

14th Annual Advanced Patent Law Institute: *Patent Reform Update: Are States the New Patent Battlegrounds?*

David Bloch



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The Supreme Court's Shift Back to the States

- *Holmes v. Vornado* (U.S. Supreme Court, 2001)
 - Trade dress DJ, compulsory patent counterclaim.
 - Supreme Court held that the Federal Circuit lacked jurisdiction over the appeal because the complaint asserted no claim "arising under" federal patent law – even though the counterclaim was compulsory
- *Russo v. Ballard Medical Products* (11th Cir. 2009) - State law claims for misappropriation of trade secrets not preempted even though patents figure prominently into evidence
- AIA's attempted fix (28 U.S.C. sec. 1295(a)(1)):
 - "The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction ... of an appeal from a final decision of a district court of the United States, the District Court of Guam, the District Court of the Virgin Islands, or the District Court of the Northern Mariana Islands, in any civil action arising under, or in any civil action in which a party has asserted a *compulsory counterclaim arising under, any Act of Congress relating to patents* or plant variety protection ..."
 - Implications for continued state adjudication of federal claims?

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States Versus Trolls

- Who is MPHJ?
 - Patent troll using multiple shell companies to assert infringement by any business using a scanner to scan and send emails
 - Components do not infringe; only the system
 - Cease-and-desist letters to small businesses, usually by buying business-fax lists
 - Demands for \$1000 per employee
 - Escalating series of threats: first the shell, then the Farney Daniels law firm
 - Unknown how much has been generated to date

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States Versus Trolls

- Vermont reacts
 - Passed 9 V.S.A. 4195-4199, prohibiting bad-faith patent infringement claims
 - Will this survive *Bonito Boats*?
 - Separately, charged MPHJ with violations of Vermont's consumer protection law
 - Case challenges Farney Daniels' conduct, but does not name the law firm
 - MPHJ removed the case to federal court and is now seeking to dismiss for want of personal jurisdiction

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States Versus Trolls

- **Nebraska reacts**

- Sent investigative letter to Farney Daniels, asserting violation of Nebraska unfair competition law
- In response, Farney Daniels added NB AG Bruning to a pending Activision TV patent infringement suit
 - Activision TV claims to own a patent on remotely broadcasting billboard content
- In *Activision TV v. Pinnacle Bancorp*, Farney Daniels' right to pursue claims was affirmed... but the NB investigation of MPHJ is ongoing

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States Versus Trolls

- **Minnesota reacts**

- Negotiated an order forcing MPHJ to stay out of Minnesota
- Under the Assurance of Discontinuance, MPHJ cannot send letters to Minnesota residents without preclearance from the Minnesota AG's Office
- MPHJ cannot assign the patents to a third party without also assigning the Assurance of Discontinuance obligation

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State Sovereign Immunity?

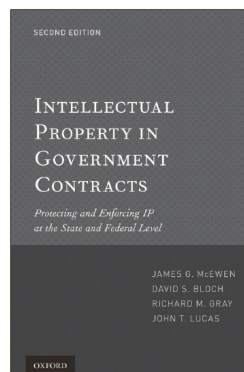
- States are sovereign in the American system. U.S. Const. Am. XI.
 - *Alden v. Maine*, 527 U.S. 706 (1999): “sovereign immunity derives not from the Eleventh Amendment but from the structure of the original Constitution itself.... Nor can we conclude that the specific Article I powers delegated to Congress necessarily include, by virtue of the Necessary and Proper Clause or otherwise, the incidental authority to subject the States to private suits as a means of achieving objectives otherwise within the scope of the enumerated powers.”
- State sovereign immunity cannot be waived by an Act of Congress, but rather must be waived by the state itself. *Blatchford v. Native Village of Noatak*, 501 U.S. 775 (1991).
- Absent a waiver, States are immune from patent infringement claims. *Florida Prepaid v. College Savings Bank*, 527 U.S. 627 (1999).
- Some commentators have suggested that states can extend their sovereign immunity to in-state purchasers of accused technology.
 - Mark I. Koffsky, “How States Can Kill Patent Trolls,” *www.Slate.com* (June 12, 2013): “A state establishes a ‘patent protection exchange’ where the state purchases a company’s products, which it then resells to the company’s customers.”

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Further reading

- *Intellectual Property in Government Contracts: Protecting and Enforcing IP at the State and Federal Level* (Oxford Univ. Press) (Second Ed. 2012). Third edition forthcoming from Matthew Bender.
 - Authors: James G. McEwen, Senior IP Attorney, Sikorsky Aircraft; David S. Bloch, Partner at Winston & Strawn, LLP; Richard M. Gray, Associate General Counsel in the Office of the Deputy General Counsel for Acquisition & Logistics, Department of Defense; John T. Lucas, Assistant General Counsel for Technology Transfer and Intellectual Property for the U.S. Department of Energy



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David Bloch, a partner with Winston & Strawn LLP in San Francisco and Silicon Valley, focuses his practice on complex intellectual property litigation. He has substantial experience in the multimedia, computer software, computer hardware, life sciences and biotechnology, microchip, and consumer product industries, among others. The co-author of *Intellectual Property in Government Contracts* (Oxford 2009, 2012; third edition in press from Matthew Bender) and more than 30 published articles, Mr. Bloch has particular areas of experience in the use of intellectual property in government contracts, the intersection of intellectual property and antitrust law, and the litigation of design patents.

A biography and publication list are available online at www.winston.com/dbloch

