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PATENTS

Patent Litigation Issues to Watch in 2017



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In 2016, the U.S. Supreme Court continued its recent interest in patent cases. The cumulative effect of recent decisions, along with new cases that will be heard in 2017, will continue to change how both parties and attorneys conduct patent matters.

Venue for Patent Lawsuits

In 2017, the Supreme Court will hear *TC Heartland LLC v. Kraft Food Brands Group LLC* (No. 16-341), a case that could dramatically limit where patentees may sue accused infringers. In *TC Heartland*, the Court will decide whether patent owners may continue to sue accused infringers in any district where there is personal jurisdiction over the defendant, or only where defendants are incorporated or have a regular and established place of business.

The question presented is “[w]hether 28 U.S.C. § 1400(b) is the sole and exclusive provision governing venue in patent infringement actions and is not to be supplemented by 28 U.S.C. § 1391(c).” Section 1400(b) states that “[a]ny civil action for patent infringement

may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.” Alone, the plain language limits venue to the place where the defendant resides—typically where a corporation is incorporated—or has a regular and established place of business and has committed acts of infringement.

In 1990, however, the U.S. Court of Appeals for the Federal Circuit found that Section 1400(b) should be interpreted in light of Section 1391(c), which states that “[a] corporation may be sued in any judicial district in which it is incorporated or licensed to do business or is doing business, and such judicial district shall be regarded as the residence of such corporation for venue purposes.” (*VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 16 U.S.P.Q.2d 1614 (Fed. Cir. 1990).) By reading in a more expansive definition of the word “resides,” the Federal Circuit construed Section 1400(b) to permit venue wherever a defendant is subject to personal jurisdiction. For a defendant who sells products nationwide, this has meant potential patent litigation in almost any district.

TC Heartland could significantly alter venue rules and curtail patent litigation in certain districts. For example, approximately 44 percent of patent cases filed in 2015 were filed in the U.S. District Court for the Eastern District of Texas, a favorite venue for patent owners. (Brief of *Amici Curiae* 56 Professors of Law and Economics in Support of Petition for Writ of Certiorari, No. 16-341 (U.S. Oct. 17, 2016).) New venue restrictions

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could reduce litigation in Texas and other popular districts, and might even reduce the volume of new cases brought overall.

Trends at the PTAB

The Patent Trial and Appeal Board continues to be one of the top forums for patent disputes, including *in partes* review (IPR), covered business method review (CBM) and post-grant review (PGR). PTAB statistics for fiscal year 2016 show that challengers filed slightly fewer total petitions at the PTAB, with 1,565 IPR petitions compared to 1,737 in FY 2015. (Patent Trial and Appeal Board Statistics 9/30/2016, available at https://www.uspto.gov/sites/default/files/documents/aia_statistics_september2016A.pdf.) However, the number of PGR petitions has increased over the prior year (from 11 to 24), and the number of IPRs is still substantially higher than the 1,310 total filed in FY 2014 (*Id.*).

While the rate of petition filings slowed slightly last year, the volume of patent challenges remains high. In FY 2016, 55 percent of all petitions involved electrical or computer technologies, while chemical and bio/pharma challenges collectively accounted for only 20 percent of filings. Cumulatively, 5,811 petitions, enabled by the America Invents Act of 2011, have been filed since they first became available on Sept. 16, 2012. Because PTAB challenges remain relatively inexpensive compared to district court litigation and do not place potential infringement at issue, we expect challengers to continue filing large numbers of petitions in 2017.

Meanwhile, the PTAB has continued to adjust its practice rules. On May 2, 2016, new rules took effect, including (a) allowing patent owners to submit testimonial evidence with their preliminary responses, (b) permitting “Phillips-style” claim construction for patents expiring soon, (c) imposing “Rule 11” certification requirements and (d) replacing page limits with word counts. Of 799 patent owner preliminary responses filed since the rule changes, 271 (or about one-third) have included expert declarations. Depending on the PTAB’s institution decisions in those cases, patent owners may continue to file early expert declarations. On Oct. 18, 2016, the PTAB announced a new proposed rule to extend privilege to client communications with patent agents. (See 81 Fed. Reg. 71,653 (Oct. 18, 2016).) The coming year may see additional rule changes and corresponding adjustments by petitioners and patent owners.

Patentable Subject Matter

Following the Supreme Court’s decisions in *Bilski v. Kappos* (561 U.S. 593, 2010 BL 146286, 95 U.S.P.Q.2d 1001 (2010)) and *Alice Corp. Pty Ltd. v. CLS Bank Int’l* (134 S. Ct. 2347, 2014 BL 170103, 110 U.S.P.Q.2d 1976 (2014)), the scope of patentable subject matter under 35 U.S.C. § 101 remains a moving target and will again be an issue to watch in 2017. Courts have generally continued to invalidate claims based on software or computer implementations as unpatentable abstract ideas, through early motions to dismiss or for summary judgment.

However, in 2016 the Federal Circuit issued a handful of decisions that confirmed the patentability of challenged claims. (See *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 118 U.S.P.Q.2d 1684 (Fed. Cir. 2016); *Bascom Global Internet Servs. v. AT&T Mobility LLC*, 827 F.3d 1341, 119 U.S.P.Q.2d 1236 (Fed. Cir. 2016);

Amdocs (Isr.) Ltd. v. Openet Telecom, Inc., 841 F.3d 1288, 120 U.S.P.Q.2d 1527 (Fed. Cir. 2016).) For example, in *Bascom*, the court held that claims to an internet content filtering system were subject matter-eligible, explaining that “[t]he inventive concept inquiry requires more than recognizing that each claim element, by itself, was known in the art.” (827 F.3d at 1348.) In the coming year, patent owners may have more arguments for preserving their claims under Section 101, which may spark increased litigation.

Additionally, the Patent and Trademark Office recently held two public roundtables on patentable subject matter on Nov. 14 and Dec. 5. (See 81 Fed. Reg. 71485 (Oct. 17, 2016).) In 2015 and 2016, the PTO updated its guidance and training examples for Section 101, and could do so again in 2017 in response to public feedback.

Pre-Litigation Conduct

In April 2014, the Supreme Court issued a pair of decisions in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.* (134 S. Ct. 1749, 2014 BL 118431, 110 U.S.P.Q.2d 1337 (2014)) and *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.* (134 S. Ct. 1744, 2014 BL 118430, 110 U.S.P.Q.2d 1343 (2014)) that overturned the long-standing rule for determining whether to award reasonable attorney’s fees in exceptional cases under 35 U.S.C. § 285. Finding that the prior standard was “unduly rigid,” the Supreme Court explained that judges should have broad discretion in determining when the exceptional case “stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.” (*Octane Fitness*, 134 S. Ct. at 1756.) As a result, litigants and courts alike became more sensitive to conduct during litigation—both in maintaining claims and using aggressive tactics.

The rationale of the *Octane Fitness* decision paved the way for the Supreme Court’s decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.* (136 S. Ct. 1923, 118 U.S.P.Q.2d 1761, 2016 BL 187307 (2016).) Here, the Supreme Court took issue with the “unduly rigid” *In re Seagate Tech. LLC* (497 F.3d 1360, 2007 BL 83845, 83 U.S.P.Q.2d 1865 (Fed. Cir. 2007) (en banc)) test for willful infringement that, in practice, enabled accused infringers to rely on defenses developed during litigation to defend against a charge of willfulness. The conduct of an accused infringer at the time of the infringing activity was less pertinent, and defenses like an advice of counsel defense were rare. Today, the focus of a willfulness inquiry has shifted back to the time of the infringing conduct and willful infringement allegations are likely to become more prevalent.

While stressing that enhanced damages should be limited to the “egregious cases of misconduct beyond typical infringement,” the Supreme Court did not give specific or clear guidelines. Instead, it referred to the “sound legal principles developed over two centuries of application and interpretation of the Patent Act” when exercising discretion to award enhanced damages. (*Id.* at 1934–35 (internal quotation marks and citation omitted).)

To a party that is faced with willful infringement issues today, there is little specific guidance as to how to act, including, *e.g.*, in what circumstances an advice of counsel defense should be sought.

Defensive Patent Licensing

In 2016, companies continued to collaborate to curb patent lawsuits from non-practicing entities (NPEs), with hundreds of corporations joining patent aggregators, making patent pledges and purchasing NPE insurance. (Marta Belcher & John Casey, *Hacking the Patent System: A Guide to Alternative Patent Licensing for Innovators* (Jan. 2016).)

Defensive patent aggregators are membership organizations that use pooled resources to purchase patents that may have otherwise been purchased by others and in some cases to offer insurance for NPE litigation. By way of example, membership in one such organization, Unified Patents, grew from around 90 members at the end of 2015 to 140 members by the end of 2016.

Companies have also continued to make patent pledges—public commitments to license their patents in a particular way. By opting into the License on Transfer (LOT) Network, for example, participants agree to li-

cense their patents to all other members of the network if the patent is transferred to a third party. In 2016, LOT nearly doubled its membership, gaining 47 new members and bringing the total membership to nearly 100 companies that have dedicated nearly 600,000 patents.

The number of institutions participating in patent aggregators and pledges will likely continue to rise in 2017.

International Exhaustion

On Dec. 2, the Supreme Court granted certiorari in *Impression Products, Inc. v. Lexmark International, Inc.* (No. 15-1189) to address patent exhaustion, both domestic and international. With briefing and argument likely proceeding in the spring, 2017 will probably bring Supreme Court guidance on whether conditional sales with post-sale restrictions can avoid exhaustion, which could significantly affect patent licensing policies.