

# Intellectual Property Procedure in U.S. Federal and Administrative Courts

Presented to  
The Supreme Arbitrazh Court  
of the Russian Federation

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Respected colleagues – Justices and personnel of the Supreme Court of the Russian Federation, the Supreme Arbitrazh Court of the Russian Federation, the Court of Intellectual Property Rights of the Russian Federation, representatives of the Government of the Russian Federation, the Administration of the President of Russia, and Rospatent; representatives of the Skolkovo Fund, and my fellow Russian and foreign lawyers and intellectual property practitioners.

I speak to you today as an American lawyer with 34 years of experience in the federal courts of the United States, 24 of them specializing in intellectual property, but also as a graduate of the Philology Department at Leningrad State University in 1976, which explains my effort to speak with you in Russian. I shall ask you in advance to forgive me for any shortcomings that may become apparent in any of these capacities, and more importantly to accept my expression of profound gratitude for the opportunity to appear before you today.

# U.S. Constitution

- Article I - The Legislature
- Article II - The Executive
- Article III - The Judiciary

To understand how intellectual property fits into the American judiciary system it is necessary to begin with a word about the role of the courts in the federal government. We need to start with the American Constitution. The Constitution is a brief document. Congress makes the law under Article I; the President enforces the law under Article II; and the courts decide what the law means and how to apply it in particular cases under Article III. The only intellectual property right mentioned in the Constitution is copyright, which Article I of the Constitution authorizes Congress to protect in the form of laws granting exclusive rights to works of authorship for a limited period of time. All other forms of IP protection are creatures of statute.

All of this goes back to 1789 when the people of the original thirteen American colonies – the States – agreed to give up certain powers to the federal government. The States were intensely suspicious of central government and they drove a hard bargain. They strictly limited the powers granted to the federal government in the Constitution, and every power not expressly granted to the federal government was reserved to the States. Before signing the document, they insisted on the addition of ten Amendments to guaranty certain individual rights and liberties to the people, in short, the “inalienable rights” cited by Thomas Jefferson in the Declaration of Independence.

## Separation of Powers and Limitations on Judicial Power

- State Courts vs. Federal Courts
- Judicial Power vs. Legislative and Executive Power
- Ordinary Courts vs. Specialized Courts
- Judges vs. Juries

The result of all this was a separation of powers. The most fundamental of these was the separation of powers between States and the federal government. This separation of powers constitutes the fundamental limit of government authority and goes to the heart of the current debate in the U.S. over privacy, gun rights, abortion, same-sex marriage and other controversial issues. I won't talk today about the separation between state and federal government because the jurisdiction to adjudicate intellectual property rights – with the exception of local disputes confined to a single State arising under State unfair competition laws – is committed to the federal judicial and administrative courts. I would simply add, however, that there are limits on the powers of the States also, for example, the power to enslave human beings, the power to secede from the United States, the power to deny the right of due process and equal protection of the law, and the power to deny the rights granted to every individual under the Constitution and its Amendments. We fought a Civil War to establish that limitation of power. The result was a complex set of checks and balances.

What we really mean by “checks and balances,” however, is the separation among the three branches of the federal government and the limitations on their respective powers. Before this talk is over, I'm going to tell you how the limitation on the federal judiciary power – at least the way it has been interpreted by a judge in New York – is preventing a Russian unitary enterprise from having its complaint adjudicated by a U.S. trial court in a battle over the ownership of a

Russian trademark in the United States – the STOLICHNAYA trademark – and how that decision will result in an obstacle to Russian unitary enterprises seeking access to the United States Courts for the enforcement of intellectual property and other rights in Russian state property if the decision is not reversed on appeal.

But first let's talk about two other kinds of separation of powers listed on the slide, first, the kind of specialized powers that have now been granted to the Intellectual Property Court of the Russian Federation. This is a different kind of separation of powers – not the limitations on the power of the federal or State government but instead the establishment of specialized courts for cases requiring specialized expertise. In intellectual property cases, particularly those involving complex patent disputes, this involves yet another limitation in judicial power, namely, the power of a jury to construe the claims of a patent, a power that has been sharply limited in recent years.

## Specialized Federal and Administrative Courts

- Article II Courts
  - Judges Appointed and Removed by President
  - Specialized Jurisdiction, e.g., USPTO
  - Subject to Review by Article III Courts
- Article III Courts
  - Judges Nominated by President Subject to Confirmation by Senate, with Lifetime Tenure
  - Some Have Specialized Jurisdiction, e.g., U.S. Court of Appeals for The Federal Circuit

There are two kinds of specialized courts in the federal government – those existing under Article II of the Constitution, and those under Article III. But wait, didn't I just say that Article II governs the executive branch, not the judicial branch? Just so. But in 224 years, the laws passed by Congress under Article I, and the agencies and commissions established by Congress and the Executive Branch under Articles I and II, have proliferated to such an extent, and the subject matter regulated by these laws and agencies has become so complex, that a number of specialized courts and adjudicative tribunals have been established within the Executive Branch, for example, the tribunals in the U.S. Patent and Trademark Office, part of the U.S. Department of Commerce. We call them "Article II" courts. The judges in these Article II courts are called "administrative law judges."

Today more than 1,300 administrative law judges serve in the Executive Branch departments. These judges, including the those in the U.S. Patent and Trademark Office, conduct hearings, issue or recommend decisions, and enforce agency regulations. The basic difference between the administrative law judges in the Article II courts, and the federal judges in the Article III courts, is that administrative law judges are appointed by the President for limited terms and can be removed by the President for any reason. This is an exercise of presidential power under Article II of the Constitution. Federal judges, on the other hand, under Article III, are nominated by the President with the advice and consent of the U.S.

Congress – the upper house of the Congress to be specific, i.e., the U.S. Senate – which may or may not confirm the nomination. If their nomination is confirmed by the Senate, they serve for life and can only be removed from office for bad behavior.

## Article II Administrative Tribunals in the U.S. Patent and Trademark Office (USPTO)

- Trademark Trial and Appeal Board
- Patent Trial and Appeal Board
- All Final Orders Subject to Review by Article III Federal Courts
- Avenue of Appeal Depends of Type of Case and Election by Party

The U.S. Patent and Trademark Office, part of the Executive Branch within the U.S. Department of Commerce, has two administrative tribunals existing pursuant to Article II of the U.S. Constitution. One is the Trademark Trial and Appeal Board. The Other is the Patent Trial and Appeal Board. All final orders from these administrative courts are subject to review by a United States Court existing under Article III of the U.S. Constitution. Decisions of the two bodies are subject to alternative avenues of review. We'll discuss them separately.



## Trademark Trial and Appeal Board (TTAB)

- Ex Parte Review of Decisions by Trademark Examiners on Registration of Trademarks
- Inter Partes Adjudication of Trademark Opposition and Cancellation Proceedings
- Party Challenging Board Decision Must Have “Standing”
- Adverse Decision of TTAB is Subject to Alternative Avenues of Review by United States Courts Upon Election by Unsuccessful Applicant, Opposer or Cancellation Petitioner

The Trademark Trial and Appeal Board is one of the two administrative tribunals in the U.S. Patent and Trademark Office. The Board adjudicates two kinds of cases. One is the appeal of a decision by a Trademark Examiner refusing registration of a trademark or service mark. This is an “ex parte” proceeding, meaning that there is no adverse party other than the Trademark Examiner who refused the application. The proceeding is appellate in nature, meaning that the record before the Board is limited to evidence introduced by the application in the examination process. The applicant cannot introduce new evidence in an ex parte appeal or raise issues that were not presented to the Trademark Examiner.

The other kind of proceedings conducted by the Trademark Trial and Appeal Board are opposition and cancellation proceedings. The Board acts as a court of first instance in these proceedings and these cases go to “trial,” although the trial is conducted by means of depositions in contrast to trials in the United States courts of first instance, *i.e.*, the U.S. District Courts. The Board can read the testimony of witnesses recorded by a stenographer but, unlike an Article III trial court, the Board never has an opportunity to observe the appearance or demeanor of the witnesses. An opposition proceeding is a challenge against a trademark application before the application matures into a registration, and a cancellation petition is a challenge against a registration that has already been issued. There are various grounds for opposition, but the most common ground is that the applicant’s mark is likely to be confused with a prior trademark registration or prior



filed trademark application owned by the opposer. A less common but not infrequent ground for opposition is that the mark is “merely descriptive,” and that granting the application or allowing the continued registration would allow the applicant or registrant to monopolize common words or symbols that are necessary for other people to describe their goods and services. An opposition has to be instituted within thirty days following publication of the application, but that time can be extended for up to 90 days upon request by the potential opposer. A registration, in contrast, can be challenged by means of a cancellation petition instituted within five years from the date of registration, after which the registration becomes incontestable, i.e., immune to challenge on all but a limited number of grounds, for example, that the trademark has become generic, or has been abandoned by the registrant.

To institute an opposition or cancellation proceeding, the opposer or cancellation petitioner must demonstrate “standing.” “Standing” means that the party challenging the application or registration is threatened with an actual injury. For example, if the challenge is based on confusing similarity between trademarks, the challenger must show that he owns the mark which he contends is confusingly similar. If the challenge is based on the merely descriptive nature of the challenged mark, then he must show that he is engaged in the sale of goods or services in respect to which the challenged mark is necessary for the description of those goods and services. The standing requirement is often viewed as a mere formality, but as we’ll see in the *STOLICHNAYA* case, standing is fundamental to the limitation on judicial power under Article III of the Constitution – even in an Article II tribunal. Standing is a fundamental constitutional limitation on judicial power under the U.S. Constitution.

Any adverse final decision by the Trademark Trial and Appeal Board is subject to review by a United States Court, but there are alternative avenues of review.

## APPEAL OF ADVERSE DECISION BY TRADEMARK TRIAL AND APPEAL BOARD

- Appellate Review by U.S. Court of Appeals for the Federal Circuit

-or-

- De Novo Review by U.S. District Court

Any unsuccessful application for a trademark or service mark registration, and any unsuccessful opposer or cancellation petitioner, may elect between two avenues of review. One is an appeal to the United States Court of Appeals for the Federal Circuit, instituted within 60 days of a final ruling. The U.S. Court of Appeals for the Federal Circuit is the closest thing we have in our country to the Intellectual Property Court of the Russian Federation. That is to say, it is a court of special jurisdiction, but unlike the Intellectual Property Court of the Russian Federation, it is only an appellate court, not a court of first instance. As in any appellate proceeding, the record before the U.S. Court of Appeals for the Federal Circuit is limited to evidence introduced in the first instance. In the appeal of a Board decision affirming the refusal of a trademark or service mark application, the record is limited to evidence introduced before the Trademark Examiner, unless the issue on appeal is whether the Examiner improperly excluded such evidence and whether the Board incorrectly affirmed that decision. In no case will the Court of Appeals consider evidence or issues that were not introduced or raised in the first instance.

Alternatively, an unsuccessful trademark applicant, opposer or cancellation petitioner may file a civil action for “de novo” review in a United States District Court, that is to say, a federal court of first instance. This proceeding is “de novo,” meaning that any party, whether it is the opposer, cancellation petitioner, or the Patent and Trademark Office, may introduce any evidence regardless of

whether it was part of the previous record, and raise any issue or argument regardless of whether it was offered or raised before the Trademark Examiner or the Trademark Trial and Appeal Board. The de novo review of a final order by the Trademark Trial and Appeal Board granting or denying an opposition or cancellation can be instituted in any U.S. District Court in a State where the court has personal jurisdiction over the adverse party, that is to say, any State where the adverse party is doing business or has directed his products and services into that State in a manner and extent that would make it reasonable for him to anticipate being brought before a court in that state to answer for his conduct. This requirement of “personal jurisdiction” is another fundamental limitation on judicial power. It is geographic in nature, such that a United States court in California may lack the power to hear a case brought against a New York resident, whereas a United States court in New York may be fully empowered to hear the same case. If the adverse party is the U.S. Patent and Trademark Office, then the case must be brought in the Eastern District of Virginia, where the agency is located.

## New U.S. Patent Law

1. Patent Trial and Appeal Board Replaces Former Board of Patent Appeals and Interferences
2. Significantly Changes Procedures for Patent Application and Prosecution
3. New Post-Grant Procedures for Issued Patents
4. Substantial Amendment of Provisions Relating to Litigation and Licensing of Patents

Effective March 13, 2013, the U.S. Patent Law was substantially amended by the Leahy-Smith American Invents Act, named after its two Congressional sponsors. These are the most significant amendments to the U.S. Patent Law since 1952.

The new law establishes a Patent Trial and Appeal Board (PTAB) to replace the former Board of Patent Appeals and Interferences. This new trial board has expanded jurisdiction to hear not only patent appeals but also contested matters.

One of the principal aims of the recent amendments was to harmonize aspects of the U.S. patent system with those of other countries by changing the U.S. patent system from a “first to invent” system to a “first to file” system in which the first entity to file a patent application for a given technology subsequently obtains the exclusive patent rights to that technology. The main features of the new amendments are directed patent application and patent prosecution; new post-grant procedures for issued patents; and provisions related to litigation and licensing of patents.

## Summary of New U.S. Patent Law

- “First to Invent” replaced by “First Inventor to File” for applications filed on or after March 13, 2013.
- Expands definition of prior art
- Newly established “derivation proceeding”
- Ex parte reexamination retained
- Expands inter partes review
- Adds post-grant review

The new patent law also expands the definition of prior art used in determining patentability. Actions and prior art that bar patentability now include public use, sales, publications, and other disclosures available to the public anywhere in the world as of the filing date, other than publications by the inventor within one year of filing (known as the inventor's "publication-conditioned grace period"), whether or not a third party also files a patent application. The law also expands the definition of “prior art” to include foreign offers for sale and public uses. However, patent applicants that do not publish their inventions prior to filing will receive no grace period.

The proceedings at the U.S. Patent Office for resolving priority contests among near-simultaneous inventors who both file applications for the same invention, known as “interference proceeding,” have been repealed, because priority will now be determined based on the filing date. A newly established administrative procedure called a “derivation” proceeding has been established to ensure that the first person to file an application is actually an original inventor and that the application was not derived from another inventor.

The new U.S. Patent Law, however, operates differently than the “First-to-Invent” regime previously in effect in the U.S. and the “First-to-File” systems in the rest of the world. Different outcomes can occur under each of these

three systems depending on whether and how two different inventors publish or file their patent applications.

The new law also revises and expands post-grant procedures. The law retains existing *ex parte* reexamination and adds to the opportunity for reissuance submissions by third parties. The law also expands *inter partes* reexamination and renames it *inter partes* review, and adds a procedure for post-grant review.

## Other Changes to U.S. Patent Law

1. Tax Strategy Inventions
2. False Marking
3. Filing by Other Than Inventor
4. Best Mode
5. Prior user rights defense
6. Micro-Entity
7. Confidential Sale

The new patent law contains the following additional important changes.

(1) The new law provides that any strategy for reducing, avoiding, or deferring tax liability, whether known or unknown at the time of the invention or patent application, will be insufficient to differentiate a claimed invention from the prior art.

(2) The law eliminates false marking lawsuits except those filed by the U.S. government or by a competitor who can prove competitive injury. In addition, marking a product with a patent that formerly covered the product, but has since expired, is no longer a violation.

(3) Under the new law, an entity can file an application on behalf of an inventor who assigned or is under an obligation to assign the invention rights to the entity (or if the entity otherwise has a financial interest in the invention), without seeking the inventor's execution of the application. Any patent that issues belongs to the inventor absent a written assignment from the inventor or inventor's estate to the entity.



(4) While an inventor is still required to set forth the best mode for accomplishing an invention, failure to disclose a “best mode” is no longer a basis for invalidating or rendering unenforceable an issued patent.

(5) If an individual or entity begins using an invention more than a year before a subsequent inventor files for a patent on the same invention, then the user will have the right to continue using the invention in the same way after the subsequent inventor is granted a patent as long as the user did not derive the invention from the subsequent inventor. These prior user rights are limited in scope and transferability, and they also have limited applicability to patents held by universities.

(6) The new law adds a micro-entity status. A micro-entity includes an independent inventor with a previous calendar year gross income of less than three times the national median household income who has previously filed no more than four non-provisional patent applications, not including those the inventor was obligated to assign to an employer. A micro-entity also includes a university or an inventor under an obligation to assign the invention to a university. A micro-entity is entitled to a 75% reduction in many of the patent fees payable to the US Patent Office during prosecution of a US patent application. The patent office is expected to develop regulations to identify which fees will be eligible for the reduction and how joint inventors may qualify as a micro-entity.

(7) Finally, the new law provides that confidential sales of products containing the patented technology will no longer mark the beginning of the 1 year period to file the patent.

## New Procedures for Patent Application and Patent Prosecution

1. "First-to-File" Replaces "First-to-Invent"
2. Prior Art Submissions by Third Parties Now Permitted
3. Patent Applications for Tax Strategies are Now Deemed Within the Prior Art
4. New Procedure for Prioritized Examination
5. Applicant May Now File Statement in Lieu of Inventor's Oath
6. Best Mode Requirement Effectively Eliminated
7. Derivation Proceedings Replace Interference Procedure for Determining First to Invent

The principal changes in the new patent application process are as follows:

Number One. Under the former first-to-invent system, the first party to invent was generally entitled to receive a patent, even if any other party filed a patent application before the first party to invent. Under the new amendments, the first inventor to file a patent application will generally be entitled to the patent, even if that inventor was not the first party to invent. Since most other countries have a first-to-file patent system, the new amendments will bring the U.S. into conformity with the rest of the world.

Number Two. Under the former law, third parties had very limited input into the application process for a given patent. Under the new law, any third party may submit prior art for consideration.

Number Three. Under the former law, patent applications for tax strategies for lowering or reducing tax liability were eligible subject matter for patent protection. The new law prevents patent applications for these inventions.

Number Four. Patent applications may apply for prioritized

examination in order to provide for a final disposition within 12 months of prioritized status being granted.

Number Five. Under the prior law, applicants were required to provide a declaration of each inventor stating that he believed himself to be the original and first inventor. Under the new law, where the inventor is deceased, legally incapacitated, cannot be found after diligent effort, or is under obligation to assign the invention but has refused to do so, the applicant may submit a substitute statement explaining why a declaration by the inventor cannot be submitted.

Number Six. The new law effectively eliminates the best mode requirement by removing the patentee's failure to disclose the best mode as a defense to an infringement claim based on the asserted invalidity of the patent.

Number Seven. Under the former law, patent applicants could initiate an interference proceeding to determine the "first to invent" between another co-pending application and a patent issued within one year of the proceeding. Since the new law has eliminated the "first to invent" system, the interference proceeding is replaced by a new derivation procedure to ensure that the applicant is the rightful inventor.

## New Post-Grant Procedures for Issued Patents

- Inter Partes Review Replaces Inter Partes Reexamination
- Post-Grant Review Proceeding
- Supplemental Examination
- Transitional Program for Business-Method Patents
- Patent Marking

The recent amendments introduce the following new procedures for issued patents.

One. Under the former law, parties could challenge the validity of a patent through an inter partes reexamination procedure. Under the new procedure, called “Inter Partes Review,” a person who is not the patent owner may file a petition challenging a patent grant and requesting inter partes review up to nine months after a patent issues or reissues, or at the conclusion of any post-grant review, whichever occurs later.

Two. The new law creates a proceeding called “post-grant review,” enabling third parties to challenge the validity or scope of an issued patent. The new procedure grants broader review rights to challengers. The challenger can also introduce any evidence of unpatentability, and is not limited solely to prior art patents and printed publications.

Three. The new law allows a patentee to submit information after the patent has issued that is potentially relevant to the validity of a patent. The U.S. Patent and Trademark Office will then conduct a supplemental examination to determine whether this information raises substantial question of patentability. This will apply where the applicant inadvertently or mistakenly failed to cite prior art to

the Patent Office during the initial examination. If the Patent Office does not find a substantial question of patentability, the enforceability of the patent cannot be challenged in subsequent litigation based on the applicant's inadvertence or mistake. If a substantial question is found, a reexamination is automatically ordered. However, this provision is not available where litigation with respect to the patent has already been instituted.

Four. The new law introduces a separate post-grant proceeding to allow for review of the validity of any business method patent.

Five. The new law provides for "virtual" patent marketing by allowing a manufacturer to write the word "PATENT" on a product with a reference to an Internet website that the public can access to learn more about the specific patent.

## Expanded and Exclusive Jurisdiction of Patent Trial and Appeal Board

- Exclusive Jurisdiction Now Includes Every Application and Issued Patent Involving:
  - Inter Partes Review
  - Post-Grant Review
  - Newly Established Review of Business Method Patents
  - Derivation Proceedings

The newly established Patent Trial and Appeal Board has expanded jurisdiction to hear not only patent appeals but also contested matters such as Inter Partes Review, Post-Grant Review, the transitional program for covered business method patents, and Derivation Proceedings. The Board now has exclusive jurisdiction within the Patent Office over every application and issued patent that is involved in any of these proceedings.

## New Patent Law Limits Appeal of Decisions by Patent Trial And Appeal Board

- Prior Law Permitted Election Between Appeal to U.S. Court of Appeals or Civil Action in Federal District Court to Obtain a Patent
- New Law Restricts Appeal of Inter Partes and Post-Grant Reviews and Ex Parte Reexamination Proceedings to U.S. Court of Appeals; but
- New Law Retains Right to Bring Action in Federal District Court in Limited Circumstances

Under the new law, decisions of the Patent Trial and Appeal Board concerning inter partes and post-grant reviews and ex parte reexamination proceedings may be appealed only to the U.S. Court of Appeals for the Federal Circuit. The prior law permitted an election between an appeal to U.S. Court of Appeals for the Federal Circuit or a civil action in Federal District Court to obtain a patent. The Federal District Court, you will recall, is a court of first instance, where there is an opportunity to introduce new evidence and raise new issues. The new law, however, restricts an appeal of inter partes reviews, post-grant reviews and ex parte reexamination proceedings to U.S. Court of Appeals, where the record is limited to evidence previously introduced, and where issues and arguments not raised at the Patent Trial and Appeal Board cannot be raised for the first time. The new law, however, retains right to bring an action in the Federal District Court in limited circumstances



## Certain Board Decisions Remain Subject to Review by Action in Federal District Court

- Patent applicant dissatisfied with decision by Patent Trial and Appeal Board on final rejection of patent application, unless the applicant has appealed to the U.S. Court of Appeals for the Federal Circuit
- In a derivation proceeding where the losing party initially filed a notice of appeal from the Patent Trial and Appeal Board to the Federal Circuit
- Party Dissatisfied with decision in interference proceeding may sue in Federal District Court unless party has appealed to the Federal Circuit.

Despite the expanded and exclusive jurisdiction of the U.S. Court of Appeals for the Federal Circuit, a civil action against the USPTO in the US District Court for the Eastern District of Virginia (Eastern District of Virginia) may nevertheless be instituted after a final decision by the Patent Trial and Appeal Board in certain circumstances. These include:

First, where a patent applicant is dissatisfied with a PTAB decision concerning the final rejection of the patent application, unless the applicant has appealed to the Federal Circuit.

Second, in a derivation proceeding where the losing party initially filed a notice of appeal from the Patent Trial and Appeal Board to the Federal Circuit, the adverse party may request that further proceedings instead be conducted in the U.S. District Court for the Eastern District of Virginia

Third, where a party is dissatisfied with the decision in an interference proceeding over which the Patent Trial and Appeal Board has jurisdiction, that party bring an action in the Federal District Court unless that party has appealed to the Federal Circuit.

## Effect of New Patent Law on Patent Litigation and Licensing

- Expanded Defenses to Infringement
- Changes in Rules Relation to Joinder of Parties in Infringement Cases
- Failure to Seek Advice of Counsel in Infringement Cases No Longer Proof of Willful Infringement
- Elimination of Patent Marking Lawsuits

In addition to all of the above, the new patent law significantly amends the procedures for patent litigation and licensing.

One. The new law expands the “prior user” defense to a patent infringement claim, which previously was available only in business method patent cases. The defense will now prohibit patent infringement claims regarding any technology against parties who can show that they acted in good faith; that they actually reduced the subject matter of a patented invention to practice at least one year before the patentee filed its patent application; and that they commercially used that subject matter before the patentee filed its patent application.

Two. The law now limits the joinder of parties in patent infringement lawsuits.

Three. Under the new law, the failure of a defendant in a patent infringement lawsuit to obtain the advice of counsel cannot be used to prove that the defendant willfully infringed the patent.

Four. The new law eliminates false marking lawsuits except for cases filed by the U.S. government or filed by a competitor who can prove competitive

injury. Two of these changes, the joinder of parties in infringement cases, and the elimination of false marking lawsuits, warrant special attention.

## Joinder of Parties Under New U.S. Patent Law

- Only related parties may be joined in a single lawsuit, e.g., multiple manufacturers, distributors or resellers of an identical product.
- Allows defendants greater ability to transfer case to a more desirable venue, thereby avoiding plaintiff-friendly courts

The new patent law limits the joinder of parties in patent infringement lawsuits. For suits filed on or after the date of enactment, a plaintiff will only be able to join related parties in a single suit – for example, multiple manufacturers, distributors, or resellers of an identical product. Cases against unrelated parties may still be consolidated for purposes of discovery. However, the requirement of separate suits will allow defendants a much greater ability to seek transfer to an appropriate venue. This is a real benefit to parties who wish to avoid plaintiff-friendly districts, such as the Eastern District of Texas, and who want a better chance to be able to transfer a lawsuit to a more desirable location.

## False Patent Marking Lawsuits

- No More “Qui Tam” Lawsuits
- Plaintiff Must Now Establish True Competitive Injury

The new patent law retroactively limits false patent marking lawsuits except for cases filed by the U.S. government or filed by a competitor who can prove competitive injury. The false marking statute previously contained a so-called “qui tam” provision allowing “any person” to sue for false marking. The term “qui tam” refers to a law that enables a private individual who assists in a criminal prosecution to receive all or part of any penalty imposed. Under a recent decision by the U.S. Court of Appeals for the Federal Circuit, a “qui tam” plaintiff was permitted to seek up to \$500 per falsely-marked item in civil penalties, which resulted in a proliferation of false marking statutes. The new law effectively puts an end to such lawsuits, leaving only those where a true competitive injury can be proven due to the false marking, or those that are brought the U.S. government.

## Article III – United States Courts

- **U.S. Supreme Court**
- **U.S. Courts of Appeals**
  - 12 Regional Circuits
  - U.S. Court of Appeals for the Federal Circuit
- **U.S. District Courts**
  - 94 Territorial Districts
  - De Novo Review of Trademark Registration and Some Patent Issuance Cases
  - Jurisdiction Over All Patent, Trademark and Copyright Infringement Cases

The founders of the U.S. Constitution had a single court in mind when they drafted Article III of the Constitution. However, the lower courts were established by one of the first acts of Congress. Today Supreme Court consists of the Chief Justice of the United States and eight associate justices. At its discretion, and within certain guidelines established by Congress, the Supreme Court each year hears a limited number of the cases that it is asked to decide. Those cases may begin in the federal or state courts, and they usually involve questions about the Constitution or federal law. Unlike the Russian Federation, we have no specialized court for constitutional issues or commercial claims.

The territory of the territory of the United States is currently divided into 94 U.S. judicial districts which are organized into 13 circuits, each of which has a United States Court of Appeals. The Federal District Courts in these 94 district are courts of “first instance” or “trial courts.” A court of appeals in each circuit hears appeals from the district courts located in that circuit. We call these the “U.S. Courts of Appeal,” and sometimes the “U.S. Circuit Courts.” The terms are synonymous.

Twelve of the thirteen Judicial Circuits are regional. For example, the Second Circuit includes New York, and the Ninth Circuit includes California. The thirteenth Circuit Court is the United States Court of Appeals for the Federal Circuit. The Federal Circuit, unlike the other Circuit Courts, is a court of special jurisdiction

and has nationwide jurisdiction to hear appeals in specialized cases, including but not limited to cases involving patent infringement claims, appeals of final orders by the Trademark and Patent Trial and Appeal Boards, and cases decided by the Court of International Trade.

The District Courts are courts of general jurisdiction, although each of them has a unit exclusively devoted to bankruptcy cases. The bankruptcy courts while specialized, are technically not courts of special jurisdiction, but specialized units within each of the district courts.



## U.S. Courts of Special Jurisdiction

- U.S. Appellate Courts
  - **U.S. Court of Appeals for the Federal Circuit**
  - U.S. Court of Appeals for the Armed Forces
  - U.S. Court of Appeals for Veterans Claims
- U.S. District Courts
  - U.S. Court of International Trade
  - U.S. Court of Federal Claims
  - U.S. Tax Court
  - Judicial Panel on Multidistrict Litigation
  - Foreign Intelligence Surveillance Court

The United States Courts have other courts of special jurisdiction, which are listed on this slide for purposes of context, but the only one of interest to most intellectual property practitioners is the U.S. Court of Appeals for the Federal Circuit. The U.S. Court of Appeals for the Federal Circuit is unique among the thirteen Circuit Courts, as it has nationwide jurisdiction in a variety of subject areas, including but not limited to questions of patent and trademark registration as well as exclusive jurisdiction over appeals from District Court decisions involving patent infringement claims. Notably, the Federal Circuit does not have jurisdiction over review of trademark infringement cases, or any other intellectual property infringement cases with the exception of patent infringement.

Besides the U.S. Court of Appeals for the Federal Circuit, the only U.S. court of special jurisdiction relating to intellectual property is the U.S. Court of International Trade, which has nationwide jurisdiction to hear cases arising out of actions by intellectual property owners seeking to enforce the U.S. International Trade Laws.

## U.S. Court of International Trade

- Specialized Court with Nationwide Jurisdiction
- Adjudicates cases arising out of U.S. International Trade Laws
- Hearings in Foreign Nations
- Residual Authority to Decide any Civil Action Against the United States.

The United States Court of International Trade is another Article III Court with Special Jurisdiction and nationwide jurisdiction over civil actions arising out of the customs and international trade laws of the United States. The court is authorized to hold hearings in foreign countries. In addition to certain specified types of subject matter jurisdiction, the court has a residual grant of exclusive jurisdiction to decide any civil action against the United States, its officers, or its agencies arising out of any law pertaining to international trade.

## International Trade Commission

- Independent, Quasi-Judicial Agency
- Successful Action Results in Exclusion of Infringing Imports
- Elements of Action
  1. Infringement of IP Right or Unfair Competition
  2. Importation, Sale For Importation, or Sale After Importation
  3. Domestic Industry Relating to Accused Product
- Damages Not Available

In addition to the United States District Court and the administrative trial and appeal boards at the U.S. Patent and Trademark Office, there is another specialized venue for intellectual property infringement originating from outside the United States. While the International Trade Commission has specialized jurisdiction, it is not a court, technically, but an independent, quasi-judicial Federal agency established by Congress with broad investigative responsibilities on matters of trade. Among its other responsibilities, the Commission adjudicates cases involving imports that allegedly infringe intellectual property rights. These are known as “Section 337” actions, named after the relevant provision of the United States Tariff Act. A successful Section 337 action results in the exclusion of the infringing goods from being imported into the United States.

To prove a violation of Section 337, a complainant must establish (1) intellectual property infringement or other unfair competition; (2) importation, sale for importation, or sale after importation into the United States of the accused products, and (3) the existence of a domestic industry relating to the product in question. In an investigation in which the alleged unfair act is not the infringement of a U.S. patent, registered trademark, registered copyright, or registered mask work, a complainant also must prove injury from the alleged unfair act.

Damages are unavailable in an action at the International Trade

Commission. To obtain damages resulting from an infringing import, a complainant would have to file a separate action in a U.S. District Court.

## Limitations on Jurisdiction of Federal Court

- Actual Case or Controversy
- Standing
- Subject Matter Jurisdiction
- Mootness

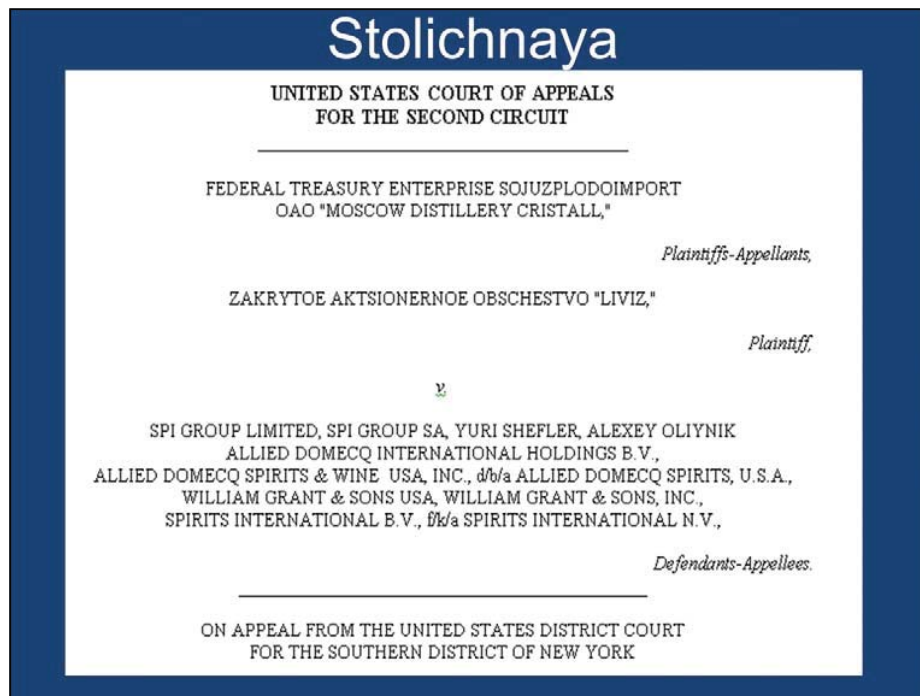
All of this brings us back to the basic limitations on the power of the United States Courts and administrative adjudicative tribunals, including the trial and appeal boards at the U.S. Patent and Trademark Office. Before a federal court or administrative tribunal can hear a case, i.e., "exercise its jurisdiction," certain conditions must be met. First, under the Constitution, federal courts exercise only "judicial" powers. This means that federal judges may interpret the law only through the resolution of actual legal disputes, referred to in Article III of the Constitution as "Cases or Controversies." A court cannot attempt to correct a problem on its own initiative, or to answer a hypothetical legal question.

Second, assuming there is an actual case or controversy, the plaintiff in a federal lawsuit or administrative action also must have legal "standing" to ask the court for a decision. That means the plaintiff must have been aggrieved, or legally harmed in some way, by the defendant. The slogan used for this requirement is "injury in fact."

Third, the case must present a category of dispute that the law in question was designed to address, and it must be a complaint that the court has the power to remedy. In other words, the court must be authorized, under the Constitution or a federal law, to hear the case and grant appropriate relief to the plaintiff. This is called "Subject Matter Jurisdiction."

Finally, the case cannot be "moot," that is, it must present an ongoing problem for the court to resolve. For example, an action seeking an injunction against a trademark infringement that has already terminated is moot, although an action for damages incurred by reason of past infringement is not.

In short, the federal courts are courts of "limited" jurisdiction because they may only decide certain types of cases as provided by Congress or as identified in the Constitution.



Finally, I want to say a word about the most interesting intellectual property case currently pending in the United States, and the most important one from the perspective of the Russian Federation, namely, the battle over ownership of the STOLICHNAYA trademark, one of the oldest and most famous commercial assets of the Russian State. Without incriminating myself, I can personally testify that STOLICHNAYA is a famous trademark, and based on the time that I lived in the Soviet Union as a college student and 24 years of experience as a trademark owner, I can tell you my own opinion that if there was ever a trademark, anywhere, any time, that belonged to an entire people, it was the STOLICHNAYA trademark.

The STOLICHNAYA case has a long history, but in a nutshell, a trademark infringement complaint was brought in 2004 before the U.S. District Court for the Southern District of New York. The complaint was dismissed by the District Court on the grounds that the trademark registration, being more than five years old, was “incontestable,” and that ownership of the registration could therefore not be disputed. Well, of course, the fact that a trademark registration is incontestable does not mean that it can be stolen, and the United States Court of Appeals for the Second Circuit agreed, and sent the case back down to the District Court for a trial on the merits.

The District Court, however, dismissed the case a second time, this



time on the grounds that the Government of the Russian Federation, as the owner of the trademark, was not before the Court. The District Court held that the plaintiff, the federal treasury enterprise Sojuzplodoimport, was not an “assignee” or “legal representative” of the Russian Federation within the meaning of the U.S. Trademark Law. The District Court therefore ruled that the plaintiff lacked “standing” to bring the complaint. The case is now back on appeal to the U.S. Court of Appeals for the Second Circuit, and a decision is expected soon.

In the interest of full disclosure, I have to say that my law firm has filed an “amicus” brief at the Court of Appeals on behalf of the Institute of Legislation and Comparative Law of the Russian Federation in this case. Our position in the case is that the District Court, in finding that the plaintiff lacked exclusive rights in the trademark, erred in failing to investigate the meaning of “operative administration” under Russian Law, and violated principles of international law in refusing to recognize the juridical status of the plaintiff as the “assignee” and “legal representative” of the Russian Federation for all purposes material to the ownership, protection and enforcement of a trademark held by the plaintiff under the right of operative administration. This case is of tremendous importance to the Russian Federation, because if the plaintiff is excluded from access to the United States Court because its interest in Russian state property is not sufficiently exclusive to result in “standing,” then an entire class of Russian unitary enterprises with similar interests in State property under the right of operative administrative will be similarly excluded from the United States courts in the future.

## Dictionary Definition of “Zakreplyat’”

закреплять [*zakreplyat'*]

несовер. - закреплять; совер. - закрепить (что-л. ) 1) fasten, strengthen, fortify, secure; consolidate перен. 2) (за кем-л./чем-л.) assign (to), set aside (for) закреплять за собой 3) фото fix, закрепить 1. (вн.) secure (smth.) , fasten (smth.) , fix (smth.) ; 2. (вн. за тв. ; обеспечивать права на кого-л. , что-л. ) attach ( smb. to); assign ( smth. to); 3. (вн.; упрочивать) consolidate (smth.) ; воен. тж. reinforce (smth.) ; ~ победу consolidate a victory; ~ успех consolidate a success; follow up a success; 4. (вн.) фото fix (smth.) ; 5. (вн.; желудок) steady (smth.) , bind\* (smth.) ; ~ся, закрепиться 6. (принимать устойчивое положение) hold\* firm; 7. (упрочиваться) take\* root; 8. воен. mount defences, dig\* in; ~ся на захваченной позиции consolidate the position.<sup>16</sup>

One of the basic questions in the STOLICHNAYA case is whether the plaintiff, a federal treasury enterprises, is the “assignee” of the STOLICHNAYA trademarks within the meaning of the U.S. trademark law. If the answer is yes, then the plaintiff deserves to have its complaint adjudicated by the United States District Court. Well, if you look at the Russian law, you’ll see that the Russian word used in Articles 115(4) and 296 of the Russian Civil Code to describe the transfer of state property under the right of operative administration is *zakreplyat’*. According to all the dictionaries that I consulted, including the one illustrated in this slide, one of the meanings of the word *zakreplyat’* is to “assign” something. It seems fair to me, then, indeed mandatory, to conclude that an asset transferred to a unitary enterprise under the right of operative administration has been “assigned” within the meaning of any reasonable definition of the word “assign” in English. In short, I am personally confident that the Court of Appeals will reverse the trial court’s decision, and if the Court of Appeals doesn’t reverse the District Court, then the Supreme Court will take the case and send it back the District Court for a trial on the merits.

# THANK YOU

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I'm grateful for your time and attention today, and available to answer any questions that you may have.

## APPENDIX

### LIMITATION ON POWERS OF THE JURY IN U.S. PATENT LITIGATION

- I. **Landmark U.S. Supreme Court Case: *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996)**
- **Summary:** The holder of a patent for an inventory control method used in the dry cleaning business brought a patent infringement action against its competitor. The U.S. District Court entered judgment as matter of law for the competitor, despite a jury's finding of infringement. The Court of Appeals for the Federal Circuit affirmed, ruling that the "construction," i.e., the interpretation, of the patent's claims was within the exclusive power of the court, not the jury.
  - **Holding:** The U.S. Supreme Court affirmed, holding that t: (1) patent infringement actions descended from "common-law" actions for damages in England, as opposed to "equitable" actions for injunctive reliefs that were historically heard by different English courts (the "Chancery" or "Courts of Equity"), and consequently, the Seventh Amendment to the U.S. Constitution guarantees the right of jury trial to the plaintiff; but (2) common-law practice at time Seventh Amendment was adopted in 1789 did not require the construction of claims, or terms of art, to be performed by a jury rather than a judge; and consequently (3) the legal interpretation of a patent, i.e., the "claim construction," including the terms of art within the claim, is exclusively within the power of the court, not the jury, in view of existing precedent, and considering the importance of uniformity in the treatment of a given patent.
- II. **Principal Decisions by U.S. Court of Appeals for the Federal Circuit Regarding So-Called "Markman Hearings" Determining the Separation of Powers between the Jury and the Judge**
- ***InPro II Licensing, S.A.R.L. v. T-Mobile USA, Inc.*, 450 F.3d 1350 (Fed. Cir. 1996)**
    - **Summary:** A patentee brought an action against its competitor, alleging infringement of its patent for a personal digital assistant (PDA) that could be "docked" by plugging it into a corresponding bay on a host computer. The United States District Court granted judgment of noninfringement in favor of the competitor, and the patentee appealed.
    - **Holding:** the Federal Circuit affirmed, holding that (1) the term "host interface" in the patent meant "a direct parallel bus interface," as embodied in the specification, and (2) the District Court did not abuse its discretion when it refused to receive expert testimony and extrinsic evidence relevant to construction of the patent's claim.
  - ***Q2 Micro International Limited v. Beyond Innovation Technology Co., Ltd.*, 521 F.3d 1351 (Fed. Cir. 2008)**
    - **Summary:** The owner of patents relating to inverter controllers, which convert low voltage direct current (DC) into higher voltage alternating current (AC), brought an infringement action against its competitors. The United States District Court granted a permanent injunction to the patent owner and the competitors appealed.
    - **Holding:** the Federal Circuit vacated and remanded the case to the District Court for further proceedings, holding that (1) the competitors did

not waive on appeal any objection to the claim construction determined at the *Markman* hearing; and (2) arguments regarding the meaning and legal significance of “only if” limitation were improperly submitted to the jury.

***Every Penny Counts, Inc. v. American Express Co.*, 563 F.3d 1378 (Fed. Cir. 2009)**

- **Summary:** A patent holder for five patents describing an automatic method of donating excess cash from retail sales transactions into predetermined charities or savings accounts brought two separate patent infringement suits against sellers of open gift cards that could be used instead of cash to complete transactions in multiple retail locations and sellers of closed gift cards that were required to be used with one specified retailer. Following a joint *Markman* hearing, the United States District Court adopted the open gift card defendants' proposed construction of the terms in the patent claims terms and rejected the plaintiff's infringement claims.
- **Holding:** the Federal Circuit affirmed, holding that the patent term “excess cash payment” meant the amount selected by the payor beyond the total amount due at the point of sale.