact if there is some ambiguity after you address the intrinsic record; and courts will say they can analyze exclusively on the intrinsic record. This is what will likely happen in vast majority of cases.

**B. FED. CIR. RESEARCH/DELAWARE LAW RESEARCH**

- 170 Markman opinions by Fed. Cir. – extrinsic evid. in only 26 of these cases. Seems court was already giving some level of deference to dist ct.
- Since Teva – there have been 30 decisions. ALL have relied on intrinsic evidence, even where dist court did consider extrinsic evidence.
  - Enzo case – Fed. Cir. said even if we were to consider a dist. ct's finding, subject to review for clear error under Teva, this sole finding does not override our analysis of the totality of the specification... [perfect e.g. of dist ct making a factual finding, and Fed. Cir. made ruling based exclusively on intrinsic evid]
- Also saw little change/cite to Teva in dist court opinions.
- Q: Are you practitioners doing anything different?
  - P: how many prefer to have an expert on line for claim construction? [none]  
How many will do so if opposing does? [most]
  - P: It's déjà vu all over again. Read original Markman decision – dispute was: is this a fact for jury or for the judge? Now – technical words or phrases as used by PHOSITA is a question of fact.

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- WG10 resp: it's infrequent when have true disagreement re term of art. If yes – then yes, need experts. If not, should be determined by specification, not by extrinsic evidence.
- J resp: true – but sometimes that distinction is hard to make. 1 case – Del. judge concluded disputed term it was actually intended to be defined by the patent (acting as own lexicographer); Fed. Cir. reversed; J. Radar dissent – I don't know what to tell judges now – the dist ct judge had full record, made reasonable determination, so who is Fed. Cir. to reverse?
- Q: If you can't understand it from the context of the spec and knowledge re what terms of art mean, then how can you determine what's in and out of the claims?
  - J resp: Determining whether person was trying to act of lexicographer was an independent determination.
  - WG10 resp: Claims written for interpretation by one of ordinary skill of art. Specification too. If it says clearly in spec, then great. But if need to interpret it even though the court calls this intrinsic evidence, isn't this is still looking at issue of "ordinary skill." I would think a judge would be hesitant to say, I'm going to rely on extrinsic evidence. So we may continue on the same path.
  - J resp: I've seen the pendulum swing several times. Whether you call something intrinsic or extrinsic – the only thing that happens is that you're dealing with Fed. Cir. decision of not wanting to give deference (perhaps rightfully so).
  - WG10: as a district court judge, it would seem to be to your advantage to make fact determination. As a litigant, if I think dist ct judge is good, I'd be more inclined to put forth an expert to help judge bolster his opinion.
  - P resp: one downside – Teva was an indefiniteness case. As an opponent, if you need expert declarations, then may bolster my indefiniteness case.
  - WG10: deference and final PTAB decisions? Have you discussed if there would be a difference at Fed. Cir. to dist ct claim construction v. to PTAB? P resp: NO, have not discussed.
  - J: Would have to be a circumstance where a dist ct judge really thought there's a legitimate fact issue, so and I'm going to dive into the record. This is minority. Most courts will rely on intrinsic evidence if they can. Don't have time to hear expert testimony.
    - P resp: but what about less busy districts? J resp: Perhaps they would be more inclined to spend the time necessary.

**C. Q: SHOULD THE COURT IMPLEMENT A GATEKEEPER PROCEEDING IN ADVANCE OF THE MARKMAN HEARING WHEREBY IT TAKES ARGUMENT ON THE NEED FOR EXTRINSIC EVIDENCE AND MAKES A RULING AT THAT TIME?**

- In ND. Cal. – pre filing SJ motion, must confer with other party.

- J: I don't think we need to add another hearing. There's a way to require Markman submission to include statement: do parties intend to call expert testimony?
  - Whenever more than a handful of claims to be construed, I send my order re Markman process.
    - Apply here – if you intend to call expert at Markman, pls notify your adversary; and so court can evaluate
- P: some local rules require notice if parties intend to call an expert.
- Q: if courts use court-appointed experts, how does this affect level of deference the Fed. Cir. should give that expert's determination?
- J: what happens if have a special master? If dist judge has to make de novo assessment re credibility? In many districts, many of the initial claim constructions can be done by magistrate judge. How will this happen if special master process includes live testimony?
  - J resp: we're dealing with a subject matter that is by definition technical – outside of knowledge of most. This distinction of intrinsic v. extrinsic is artificial. Problem – judges won't want to admit their limitations of knowledge. So much of what we do is wrestling with terminology w/o getting to root problem: how to help judges understand what's going on?
    - Fed. Cir. – they use technical advisors; Lawyers are very uncomfortable with this.
  - P resp: some local rules out there provide for period of discovery on claim contentions.
    - WG10 resp: I take a deposition

**D. Q: SHOULD THE COURT BIFURCATE THE MARKMAN HEARING INTO TWO PROCEEDINGS- FIRST HEARING TO ADDRESS INTRINSIC EVIDENCE AND SECOND HEARING TO ADDRESS EXTRINSIC EVIDENCE, IF NEEDED.**

- J. resp: NO. When judge approaches claim construction, will want to have as much info as possible re claim construction.
  - If you want to know if other side will call an expert at claim constr. hearing, then ask. Let judge know if you want to have evidentiary hearing.
- WG10: during Markman hearing, I tell judge to ask all questions you want of the inventor. Real objective is to help judge understand what you're talking about and why.
- J resp: The least resourced component of whole is system is the judges. Makes sense to put issues before judges, but can't require adding bifurcations, etc. to things.
  - P resp: one way to mitigate: all such hearings counts toward the parties' allotted time.
  - J. resp: one judge has a total pg. number cap throughout the entire case.

**E. Q: SHOULD THE COURT DEFER MARKMAN UNTIL AFTER CLOSE OF DISCOVERY TO AVOID TWO ROUNDS OF EXPERT DISCOVERY?**

- Otherwise increases costs.
- Sedona's report on Markman process – toward middle of case, midway thru fact discovery.
  - WG10 resp: J. Sparks issued case – b/c parties had come up with a Daubert dispute, but what really was going on was a Markman issue. The Judge was right – too early a

Markman determination does generate Daubert problems b/c the parties shift slightly. I don't think question is whether Markman should be deferred. Rather, should there be on motion/cause shown a second motion to determine is this Markman issue masquerading as Daubert issue.

- J. resp: I like Markman later. But many have told me so expensive. You can get same benefit by closing at close of fact discovery but before expert discovery.
  - WG10 resp: I don't think deferring Markman to close of discovery is good, in particular if do require limitation of no. of claims earlier in case. Multiples costs, length.

## **F. CONTRACT LAW ANALOGIES/RELEVANCE OR IMPACT ON INDEFINITENESS LAW**

- Proposed Best Practice: Court should include factual findings with each of its claim constructions. Do you agree?
  - J resp: I don't disagree, but lots of judges don't do this. Problem is may not have luxury of time.
  - P resp: Indefiniteness concept – if claims intrinsic evidence fails to inform with reasonable certainty, then it's indefinite.
    - But if you look at analogies to contract law, you see this same language (if ambiguous -> go to extrinsic evid [and ONLY if ambiguous]).
    - If in patent case, I establish it's indefinite and that for claim construction requires extrinsic evid. Then burden shifts to patentee to prove it is definite.
  - J: should look at J. Plager opinion: had dist court judge -> 3 judge panel, all wrestling over term b/c patentee didn't write a clearly defined claim. Last clear chance to avoid all this hassle should be on the patentee. There's some intuitive merit to this.

**VII. Panel 6: Impact of Octane Fitness/Highmark: proposed best practices for the litigation and management of attorney-fee shifting motions. May 18, 4:00-5:00 PM**

**A. The Mechanics of an Exceptional Case Motion [10 minutes]**

**1. The Timing of Discovery – bifurcated until a prevailing party is determined?**

- P: These will vary from case to case, but mtns for attys fees shouldn't be taken up until prevailing party is determined.
  - In conjunction with this, there should be a recommendation that court will take briefing; hold specific evidentiary hearing of testimony if good faith of party is at issue.
  - J resp: Had this come up under 285. Teed up b/c needed to get a partial judgment entered b/c can't entertain 285 request unless there's been a judgment.
    - P resp: E.D. Tex. case – claim for atty's fees. Defendant filed an interrogatory: when did plf know about accused products?
    - Q: Should this discovery be happening in parallel with litigation on the merits; or should it be conducted only after prevailing party determined?
      - J resp: problem with work product. How can you compel production when case is ongoing? Once case is over, then the party can produce it voluntarily w/o problem of waiver.
      - P resp: Agree. I want to be able to get this, but work product waiver issue is very significant. We may be able to reach a best practice as to when you propound this discovery/ defer to after prevailing party determination.
- P resp: How can we make patent litigation more efficient? Adding things to the process is not way to accomplish this. Should delay for both efficiency purpose and reducing work product disputes.
  - WG10 mb: Some Del judges defer mtns on Octane Fitness, b/c waiting for Fed Cir. to weigh in on who is prevailing party issue.
  - WG10 mb: Fed. Cir. may be providing more guidance on this soon.
    - P resp: drafting team hasn't talked about whether should put off until exhaustion of all appeals.
    - J. resp: if want efficiency, then dist ct judge should rule now, subject to Fed. Cir. changing law.
  - WG10 mb: if issue of work product waiver, I want to pursue Octane but I also want to appeal -> it's a dilemma.
- Q: can mere filing of complaint itself constitute an exceptional case b/c it was so meritless?
  - Most cases that have found exceptional is with misconduct; or persevering when know have no chance. These don't necessarily req. work product.
  - Work product comes up when complaint itself is at issue.
- P: Octane Fitness – “stands out” is new standards.
  - There's a perception that there will be a rush to file these motions. I don't think there will be. “Stands” out is a high bar.

- Courts know how to handle these motions. I don't think we'll have a rush to experts.

- Q: Do you always have to waive work product to defend self against a 285 mtn?

**B. Meritless 285 Requests – what should courts do with them, and should they discourage the filing of a 285 request just because there is a prevailing party**

- J: Most challenging exceptional case question – claims the case should never have been filed in the first place.
  - P: presumptively, if Judge didn't Daubert out an expert, then harder to get to a finding of exceptional case against that party based on that expert's testimony.
  - P: If in low-volume patent case district, will we move toward having experts to assess exceptional case?
    - J resp: I don't think too many judges will be receptive to this.
    - WG10 "stands out" determinations: I don't know how expert testimony really should move needle for how expert thinks here.
  - J resp: just b/c you win, doesn't mean you should always get atty's fees. Standard – did something stand out?
    - One recent E.D. Tex. case – party knew 285 fees were going to be imposed, but he had 0 money. So judge went after the lawyers under Rule 11.
  - P: I've seen expert presented to refute argument that other lawyers needed an expert.
    - P resp: one pending case – party put in declarations from 3 retired judges.
  - J: Supr. Ct. keeps telling IP community, you are not that different. If we think we need expert witnesses to define "stands out", the Supr Ct will disagree.
    - P resp: patent litigation *is* special here b/c fee shifting provision statute unique to patent lit. If it can't be awarded under another statute. Patent lit. has unique – activity that "stands out" from the rest? Is that from other patent cases? Or from all other cases? There will be a lot of time spent arguing this.
- Q: what about expert testimony on the reasonableness of the amount of the award (not on the liability).
  - J resp: there are contingency fees. How handle in attorneys' fees cases?
  - WG10: in the team project charter, it talks about the mechanics – idea of not bifurcating issue of entitlement as opposed to amount. What is the team's thinking on this?
    - I'd rather address entitlement and then the amount.
    - P resp: our present group consensus – first mtn to determine exceptional; THEN if win, mtn for fee amount.
- Q: Is it clear that the party has to pay the fees? Or do the lawyers pay the fees?
  - P resp: it's the party. WG10 resp: is theory that client controls the party? [YES].
    - P resp: virtually all produced is under strict PO. Inhouse atty may not be able to see!

- P resp (inhouse): certainly challenging. Ultimately I still have a good handle on directing strategy/ working thru the limitations. I'm OK.
- P resp (inhouse): We always try to have 1 inhouse carved out. But even if I can't, I'm OK with this. AT end of the day I'm responsible for this.
- WG10: is judge precluded from sanctioning lawyers? P resp: can sanction sua sponte under Rule 11. Malpractice suit.
  - WG10 resp: There have been several 1927 cases – went after attorneys.
- Q: – did you find many cases finding exceptional case against plf for arguing validity? Seems this would be bad from a policy standpoint. E.g. def. had clear prior art etc.
  - J resp: yes, there have been. Inequitable conduct certainly.
  - P resp: once patent issues, plf should be able to stand on presumption of validity, right?
    - WG10 resp: There is one case that went the other way on this – def. argued that all they relied on was presumption of validity; court did not find exceptional case.
- WG10 – if I lose on SJ. Then win. Can I ever get exceptional case on that issue?
  - J resp: it would be difficult.

### C. What should courts consider when deciding whether a case “stands out from another”?

- Trends at the district court since Octane Fitness
  - Look at recent FCBA report – statistics. In year before Octane, only 14% of Sect 285 motions were granted [46 mtns filed]. After Octane [85 mtns filed] – 36% granted. Q: is this consistent with your experience?
    - P resp: I saw another study going back 1 yr further – the numbers were closer. The year just below Octane – less motions were brought b/c waited on Octane opinion
  - P: do stats lead us to think we should continue to dev BPs?
    - P resp: I'd like to see this play out more. Haven't yet had benefit of post-Octane cases.
    - P resp: we've already seen not playing out the same across districts. 50% granted in N.D. Cal; 0% in E.D. Tex.
      - Some impetus of patent reform is more consistency; the courts have not achieved it with respect to *Octane* to date.

### D. What Fees are Recoverable?

- Contingent and Success Fees, or Alternative Monetary Awards (i.e., disgorgement of contingent fees in related cases)
  - P: there's a full body of law on this issue – lodestar calculation. Ct took into account... but didn't take into account success fee.
    - Caselaw – N.D. Cal. well established, can't move up or down except in unusual circumstances; contingency fee NOT unusual.



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- P resp:
  - In the above case, the only way company could litigate was contingency fee.
  - Why should that party be on the hook...?
- P resp: we need to have real clear discussion re fee arrangements. May not necessarily be able to get those fees if have a contingency fee arrangement.
  - WG10 resp: people need to recognize alternative fee arrangements as different.
    - J resp: if want to reserve right ot go after, you firms should still record hours even if alt. fee arrangement.
- Q: Are there gradations of exceptional cases? J resp: unclear.

**VIII. Panel 7: FRAND/SEP: defining the issues in controversy and proposing the scope for a prospective Sedona commentary on the subject. May 19, 8:30-9:30 AM**

**A. SSO Obligation – e.g., IEEE changes, parties reactions**

- Obligations run differently from SSO to SSO; common thread - SSO members agree to be bound to SSO rules
  - Understanding of patentee's commitment to the SSO is important re liability etc.
- Basic Questions re IPR policy:
  - Obligations of disclosure to the SSO org. – content? Timing?
  - How specific is disclosure obligation phrased?
  - On who does the policy impose? Under what circ?
  - Does it require licensing of patents on individual basis? Or portfolio basis?
- Implications of SSO obl. re judicial enforcement:
  - When should court entertain request for injunction when there is a FRAND commitment?
  - Should there be any consequences for patentee that pursues an injunction when def. previously sought a license.
- Q: To what extent should courts look to SSO policies to establish standards for the conduct of parties negotiating a FRAND license?
  - P resp: standard setting issues NOT unique to US. Some countries have broad overarching policy themes imposing requirements on patentees beyond any agreed upon contractual arrangements.
    - *Ericsson v. Dlink* – held that courts have to see what the patent owner agreed to do. Look at SSO policy and ask what impact does it have?
  - WG10 resp: clearly first place to look would be policy of the SSO. Not be all and end all, it is the first place you should look.
  - WG10 resp: **SSOs are essentially competitors getting together to set standard.** BUT there are reasons why, even if policies aren't clear, you might want to impose obligations for that very reason
  - P resp: Jt. Report w/ DOJ 2007; Analysis of issues 2011. **SSO and IPR policies evolved over to address market failure, etc. incl. licensing obls and FRAND licensing.**
  - WG10 resp: SSO obligations are a two-way street; include a willing licensee. Do FRAND commitments establish anything re conduct of the licensees?
  - WG10 resp: there can be whatever strings attached as the SSO decides it wants to incorporate.
  - WG10 resp: not sure it doesn't go beyond contractual obl. All members to SSO signed on, agreed all patents they have they'll license under same. One situation you'll run into: is this a breach of contract obl. or a straight patent case?
    - But if you go back historically w/ many of the SSOs, many never really addressed issues of FRAND – state there is an obligation but don't get into the details.
    - More recently groups are trying to delve more into this, trying to be less indefinite re FRAND obligations.

- WG10 resp: What is perspective of the tech developer before they enter the commitment?
  - There seems to be a perception that water turns into wine due to participation in SSO (i.e. that it is the participation in the standard setting org. that creates the value of the technology). This is not always the case; some companies already have the wine. They choose to join.
  - Nature of the contract is important. If the SSO obligation were a bad deal, the company could have gone elsewhere. So it would be unfair to look beyond the SSO obligation itself for those who specifically agreed to be bound by it.
- Other than FRAND licensing, what portions of an SSO's IPR policy may be relevant to a typical patent case?

## B. FRAND ANALYSIS FRAMEWORK

- P: Team has identified many areas – consensus for determining FRAND royalty.
- Q: How should the *Georgia-Pacific* factors be applied to a FRAND-encumbered patent?
  - *Ericsson* – parties shouldn't rely on all 15 factors; should look at facts at issue and determine which GP factors apply.
  - J. Robart recommended modified GP.
    - Team consensus – GP factors 4-5 may not be relevant; Factors 8, 9, 10, 13 could be modified
  - Q: any views re BPs for use of GP in FRAND cases?
    - WG10 resp: is working group trying to define what “fair and reasonable” is? OR is presumption that using G-P -> result will be de facto “fair reasonable”?
      - P resp: the second.
      - P resp: all depends on what the obligation is.
        - It's not just monetary obligations either; many obls req cross-licenses.
    - Q: which GP factors does panel think should use for FRAND:
      - P resp: *Ericsson* – court unwilling to confine analysis to factor X, Y, and Z; recognizes a wide variability.
    - WG10 resp: seems to me that GP is completely inapplicable to FRAND analysis
      - GP/Hypothetical negotiation – trying to derive to value of the patent.
      - Here – how is possible to disaggregate value of patent from value of standard? G-P framework seems particularly poorly suited.
      - P resp: Fed. Cir. has endorsed both hypothetical negotiation and analytical analysis re FRAND royalties
      - P resp: Under *Ericsson*, court is supposed to identify value of patented feature v. value of all other patents in the standard. There is some overlap in that valuation analysis and some of the GP factors.
    - WG10: my suggestion is the group not stay limited to GP. There's been a lot of discussion re limitations of GP – 1970s case. The opp may exist in our org to expand upon GP.

- P resp: In *Ericsson*, the Fed. Cir. noted for the first time that it has never actually adopted GP.
- Q: is team proposing development of Best Practices for modified GP standards for identifying royalty holdup/ patent stacking?
  - These are issues both J. Robart and *Ericsson* said were not established in this case.
  - But unclear to me how you would show royalty stacking in patent holdup. I think the bar would appreciate any effort attempting to develop best practices here.
  - P resp: courts have said you need to assess value of patent to the standard. But what are you supposed to do to get there [as opposed to value of patent wrt infringing product]?
    - WG10 resp: *Innovatio* answers this question in part. When doing an apportionment analysis, you look to what's the value of the standard w/in the accused smallest saleable unit (SSU); look at proportion of the value attributed to this patent as opposed to other patents; and any other tech that isn't patented. I don't see how else you can do that.
      - P resp: I disagree that the law of apportionment is focused on the SSU. It is actually the value of the tech to the end product.
        - And I'm not sure holdup analysis comes into play in a FRAND analysis.
      - P resp: I think Dlink is clear that you DO start with SSU – this can be the starting point.
      - WG10 resp: there is a Fed. Cir. Cisco case coming.
        - In that case there was evidence of royalty stacking. We'll see how the court deals with it too.
- WG10: I don't understand why helpful to start what value of individual patent is within a portfolio if all actions of portfolio take place as cross-licenses.
  - P resp: one of fascinating thing about *Microsoft v. Motorola* case – litigation of an entire portfolio.
  - P resp: a lot has to do with the nature of the claim being commitment. If you have a breach of FRAND claim, then you may need to look at history of licensing of that portfolio. If you are asserting SEP, you may need to look outside of the full portfolio to determine damages.
- How should the concept of apportionment be applied to a FRAND-encumbered patent?

## C. INJUNCTIVE RELIEF

### 1. Consensus on what constitutes a willing licensee is very unlikely due to the wide range of factual circumstances that can be considered in determining whether a licensee is “willing” to agree to a license on terms that are consistent with a SEP owner’s FRAND commitment.

- P: Relationship btw injunctive relief and the holdup. Holdup scenario – injunctive relief used as a weapon to get more value than you should be entitled to.
  - From *Apple v. Motorola* – no per se rule against injunctions for SEPs. SEPs are subject to contractual or FRAND commitments.
  - Q: What if injunctive relief not addressed by FRAND agreement? At its core FRAND commitment is requirement to license. Similar analysis to non-FRAND patents that have established licensing program. Focus is on the irreparable harm.
    - Alternatively, can consensus be reached on certain circumstances where an injunction for a SEP is warranted?
  - Spectrum of willing licensee
    - Those who say they’re willing but not willing to pay; or to pay only on specified terms.
  - Q: What if SEP-holders terms are oppressive? Could they be willing licensees?
    - WG10 resp: Defendants under SEP obligation should be allowed to still challenging validity.
    - P resp: we talk about standard essential patents; this is a misnomer. Just empirically, the failure rate of SEPs in litigation is higher than those NOT declared.
      - If party is challenging the validity of an SEP patent, does this inherently make them an unwilling licensee? My position is no.
      - BUT if you’re talking about negotiating large portfolio licenses and you’re dealing with seriatim litigation by defendant, then maybe yes.
  - Q: is there a consequence at all to challenging validity? In *Motorola*, J. Robart discounted value of an SEP patent b/c of uncertainty re its validity.

### 2. Q: Are there alternative forms of relief a court could grant to protect the rights of both patent holders and implementers?

- WG10 resp: at some point in the process, there should be an ability to obtain injunctive relief. Challenge is defining criteria
  - Can’t just be merely challenging validity.
  - But if defendant is not challenging invalidity or infr., and is primarily trying to pay less than all others in the industry, then injunctive relief should be available.
- WG10 resp: In SSOs, sometimes it’s perfectly clear that company X came to SSO with the particular technology. Everyone knew it/everyone patented it. In legal world, you can still challenge validity, even though everyone in industry knew that they invented it. How does Sedona account for this real world in the analysis?
  - WG10 resp: this may suggest that something other than GP should be used. Maybe a retrospective analysis of the history of the SSO would be more telling.

- WG10 resp: idea of putting in injunction with delayed effective date may not be very good at bringing parties together.
  - Maybe another alternative is a tentative ruling: I'm inclined to grant injunctive relief on the following conditions. Pls negotiate; I'm willing to review the result of the negotiation.
- WG10 resp; most disputes are over money. Can we have consensus that there should be some sort of binding adjudication as to what a fair royalty would be.
- WG10 resp: team should think about how to incentivize what happens at the SSO. Much could be clarified from the start in the form of the development of the SSO obligation terms.
  - WG10 resp: There's no way to know. Most participants apply for patents the day before they apply to join the SSO.
  - P resp: we have no control over the SSOs. Can only say look at the SSO agreements. AND SSOs traditionally are unwilling to weigh in on what FRAND is. Lawyers can't agree; can we really put that burden on the SSOs?
- WG10 resp: entire objective of standards – to get everyone to use the technology. It's the agreement to get everyone to use it that is important; it is more important than the value of the individual technology. Should keep this in mind when talking about injunction, etc. It's a voluntary choice for every company to join or not.
  - P resp: there are SSOs selecting btw different alternatives; there are some where huge investments are made and there's competition btw the standards. There is competition btw standards. The underlying technology can determine which standard gets adopted by the industry.
    - WG10 resp: But that goes to DAMAGES. It's not re injunction.
  - WG10 resp: Part of the tradeoff – you want it to be adopted, so you trade it for losing right to injunction.

#### **D. DIFFERENCES BETWEEN SEPS AND NON-SEPS**

- Non-infringing alternatives
- Comparable Licenses
  - With SEPs – there are add'l issues at play than with non-SEP patents. Was licensee aware of the FRAND commitment/ negotiated at arms length?
- Case Management (e.g., reverse bifurcation)

***IX. Panel 8: Use of mediators and special masters as a case management tool for narrowing the issues in dispute and improving prospects for settlement. May 19, 9:30-10:30 AM***

- Q: How many believe mediation is protected by strict confidentiality? [Most, not all]
- Q: How many involved in patent mediation for case mgmt. purposes (not settlement)? [About 3].
  - If yes, do you believe you'd be protected by mediation confidentiality? [NONE].
  - From the WG9/10 mtg in New Orleans in Nov. 2014, mediation as a case mgmt. tool seemed to generate the most interest as a subject for this drafting team.

**A. Patent Case Facilitator: a rose by any other name?**

- What is the best role for a Patent Case Facilitator to play in a case?
- Traditional mediator
  - P: almost universally accepted. In CA it is predominant.
- Case management mediator
  - P: this is a first step down the path. If you start w/ believe that mediation is a good thing and settling early is a good thing -> how can you get to the point where mediation is most valuable?
- Most would say it is after significant info exchanged re infr. and invalidity so parties can make good assessment of the case. Special Master with decision making abilities and without mediation confidentiality and privilege
  - E.g. E.D. Tex. – Track B
- Hybrid mediator/Special Master without mediation confidentiality and privilege
  - P: This was a harder discussion within the drafting team. Unlike Case Mgmt Facilitator where you have typical mediator confidentiality issues.
    - Here – power delegated by the court; by necessity is making a recommendation exercising power. So confidentiality is not preserved.
    - How to combine role of mediator and special master? Challenging.
  - P: How yo cost effective re use of mediation in a patent case?
    - Goal: Limit scope of the case. Oft. doesn't happen.
    - The frafing team has ID'd critical areas to help focus. Can they meaningfully be addressed by any of the above?
      - Limiting no. of claims/ prior art
      - Focusing on rep products
      - Early damages assessment.
    - Whatever role you're playing here – similar considerations apply
      - Figuring out timing; when people should make selections.
      - Correct staging. First selection to narrow discovery; what info reas. needs be exchanged before first selection.
      - ID of asserted claims. Which are duplicative? Which are representative – can you do it with 1 or 2 or do you need 5?
        - Similar for prior art.
      - What's it mean to choose rep claims? Is this preclusive? Does this have impact on third parties?

- Neutral evaluator on issues of liability or damages
  - Q for Judges: do you use neutrals?
    - J resp: For general settlement use, yes; for everything else no.
    - J: our assumption is that mediation is a good thing. Do the meeting participants agree?
      - WG10 resp: I've had a case where had 24 mediations w/o settling a case. Unless parties really want to settle, you're not going to resolve it thru mediation.
      - WG10 resp: so many mediations – fly across country; have to bring executive; and nothing is done despite best efforts of the mediator.
        - Q: why failed?
    - J: I'm not fan of making a large bureaucracy re case mgmt.. How do you feel re the team's proposals recognizing there's no teeth in this.
      - WG10 resp: this is part of the problem with mediation. If there's no consequence, then no one's going to commit to it. Special masters feels more consequential.
      - Wg10 resp: there are cases where both sides working in good faith; some where you don't – mediator won't have impact. Then some in the margins depend on skill of the mediator. Should NOT have a one-size fits all re mediation requirements. I don't know why it would be different for case mgmt. issues.
      - WG10 resp: mediator as case mgmt. – where draw the line? There's a lot of learning that happens if judge goes from beg to end.
    - J: wrt special master v. case facilitator. E.D. Tex.'s use of "case facilitator" (NOT a special master). Seemed like it was describing Rule 54 special masters to me; e.g. there'd be no confidentiality.
      - When we discussed case mgmt. mediators – concept was to preserve confidentiality.
      - BUT this assumes everyone in the room wants to do that.
  - Q: assuming there's skepticism about this, can you see a more limited role for mediator in resolving these issues. Are people favorably disposed? If you are on board with wanting to narrow issues – find difficult opposing counsel that agrees, would this be a good idea?
    - WG10 resp: Yes – but you want to go to discovery magistrate or the judge. All things you mentioned seen scope of case or discovery – so why bring in a mediator? I would affirmatively NOT want it to go a mediator/ NOT want it to be confidential.
    - WG10 resp: I agree. People can't come together b/c they see the issues very differently. That's why you're in court in the first place. The most potentially useful thing is a neutral evaluator of some key issues. As long as it doesn't become a second trial.
    - WG10 resp: I'm responsible for resolving all litigation in my company. I like mediation. But when I'm mediating, I want to carefully control everything



said to other side thru that mediator. I can't imagine asking mediator to be responsible for all the drafting team is proposing here, b/c then I'd lose control.

- One thing you lose w/ special master is you can't directly address issues to the judge. Some special masters get out of control.

- WG10 resp: best role for mediator is to conduct an independent evaluation and offer comments saying that a party or both parties are asking for unrealistic things; help the parties focus on what's really in dispute.

- WG10 resp: don't forget, there's 2 adults already in the room. Part of job is to help the other adult be rational. I'm not sure it's a great idea to make it easy to run to mom and dad to settle disputes. Don't need to institutionalize solutions to some of these controversies.

- P resp: I think this is very utopian view. The reality is parties oft do not work cooperatively.

- WG10 resp: I think this is how attys should act. Most of our problems are self created. But I also think precisely for this reason, we have prof. responsibility to solve them. When try to prescribe responsibility by rules, the parties can be relieved of duties to act like adults.

- P resp: we're providing mechanisms to encourage people to exercise better judgment.

- J resp: you do need referees. This is a contact sport. There are good number of cases where parties aren't working well. I can't say no. of times where one party says, that's the first time I've heard that position from other party stated.

- Heisenberg uncertainty principle. Lawyers behave differently under observation. Sometimes just by judges making selves available -> can resolve the problems.

- I don't think it's a good idea to institutionalize a case mgmt. mediator.

- You're mostly talking about discovery disputes. Three bites at the apple rule. I say, if you can't get along, you're going to pay a discovery master. This typically worked. Didn't req. a set of rules or anything else. Sometimes we make things more complicated than we need to be.

- J resp: one size doesn't fit all. Sometimes I use spec masters. Sometimes mediators. Sometimes all on my own. I've had c irls.

- P resp: I hear skepticism. But maybe applying it early on in different way, can solve.

## **B. MEDIATION COMMUNICATIONS DISCOVERABLE ON REASONABLE ROYALTY?**

- *ResQNet* (Fed. Cir. 2010) – settlement agreements can be comparable licenses, and are potentially relevant; potentially not protected by confidentiality)

- *In re MSTG* (Fed. Cir. 2012) – settlement negotiations re reas. royalties – NOT protected by settlement negotiation privilege.
  - P: If take exact same negotiations and add a mediator, does that make these negotiations confidential?
- *U.S. Ethernet Innovations* (ND Cal. 2014)
  - Arms length settlement negotiations are more relevant than negotiations under umbrella of court-ordered mediation
  - The court concluded that a mediation privilege bars discovery into negotiations that arose in the context of mediation.
  - Do folks agree that should be confidential? YES
    - P Q: have you raised question re exceptions – e.g. malpractice?
    - P resp: one of our best practices will be to clarify.
- P: should instruction to mediator to tell other side... be kept confidential? NO [everyone agreed the answer is no]
- P: should communication to mediator during caucus NOT for disclosure to other side be kept confidential? YES [consensus]

## C. TIMING OF MEDIATION IN PATENT LITIGATION

- Counsel Should Propose Mediation As Early as Practicable
  - P: recommendation – CEO should get involved earlier in the process.
  - P: sometimes outside counsel have vested interest in keeping litigation going.
- The Parties Need Not Conduct Full-Blown Discovery Before Commencing Mediation
  - P: 80-20 Pareto principle.
  - P: Lots of ways to get info before finishing depositions, etc. thru use of contentions, incl. damages contentions
  - P: informal discovery; having a mediator for it can be helpful.
- Counsel Should Consider the Many Alternatives to Litigation Discovery Prior to Mediation
- A Markman Ruling Is Not Always Necessary Before Commencing Patent Mediation
  - Q: what obstacles are there to having good mediation?
    - WG10 resp: real world obstacles include AIA proceedings – availability of them; availability of stay of dist. ct proceedings; promise of invalidating thru AIA proceedings. Accused infringers feel they have lots of options to eliminate risk of dist ct proceedings. Not a willingness to talk.
    - Wg10 resp: both sides need to feel downside risk. If you're emboldened as def. b/c of IPR; or b/c you're in ED Tex. w/ bad defendant, then I think mediation is counterproductive. Nothing more harmful than to have a bad mediation. Principals are not rational people; take umbrage at being forced to go thru mediation.
  - Q: proposed fee shifting leg. Will this spur more impetus for mediation?
    - WG10 resp: I want complete flexibility re whether to go to mediation. Sometimes Plf deserves to get paid, so defendant wants to behave early; sometimes plaintiff doesn't deserve to get paid, so defendant wants to be combative. I want to have flexibility to approach other side either directly or thru mediation, as appropriate. Sometimes I know mediation will take months/

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multiple mediation meetings, but it's worth it. Sometimes I know it'd be useless.

- Q: is there anything re quality of mediators that concerns you? Should we have regulations/certification? There is training programs – not directed a patent lit?
  - Q: have you been involved in any mediations where mediators were problematic.
    - WG10 resp: we try to vet meditators across whole company. Have had good and bad.
    - WG10 resp: biggest frustration – hesitance of mediator to get into the substance of the case. Too oft. trying to steer it to nuisance value. We could've done that by themselves.
  - Q: can outside counsel be impediments?

**X. Panel 9: Impact of Alice v. CLS Bank—when and how the courts should address Section 101 patentability. May 19, 10:45-11:45 AM**

**A. Intro**

- P: Comments some practitioners/judges have made re Alice/Sect. 101
  - *Mayo* standard easier to articulate than it is to apply
  - Supr. Ct. decisions on 101 confuse more than clarify.
  - J. Whyte: are judges being asked to determine if a patent is obviously obvious? If it does it fails Sect 101. If not, then move to the next step.
- Q: Questions re Alice/Sect. 101
  - What's the burden of proof?
  - What's an abstract idea? Any patent claim can be reduced to an abstract idea.
  - Is it like pornography? You can't define it but you know it when you see it.

**B. Stats**

- Over 50% of Alice/101 determinations have been made based on Rule 12 motions [pre claim construction]. Is this a good thing?
- Q: What should judges be using / what should they be relying upon?
- Q: How long does it take to get to Alice determination? Should it be an up front issue? Do 101 first – then rest? Or altogether?

**C. Goal: to propose case mgmt. procedures and tools to manage Alice/101 issues.**

- P: But this shouldn't prejudice court's ability to render decision based on adequate process. Oft criticism – sometimes judges take easy way and kick case based on Rule 12 where early SJ would've been more appropriate.
- Q: role of claim construction in a 101 context?
  - P resp: need to do claim construction before doing a 101 analysis
    - WG10 resp: even if under any reasonable construction it'll be abstract? If then, I don't know why need a claim construction.
  - Q: is one of ordinary skill in the art relevant?
    - Does timing matter? Underlying issues of fact?
  - WG10 resp: it should involve claim construction, but cases up til now pretty much ignore claims!
  - J resp: is this topic one more time where patent cases are special.
    - Under what standard and what evidence is 2d prong of Alice decided? Is inventive an adjective or an adverb? And what evidence to use?
    - No one's explicitly saying what evidence. It is intuitively being thought of as massive judicial notice or stipulated facts.
    - It's being treated as a question or law. Should it be?
    - In 12(B)(6) cases – looks like dist. cts are treating Alice/101 as if it's special and not governed by 12(b)(6) accepting facts only as pled.

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- Seems like dist judges are saying: I see Fed. Cir. decided this way. This case looks more like this case and not that case -> deciding. I'm not sure some would survive appellate scrutiny re 12(b)(6) dismissal.
- There seems to be gross neglect for Rule 12 motions. Consensus on our calls that this is happening.
- WG10 resp: It's going to be case specific. In many of these cases, plaintiff can't identify specific terms showing claim is more than abstract. If this is the case, then 12(b)(6) may be appropriate. If can,
- Q: what criteria should courts use to determine if 12(b)(6) appropriate? 12(c)? SJ? Etc.?
  - P resp: at one point if you're considering ordinary skill in the art, when is this inappropriate at 12(b)(6) stage.
  - P resp: role of experts. When do you need expert – to explain it's a novel concept different from abstract idea? Do it early – hold hearing, etc?
  - WG10 resp: we use expert declarations. Then def. wants depositions, etc. We allow it.
    - P Q: were these issues discussed in a Rule 16 conf? Or did Def. file 101 motion w/o notice?
      - WG10 resp: not in Rule 16 conf; our case had a special master appointed. But it depends on how complicated the patents are; how bullish defendants are. Some judges push the brakes; some not.
  - P resp: from plf's perspective – you'd like 101 issues determined early anyways right?
    - WG10 resp: a concern is that the blackletter law in patents is that claims should mean same for infr. and invalidity. But in Rule 12 motions, defendants argue claims are so broad; but then later try to argue that the claim is narrow for noninfringing purposes. There is some value in dealing with 101 in conjunction w/ other issues b/c otherwise defendants argue diff things at diff stages.
      - If you submit something outside of pleadings, then this automatically converts to a SJ motion; all parties obligated to disclose all info re that motion.
      - If you have an expert declaration, I don't see how a court can disregard it.
      - Everyone points to *Ultramercial*.
  - P: shortcuts courts are taking to make obviously obvious determinations. How can we make this a more rigorous process? Struggle – the more we talk about putting in a procedure, the more we're making a special procedure about 101 – where does it end?
- Q to judges: have any of you had to deal w/ these 101 issues post-Alice?
  - J resps: No, no.
  - J resp: I had it come up – after Alice came down, received a request for SJ mtn. I required exchange of letters. Allowed. I was persuaded by the dialogue at Sedona and allowed 2<sup>nd</sup> SJ motion.

- Q: Any suggestions re putting structure to assist courts in determining 101 issues?  
How bring back in line with FRCP?
  - J resp: Alice can be case dispositive. Should be teed up properly for court determination. Court can determine if necessary to develop record. Court can consider if need expedited discovery solely re Alice issues. Can be done on an expedited basis.
- Q: what Best Practices can we develop to determine whether or not need claim construction?
  - J resp: may want to do claim constr. as part of SJ motion.
  - J Resp: if someone can make persuasive pitch that patent claims in suit were at risk under Alice then I'd consider giving early SJ, but NOT as a Rule 12 motion.
- Q: do we think trend that Rule 12 motions are more voluminous is going to continue?
  - P resp: I think responses to Rule 12 motions will eventually force these more into SJ motions.
  - WG10 resp: I disagree. I think you'll see defendants say: if I file 12(b)(6) motion, no downside b/c don't know if plf is prepared to respond so may kill claim at early stage. No limits. This can weed out theories early.
  - WG10 resp: In Delaware, have big hurdle to face during Rule 16 conf to get right to file SJ motions; so defendants will take advantage of permissive Rule 12 procedure.
  - WG10 resp: I think we'll continue to see Rule 12(b)6 files -> converted to SJ by court.
  - J resp: Judges can cut off this procedure by requiring prefiling hearing before filing of any Rule 12 motions.
    - Some courts don't require this; C.D. Cal. does.
- Q: are there criteria to determine Rule 12; Rule 56 etc.?
  - WG10 resp: too case specific
  - WG10 resp: given PTAB procedures availability, defendants oft. stall in hopes to hear from PTO first. We should keep this strategy in mind here.
  - P resp: I would strategically hold off on Parallel Proceeding until after Alice issue is determined.
  - P resp: interesting issues here. Timing. If judges deal with 101 on expedited basis -> may get ruling sooner.
    - Which forum is better suited for Alice/101 determinations? Is this issue a matter of law? Or is PTAB specialized, and thus should deference should be given to PTAB?
  - WG10 resp: I don't know how proper to rule in context of a 12(b)(6) unless plf provides no case. This may be a BP to tell judges deny 12(b)(6) w/o prejudice. Resubmit as 12(c). Or if you think there are no material issues of fact then go to Rule 56 SJ.
- J: is there a subset of patents that are so bad that should be dismissed on Alice/101 grounds?
  - WG10 resp: wrt CBM – you don't have a 1 year bar. So you can file 101 in district court. If lose, then file CBM.

- WG10 resp: Whether or not you file 12(b)(6), some judges are more inclined to take advisement as a 12(b)(6); some judges automatically convert to Rule 56. Some courts only get 1 motion for SJ, so defendant have to take this into consideration.
- Q: want to evaluate claims claim by claim. How do you deal w/ 12(b)(6)? Are there short cuts? Can you do it via representative claims?
  - P resp: have to use rep claims; can't go claim by claim.
    - BUT if patent owner disagrees w/ this approach, can/should judges ORDER use of rep claims. How determined?
  - J resp: this will be good subject for this team – if you're lawyer, how do you convince the judge? If there are so many facts in dispute so need fact discovery, then should wait until SJ mtn.
  - P resp: can oft. get representative claim for the indep claims. Just choose the narrowest independent claim. The real challenge is with dependent claims.
  - J resp: if parties agree that rep claims are way to go then sure. But if not, I'm not going thru the rigamarole at this point to decide this case. Best to leave this issue for SJ.
  - P resp: I would go to *Ultramercial* concurrence by Judge Mayer – is Sect. 101 analysis akin to a jurisdictional inquiry? You have to decide 101 at this stage; if you proceed to infr./invalidity later, and 101 would have kicked it, that infringement/invalidity determination would be an advisory opinion.
    - My rec: Expert must articulate a claim construction that brings it beyond an abstract idea. That determination is an issue of law.
- Q: by what criteria does someone determine abstract idea v. inventive idea?
  - P resp: most courts compare claims to those asserted in Alice. Show me something in claim that it's implemented functionality beyond those invalidated in Alice.

**XI. Panel 10: Best practices for USPTO/PTAB proceedings and effective coordination between USPTO/PTAB and district court proceedings. May 19, 11:45-1:00 PM**

**A. Latest PTAB statistics**

- J: On target of 150 petitions per month
  - % instituted. Looks like it's decreasing
    - but one thing that's constant is that preinstitution settlement rate has been steady at a low 8%.
  - Seeing more CBMs.
  - Number of joinder cases. This year seem very large number of cases coming in w/ related families – the “serial petition issue”
  - PTAB deals w/ motions to amend at final written decision stage. What % do? Roughly 20%.
- P: how many claims survive? Our firm stats: 83% of all claims cancelled for IPRs. CBMs: 96%.

**B. Guiding Principles for Commentary on Patent Litigation Best Practices: Parallel USPTO Proceedings Chapter**

- Principle No. 1 – The PTAB, ITC, and District Courts should take steps to harmonize parallel proceedings and exercise their discretion, when possible, to reduce abusive litigation and foster just, speedy, and inexpensive determinations.
  - P: there's so much desire to legislate to solve these problems, but there are existing tools to do it.
  - J: what does Principle 1 mean?
    - P: For PTAB – this was guiding principle of the statute. Affects things like stays and estoppels; how decisions from one court applies to other.
    - P resp: Goal: increased efficiency; decreased redundancy.
  - P resp: something missing here: reduce “abusive litigation” – does this include “abusive use of AIA proceedings”. We see non-parties filing AIA; gaming of system.
    - WG10 resp: And don't know how to harmonize. District court can't stay AIA proceedings; and vice versa. Lots of pressure on dist courts to stay. It seems like a one-sided principle. Only way to create efficiency is to stop one parallel proceeding.
    - P resp: “litigation” covers PTAB litigation too.
      - And if stay, should this put onus on Patent office to come up with something useful to the stayed dist ct case?
      - J resp: determination of who is abusive/ who is not? PTAB does not do this. We do track serial filers, but we don't have right to turn away.
    - J resp: if abuse is happening, the whole idea is to say what it is. There should be a mechanism for abuse motions to be filed/ determined.
    - WG10 resp: could some difficulties' solution reside in PTO exercising its discretion to decline to institute in light of ongoing dist ct case.



- J resp: denial of petition is nonappealable, so the PTAB is very careful in issuing denial
  - WG10 resp: there's nothing that mandates institution if standard is met. If there's a parallel proceeding in dist ct., then the agency could exercise discretion NOT to institute.
- P resp: PTO trying best to comply w/ Congress's mandates. Director of PTO has discretion NOT to institute a trial. So far PTAB has done an exemplary job. They are trying for balance – they are listening to your voices.
- Principle No. 2 – Parties to PTAB proceedings should be afforded an equal opportunity to present appropriate evidence and argument both before and after institution.
  - P: PTAB should explain what decision making process is; allow the same evidence from both parties.
    - WG10 resp: reason we have PTAB proceedings in first place b/c it takes millions of dollars and many years to invalidate a patent. Lots of companies can't afford this. Need cost-effective and meaningful way for them to challenge. This is what PTAB provides us.
    - I would be very cautious of failing to institute by deferring to a slow expensive dist. court process.
  - P resp: I'm not comfortable with Principle 2. If get into post-institution fight, and get kicked out, you may or may not get an appeal. I don't like the fact that you can straighten things out after filing, at least on real party in interest.
  - J resp: current rule doesn't allow evidence to come in; unless Cong. changes timeline, this Principle No. 2 is unworkable.
  - J resp: pre-institution testimony. Office has been more vocal on this: if you need to do this, this can be submitted with preliminary response; PTAB has allowed it re standing issues.
  - Q: how would you change Principle 2?
    - WG10 resp: how to you determine institution if \_\_\_\_
      - J resp: sometimes it continues to develop. Denials are usually made w/o prejudice.
    - WG10 resp: if have real party-in-interest issue, then should bring it up pre-institution.
  - J resp: re requests to submit testimony, the PTAB's default rule has to be no testimonial evidence unless special circumstances
    - PTAB apply *Garmin* factors re additional discovery.
    - We are cognizant of need to conserve PTAB judicial resources.
    - WG10 resp: Can understand PTAB's reluctance to deny institution. But wouldn't this suggest dist ct should assist re discovery?
      - J resp: there's a point at which you can't look to dist ct to be in aid of administrative court. Has to work in parallel, but...

#### A. Preview of Topics for Discussion in Stage 2 Commentary

- Additional Content
  - Discovery

- Discovery is extremely limited in PTAB proceedings as outlined in IPR2012-00001, *Garmin v. Cuozzo*, Paper 26
  - J resp: “mandatory discovery” – Rule says it’s mandatory if the parties agree. No one uses it.
- Evidence of secondary considerations of non-obviousness and real party-in-interest/privity may be held only by Petitioner
- Should PTAB discovery be expanded beyond Garmin factors?
  - P: Ability to seek discovery re indemnification agreement
    - if there’s a legitimate dispute, PTAB has determined such discovery should be allowed.
- Should discovery be permitted in district court to supplement limited discovery in PTAB?
  - J resp: If dist ct case is stayed, it’s stayed. If not stayed, then whatever discovery you get could be used in PTAB, but...
    - In US dist ct’s, the culture is wide discovery. There’s no way def. can move to stay then ask for discovery for PTAB!
    - WG10 resp: will dist ct permit discovery to be used in PTAB?
  - P resp: given dockets in dist ct., it may take too long to get the docs released.
    - Could make deal with other party. BP would be to write into protective order – these things that get in \_\_\_\_.
    - J resp: POs are signed by the judge. Parties can’t just disclose to the PTO, even with agreement. Parties are not free to ignore this.
      - P resp: if parties have 1 mo. to get in a response before the PTAB, they can’t count on district court’s moving so fast.
  - Q: is there a way to have a standing confidentiality order that could cover both situations?
    - J resp: could always propose consent order to the judge. Judge would probably sign it.
    - J resp: as long as parties are synchronous. If stated above board and all in agreement. But what do at PTAB is there are different parties, wrt confidentiality agreements.
    - J resp: if parties brought to dist court a stipulation – agree to have used, then dist court would agree. Dist ct would no longer be concerned.
    - J resp: but still have theoretical problem – if get sense judiciary is being used to obtain discovery for another institution where not normally allowed, you’re going to have resistance.
- Stays

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- Recent Federal Circuit decisions support granting of stays in favor of CBM proceedings
  - Majority of litigations are stayed, particularly post IPR/CBM institution
  - Should PTAB panels treat stayed cases differently?
  - How much deference should a district court give to PTAB findings on claim construction and the prior art where the district court case is stayed?
  - J resp.: deeply need coordination btw dist cts and PTAB.
    - How many of claims have been accepted for institution?
    - Real problem with stay – what’s coming back?
    - What’s likelihood the case is really going to go away?
    - Oft courts require parties to be bound, even if wouldn’t otherwise be bound. If not all parties bound by same estoppels, then untenable.
    - Need evidentiary hearing to determine privity? I can see this being required in some cases.
    - All very case specific.
    - We are trying to provide the questions for judges to ask.
  - WG10 resp: why would a challenger leave claims out of PTAB challenge?  
Most challengers want to kill entire patent.
    - J resp: but PTAB doesn’t have to institute on all claims.
    - P resp: and you have a page limitation in your petition. You could file a second petition on diff claims.
    - J resp: some people sandbag/don’t file petition on some claims so still have those to attack at dist ct should they lose at PTAB.
- Q : interesting that PTAB has knocked out 83%. Has this info gotten down to the patent office itself?
- P resp: PTO’s response: if you expanded numbers to include ALL claims ever issued, then the vast majority are not challenged or invalidated.
  - WG10: one of best ways to ensure higher patent quality is to ensure have a meaningful opp to challenge afterwards. If price tag becomes too expensive, then patents will not get challenged.

○ Estoppels

- Estoppels apply upon PTAB Final Written Decision in IPR/CBM/PGR
- Relatively few District Court decisions to date have applied AIA estoppels
- How should “reasonably could have raised” estoppels apply in district court and at PTO?
  - J: most arguments here. Sen. Kyl – “reasonably” softens it. Doesn’t require a scorched earth search. Not yet defined though.
- Is it appropriate to prevent parties from raising certain issues where the statutory estoppels do not apply, i.e., practical estoppel?

- P: *Star* case: prior art only if printed publication. This was only estoppel case we've heard thus far. Argument made – could have submitted an owner's manual.
- J: Sedona can do well in this area – tell judges and practitioners – this is what's coming at you. Sort of like eDiscovery in the early days. .
- Claim Construction
  - Federal Circuit has affirmed use of broadest reasonable interpretation in PTAB proceedings based in part on ability to amend
  - Motions to amend are rarely granted in PTAB proceedings
  - Should parties be able to elect Phillips standard instead of BRI in PTAB proceedings (e.g., where no motion to amend will be filed)?
  - What are the practical differences between the Phillips analysis and BRI as applied by the PTAB?
- New Content
  - Real Party-In-Interest and Privy
    - Definitions of “real party in interest” and “privy” are developing through PTAB decisions
    - Accurately determining the real parties-in-interest and privies is essential to a proper decision on institution and application of estoppels
    - Should discovery be permitted pre-institution on “real party in interest” and “privy” issues to avoid abuse of IPR? Should parties be allowed to raise “real party in interest” and “privy” issues after institution?
    - When should “real party in interest” and “privy” be established for purposes of estoppels? Is this an issue for the PTAB to resolve, or for the district courts to resolve?
  - Presenting Evidence
    - Balancing public record vs. confidentiality concerns (motions to seal and motions to expunge)
    - Fundamental Principle #2: Parties to PTAB proceedings should be afforded an equal opportunity to present appropriate evidence and argument both before and after institution.
    - Should Patent Owner be allowed to present testimonial evidence pre-institution?
    - Under what circumstances is live testimony appropriate at oral hearing?
  - Settlement and Termination
    - PTAB encourages settlement of instituted proceedings
    - Settlement occurs more often than final written decision

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- How do interested third parties protect against settlement of an instituted proceeding prior to final written decision?
- When, if ever, should PTAB continue proceeding even after all parties have settled?
- Parallel PTO Proceedings
  - Multiple proceedings involving the same patent may be joined upon request by a Patent Owner or Petitioner within one month of institution, and may be stayed, transferred, consolidated, or terminated at PTAB's discretion (37 CFR 42.122 and 42.222)
  - What are the consequences of joining with ongoing PTAB proceedings?
  - PTAB has discretion to reject a petition or request because the same or substantially the same prior art or arguments previously were presented to the Office (35 U.S.C. §325(d))
  - Is there an advantage to being the first party to file a petition for IPR on a given patent? What is the risk that the PTAB will deny a subsequent IPR from a third party on the same patent?
- Legislation/Patent Reform
  - Modifications to PTAB trial practice are expected in 2015 based on PTAB request for comments (June 2014)
  - Is further legislation necessary, or do the courts and PTAB already have the tools they need to address issues of concern?
  - If the PTAB is unable to deny petitions that everyone thinks should not be permitted to go forward (e.g. short seller petitions), then does there need to be a standing requirement to bring IPRs?
  - Should the PTAB's decisions on institution be "final and non-appealable"?