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How to **Shift** Your Litigation **Strategies** For the **New IP Landscape**

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The year 2016 and the last few months of 2017 have been characterized by many notable developments in a busy U.S. Supreme Court and Court of Appeals for the Federal Circuit, causing sea changes in intellectual property law that shift litigation strategies more than ever. While the changes have been far reaching, this article will focus on those which most impact litigation strategies, such as venue, laches, patent exhaustion, patent damages, and extraterritoriality, and provide practical suggestions for strategies to employ, along with real-world examples of successful approaches to navigate this new landscape.

Limitation of Patent Venue

In a bid to address forum shopping by patentees, on May 22, 2017, the Supreme Court in *TC Heartland v. Kraft Food Brands Group* limited where patentees can commence patent infringement proceedings. TC Heartland, an Indiana-based company sued by Kraft Foods, an Illinois-based company, in Delaware, argued for transfer to its home base of Indiana. The lower courts refused to transfer the case to Indiana and, last year, the Federal Circuit held that patent suits can be filed in any district where the defendant makes a sale. The Supreme Court overturned the Federal Circuit and held that patent infringement lawsuits can only be filed in the district within the state where the defendant is incorporated, or the district where it has committed acts of infringement and has a "regular and established place of place of business."

TC Heartland seems to favor bringing suits where defendants are located. The biggest effect of this decision will be in the Eastern District of Texas, where more than 40 percent of patent lawsuits were filed last year due to patentee-friendly juries and local rules which allow for fast trials. On the other hand, Delaware, where a substantial number of businesses are incorporated, and the Northern District of California, where many

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technology companies targeted with patent litigation are based, will likely see an increase in patent case filings. Thus, defendants unhappy about finding themselves in Texas could try to move the case to their place of incorporation. Conversely, this ruling also presents an opportunity for plaintiffs and courts in Texas to address what "regular and established place of business" means, and to try to construe that phrase favorably to keep cases in Texas.

Judge Rodney Gilstrap of the Eastern District of Texas wasted no time in interpreting the Supreme Court's ruling by denying defendant's motion to transfer for improper venue in *Raytheon Company v. Cray*. On June 29, Judge Gilstrap found that the employment of a sales representative within the Eastern District of Texas was sufficient to provide for a "regular and established place of business." In finding venue to be proper, the court held that defendant's representations regarding its business in the district, benefits received from the district, and targeted interactions within the district were sufficient to satisfy the four-factor approach it employed.

Expansion of Patent Exhaustion Doctrine

The long-standing doctrine of patent exhaustion provided that the initial authorized sale of a patented item terminates all subsequent patent rights to that item, including any rights to assert infringement. On May 30, 2017, in *Impression Products v. Lexmark International*, the Supreme Court addressed: (1) whether a "conditional sale" that transfers title to the patented item while specifying post-sale restrictions on the article's use or resale avoids application of the patent exhaustion doctrine; and (2) whether the exhaustion doctrine applies to authorized sales of a patented article that take place outside of the United States. In expanding the doctrine, the court held that "a patentee's decision to sell a product exhausts all of its patent rights in that item, regardless of any restrictions the patentee purports to impose" on the resale of that item. The court noted that "[p]atent exhaustion reflects the principle that, when an item passes into commerce, it should not be shaded by a legal cloud on title as it moves through the marketplace." The court also concluded that "[a]n authorized sale outside the United States, just as one within the United States, exhausts all rights under the Patent Act." The court distinguished licenses from post-sale restriction noting, "[b]ecause the patentee is exchanging rights, not goods, it is free to relinquish only a portion of its bundle of patent protections."

> The **Supreme Court's recent trend** has been to discard long-standing judicial constructs interpreting the Patent Act, and following instead **common-law principles** more applicable to other areas of intellectual property law and civil litigation.

The court's ruling will impact a wide range of industries, both global and domestic, and many contractual relationships. Companies should creatively structure transactions as licenses rather than sales, to avoid exhaustion of patentee rights under *Impression*. The distinction will depend on the technology at issue. For example, products such as iPhones or cameras, which can be reused repeatedly, can be structured as use licenses as opposed to outright or restricted sales. On the other hand, that may not be feasible for products such as pharmaceuticals which, once consumed, cannot be reused in the same way. The decision also complicates the enforcement of patent rights, since any challenge will have to take into consideration the structure of a particular transaction and its real intent. While the court expanded the doctrine of patent exhaustion, it left many significant issues open to future interpretation.

Elimination of Laches as a Defense

The equitable doctrine of laches was available for decades as a defense to limit damages for past infringement that would otherwise be available under the Patent Act's six-year statutory limitations period for past damages under 35 U.S.C §286. Laches encouraged a patent owner to exercise its patent rights promptly upon learning of infringement, rather than waiting to sue until the defendant is prejudiced. In *SCA Hygiene v. First Quality*, the Supreme Court eliminated the availability of laches as a defense to the award of past damages for patent infringement.

Now that laches is no longer available as a defense, patent owners may hold off bringing suit until there are significant past damages available within the six-year statutory period, without concern that delay will potentially reduce their ability to collect past damages. It also enables patentees to place themselves in a stronger position in deciding when to bring suit, and to gain stronger settlement and litigation positions. Nevertheless, there are still some limitations of which patentees need to be aware. The court emphasized that equitable estoppel is still available to protect against

"unscrupulous patentees" who induce potential infringers to produce arguably infringing products and then pursue an infringement claim.

Patentees also must to be careful in not causing unnecessary delay, since doing so can result in lower damages. For example, each day of delay could result in loss of damages that accrued on that day but now fall outside the six-year limitation period due to the delay. Potential infringers, on the other hand, are now more susceptible to unexpected lawsuits even after extensive licensing communications. On the other hand, it also gives them more opportunity to consider declaratory judgment suits.

Limitations on Extraterritorial Reach Of U.S. Patent Laws

35 U.S.C. §271(f)(1) makes it an act of infringement to supply from the United States "all or a substantial portion of the components" of a patented invention so as to actively induce the combination of the components outside of the United States. Life Technologies supplied an enzyme from the United States to its U.K. subsidiary, which incorporated the enzyme into a diagnostic kit abroad, and was sold worldwide. The jury found infringement and awarded substantial damages. The judge reversed, holding that the "substantial portion" language of §271(f)(1) required that multiple components were shipped abroad. The Federal Circuit reversed, holding that the "substantial portion" language referred to importance, rather than quantity, and could be met by a single component—here, the enzyme.

On Feb. 22, 2017, in *Life Technologies v. Promega*, the Supreme Court reversed the Federal Circuit and held that there is no patent infringement when an entity supplies "a single component" from the United States for combination into "a multicomponent invention" outside the United States. The court left unresolved what percentage of components constitute a "substantial portion," though it did say that a single component cannot be a "substantial portion." The exact boundaries of §271(f)(1) are still to be determined. Until the lower courts weigh in on this question, suppliers will face uncertainty when they ship multiple components of a patented invention from the United States for assembly abroad. As a preemptive measure, limiting the number of components when drafting claims could be advantageous because the higher the number of components, the more uncertainty there is as to what constitutes a "substantial" portion.

Enhanced Damages for Infringement And Use of Opinions of Counsel

In June 2016, in *Halo Electronics v. Pulse Electronics*, the Supreme Court addressed the Federal Circuit's test for determining whether enhanced damages should be awarded for patent infringement under 25 U.S.C. §284. The court concluded that the prior Federal Circuit *Seagate* test was "unduly rigid, and impermissibly encumbers the statutory grant of discretion to the district courts." The court rejected the requirement for clear and convincing evidence of both objective recklessness on the part of the infringer, as well as subjective knowledge of the risk of infringement.

The court faulted the *Seagate* test for requiring a showing of "objective recklessness" at the time of litigation, which would absolve the accused infringer regardless of what they thought when they realized the patent was relevant to their products. The court also relaxed the evidentiary burden for proving willful infringement from clear and convincing evidence to a preponderance of the evidence. The court thus focused on the infringer's state of mind, and did not provide much weight as to the objective reasonability of the infringer's defenses.

Since the Supreme Court puts more emphasis on what defenses existed when an alleged infringer was confronted with a patent, companies may want to review their policies concerning replying to infringement letters and whether an opinion from outside patent counsel may be necessary. In particular, under *Halo*, companies will need to consider that where there was a pre-suit assertion of infringement, an opinion of counsel can be used as good evidence to show that a defendant's behavior was not willful or careless.

Conclusion

The Supreme Court's recent trend has been to discard long-standing judicial constructs interpreting the Patent Act, and following instead common-law principles more applicable to other areas of intellectual property law and civil litigation. Whether you are a plaintiff or defendant, you need to be cognizant of the impact of these decisions on your intellectual property litigation strategies.

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