WIGGIN AND DANA — *A Newsletter from the Intellectual Property Practice Group*

RECENT DEVELOPMENTS IN IP LAW

MARCH 2018

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The Year in Intellectual Property
A Look Back at the Key Developments of 2017 & a Look Ahead to 2018

Last year was an active year in intellectual property. There were many notable developments in 2017 by a busy United States Supreme Court and the Federal Circuit. The Supreme Court and Federal Circuit issued key rulings involving venue, laches, patent exhaustion, patent eligibility, patent damages, the Biologics Price Competition and Innovation Act, protection of design elements under Copyright Law, and prohibitions against disparaging, immoral and scandalous marks. As we look ahead in 2018, the jurisprudence in these areas will develop as the lower courts react to these key rulings. Furthermore, while the United States Patent Office's (USPTO) Patent Trial and Appeal Board continued to issue some key precedential decisions in 2017, changes in the leadership of the USPTO and the Supreme Court's review of the *inter partes* review process could lead to significant changes in using the USPTO as a venue for patent challenges. 2018 could also bring further changes in where patent cases are litigated following the Supreme Court's venue ruling and the increased use of the U.S. International Trade Commission as a forum.

2017 YEAR IN REVIEW

Laches Gone As A Patent Defense

In March 2017, in *SCA Hygiene Products Aktiebolah et al. v. First Quality Baby Products, LLC, Et al.,* 137 S.Ct. 954 (2017), the Supreme Court eliminated laches — an equitable doctrine barring suits after unreasonable delays — as a defense in patent cases. Laches had been a defense in patent cases for over 100 years, and was a good tool to limit damages when patentees knew of alleged infringement, but sat on their rights for years to pile up damages. However, the decision was not surprising, coming on the heels of the Supreme Court's decision two years ago, in *Petrella v. Metro-Goldwyn-Mayer, Inc.,* 134 S. Ct. 1962 (2014), to eliminate laches as a defense in copyright cases.

The *SCA Hygiene* Court held that "[b]y the logic of *Petrella,* we infer that [the patent statute of limitations] represents a judgment by Congress that a patentee may recover damages for any infringement committed within six years of the filing of the claim." The Court reasoned that a statute of limitations reflects Congress's decision to establish a hard-and-fast rule for timeliness instead of leaving it to a case-specific judicial determination. Were it otherwise, judges would have an unwarranted "legislation-overriding" role. The SCA decision is favorable to patent owners and may lead to larger damages in certain instances, while forcing companies who might be targeted with infringement claims to be wary of older patents.

The Court stressed that alleged infringers can still turn to equitable estoppel where a patentee intentionally misled an accused infringer into thinking it would not press its patent rights. However, equitable estoppel is a more difficult defense to prove. Unlike laches—which was presumed by the mere passage of time—an alleged infringer asserting equitable estoppel must prove that it knew of the patent and relied on the patentee's representations that the infringer was safe from suit. A post-SCA example finding equitable estoppel is *Deckers Outdoor Corporation v. Romeo & Juliette, Inc.,* 2017 WL 2588065, at *1 (C.D. Calif. June 13, 2017), where the court found estoppel when the patentee wrote a letter asserting infringement and never followed up for years "despite an ongoing and litigious relationship between" the parties. Before the patent lawsuit, the patentee had sued the defendant for other intellectual property claims on the same product and sued fifteen others as well, leading to a reasonable reliance by the defendant that the patentee had decided not to assert the patent-in-suit. Interestingly, the court noted that while laches was not a defense to past damages it could still preclude an injunction, a distinction worth following in future cases.

Patent Exhaustion Strengthened

In its most significant pronouncement on the patent exhaustion doctrine since *Quanta v. LG Electronics* 553 U.S. 617 (2008), the U.S. Supreme Court— in *Impression Products Int'l v. Lexmark Corp.* 581 U. S. ___ (2017)— reversed the Federal Circuit on the scope of both domestic and international patent exhaustion. The Supreme Court held that: (i) authorized sales of a patented product exhaust patent rights despite attempts by the patent owner to place restrictions on the patented product; and (ii) authorized sales, both within the United States and internationally, trigger the patent exhaustion doctrine.

The Court ruled that a seller or licensor may not contract around the patent exhaustion doctrine. The Court clearly stated: "We conclude 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 or the location of the sale" *Impression Products Int'l v. Lexmark Corp.* No. 15-1189 slip op. at 1. (S. Ct. May 30, 2017). The Court reasoned 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" *id.* at 11.

Patent exhaustion, a fundamental doctrine of patent law, stands for the proposition that once a patent owner sells a patented product or licenses the underlying patent, there is no statutory basis for the patent owner to impose restrictions or secure royalties on the subsequent use of the product. See *Adams v. Burke,* 84 U.S. 453, 456 (1873); *Bloomer v. McQuewan,* 55 U.S. 539, 549 (1852). The doctrine is intended to prevent a patentee from receiving a double royalty on a single instance of a patented invention.

Under the doctrine of patent exhaustion, also called "the First Sale Doctrine," "[a]n authorized sale of a patented product article exhausts the patent monopoly as to that particular article. Thus, a purchaser of the article from the patent owner, or one licensed by the patent owner, may use or resell the product free of control or conditions imposed by the patent owner." Donald S. Chisum, *Chisum on Patents* § 16.03[2][a] (5th ed. 2002); see also *Adams v. Burke,* 84 U.S. at 456; *United States v. Univis Lens Co.,* 316 U.S. 241 (1942); *Intel Corp. v. ULSI Sys. Tech., Inc.,* 995 F.2d 1566, 1568 (Fed. Cir. 1993) ("The law is well settled that an authorized sale of a patented product places that product beyond the reach of the patent. The patent owner's rights with respect to the product end with its sale.").

Patent exhaustion is particularly important for those engaged in patent licensing programs, since the decision to license to an upstream entity in a vertical supply chain may impact the ability to license to downstream entities. See, e.g., Patent Exhaustion Update: The Federal Circuit

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Allows Royalties from Different Entities in Supply Chain. A number of decisions have dealt with whether one may "contract around" the patent exhaustion doctrine by restricting the license grant or contractually restricting downstream uses.

In the prior *Quanta* case, the Supreme Court found that LG's infringement claims against its licensee's customers were barred by the doctrine of patent exhaustion: "The authorized sale of an article that substantially embodies a patent exhausts a patent holder's rights and prevents the patent holder from invoking patent law to control post-sale use of the article." *Quanta* at 617. But after *Quanta*, courts debated whether the patent owner could continue to place restrictions on the product and thereby prevent the patent exhaustion doctrine from being triggered. See *Mallinckrodt, Inc. v. Medipart, Inc.,* 976 F.2d 700, 703 (Fed. Cir. 1992).

In *Impression Products*, the Court resolved that debate, holding that "patent exhaustion is uniform and automatic. Once a patentee decides to sell—whether on its own or through a licensee—that sale exhausts its patent rights, regardless of any post-sale restrictions the patentee purports to impose, either directly or through the license." *Impression Products* at 11-12: "A patentee's authority to limit licenses does not, as the Federal Circuit thought, mean that patentees can use licenses to impose post-sale restrictions on purchasers that are enforceable through the patent laws. So long as a licensee complies with the license when selling an item, the patentee has, in effect, authorized the sale." The Court was careful to note that its decision does not preclude a patentee (or its licensee) from imposing and enforcing lawful restrictions on the use of patented items; such restrictions can be enforced through contract law, but not through the patent laws.

It remains the law that the extent of authorization may be narrowed. For example, a patentee can license only within a particular field of use and then pursue infringement in another field of use without raising the patent exhaustion doctrine. See *Gen. Talking Pictures Corp. v. W. Elec. Co.,* 304 U.S. 175, 181 (1938), *aff'd on reh'g,* 305 U.S. 124 (1938). This remains true even after *Impression Products*. Indeed, post-*Impression Products* decisions have continued to apply this rule. For example, in *Chrimar Systems, Inc. et al. v. Alcatel-Lucent Enterprise USA* No. 6:15-CV-163-JDL 2016 WL 1228767, at *1 (E.D. Tex. Mar. 28, 2016), the Court found that a contractual restriction in a license agreement prevented patent exhaustion because the restriction limited the scope of authorized sales rather than limiting the subsequent use of products after an authorized sale. Because the license limited the scope of customers that the licensee could sell to, sales outside that scope were unauthorized and therefore did not trigger patent exhaustion. As a result, the patent owner could sue the licensee's customers for patent infringement.

The other open question that the Court addressed was whether foreign sales of products covered by a U.S. patent could trigger patent exhaustion. The Supreme Court had recently addressed this question and found that foreign sales trigger exhaustion in the context of the copyright exhaustion doctrine in *Kirstaeng v. John Wiley & Sons, Inc.,* 568 U.S. 519 (2013), but it was unclear whether the answer for patent law was the same. The *Impression Products* decision made clear that exhaustion is a global doctrine, harmonizing copyright and patent law on this issue.

Some of the key practice pointers and takeaways from *Impression Products* include the following:

- This case and its progeny confirm that careful field-of-use licensing may be a viable technique to limit the authorization and therefore limit the application of patent exhaustion. However, other techniques seeking to "contract around" exhaustion will be carefully scrutinized. Those used in *Quanta* and now *Impression Products* were ineffective.
- Existing licenses—which may have included restrictions designed to counteract exhaustion—should be reviewed to consider the effect of *Impression Products*. Consideration should be given as to whether a valid contractual restriction can serve the patentee's intention or if any purported restriction will be trumped by exhaustion. Consideration should also be given to whether a field of use restriction or some other restriction can be placed on licensees or their customers and what notice or contract is needed to bind the downstream customers to the restriction.
- Finally, companies that offer products at lower prices outside the U.S. will have to consider the effect on their businesses if such foreign sales trigger exhaustion.

Patent Venue Narrowed

In a case that has profound impact on where patent litigations in the United States may be brought, the U.S. Supreme Court in *TC Heartland LLC v. Kraft FoodBrands Grp. LLC,* 581 U.S. __ (2017), redefined the standard for where domestic defendants can be sued under the patent venue statute, 35 U.S.C. § 1400(b). In a unanimous 8-0 decision, the Supreme Court reversed a Federal Circuit rule that had allowed patent holders to file an infringement suit in any district where defendants made sales. Under the new standard, the Supreme Court held that a domestic corporation 'resides' only in its state of incorporation for purposes of the patent venue statute. *TC Heartland LLC v. Kraft FoodBrands Grp. LLC* No. 16-341 slip op. at 2 (Fed Cir. May 22, 2017.)

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Applying this new standard, the Supreme Court found that venue in the case brought against Defendant TC Heartland in the District of Delaware was improper, because TC Heartland shipped the allegedly infringing products to Delaware, but did not have a local office or other presence there.

As a result of this decision, patent infringers may now be sued in only one of two places: (1) the state of incorporation; or (2) a judicial district where the defendant has committed acts of infringement and has a regular and established place of business. For companies making sales throughout the U.S. but having only limited physical offices, this ruling substantially reduces the states where they can be sued, perhaps in some cases reducing that number from all 50 to only one or two.

Moreover, *TC Heartland* greatly limits the ability of plaintiffs to "forum shop," i.e., to sue in districts they perceive as favorable to them—for instance based on criteria such as local rules, track record, time to trial, jury pool, etc. The decision will also profoundly impact the distribution of patent litigation cases throughout the United States, shifting cases to forums like Delaware that are popular sites of incorporation for companies. Since the Supreme Court's decision, there has been a significant reduction in new cases filed in the plaintiff-friendly, pro-patent, "rocket docket" jurisdictions such as the Eastern District of Texas and the Eastern District of Virginia. Delaware, a common state of incorporation, has seen an already busy patent docket greatly expanded.

TC Heartland did leave a few questions unanswered. For example, it expressly limits its analysis to "corporations," leaving the impact as to other corporate forms, such as LLCs, to be addressed in other cases. See *id.* at 2 n.1 Moreover, the ruling is limited to "domestic corporations." Its impact on foreign corporations has yet to be determined. *id.* at 7 n.2. Finally, because *TC Heartland* deals only with the definition of the word "resides" in the first clause of the patent venue statute, it does not address the second clause of the patent venue statute, which provides that venue is proper where the defendant has committed acts of infringement and "has a regular and established place of business."

Courts since *TC Heartland* have shifted focus to this long-ignored second clause of the patent venue statute, as litigants grapple with what it means to have a "regular and established place of business." For example, in September of 2017, the Federal Circuit weighed in on what is required to establish venue under this section of the patent venue statute in In *re: Cray, Inc.,* 871 F.3d 1355 (Fed. Cir. 2017), finding that there are three general requirements for having a "regular and established place of business" in a district: "(1) there must be a physical place in the district; (2) it must be a regular and established place of business; and (3) it must be the place of the defendant." In *Cray,* the Federal Circuit found venue to be improper where Cray did not rent or own an office or property in the Eastern District of Texas but employed two individuals who worked remotely from their homes in the district as sales professionals.

According to a study of patent litigation filing trends post-*TC Heartland* by Lex Machina, the number of cases filed in the Eastern District of Texas has significantly declined and been overtaken by the number of cases filed in the District of Delaware.

Design Patents Subject to Apportionment of Damages

The saga of design patent damages trudges on. In an October 22, 2017 ruling, the district court in *Apple Inc. v. Samsung Electronics Co. Ltd.* No. 11-CV-01846-LHK, 2017 WL 4776443, at *1 (N.D. Cal. Oct. 22, 2017) proposed a new design patent damages test and ordered a new damages trial to determine the remedy for design patent infringement damages under 35 U.S.C. § 289.

35 U.S.C. Section 289 provides that a patentee who owns a design patent can recover damages for every infringing "article of manufacture." Apple and Samsung have a long-running dispute over what that term means. Samsung argued that "article of manufacture" does not refer to the entire saleable product, but instead means that the patentee can only recover profits attributable to the discrete component that infringes. Apple has argued that since "[t]he innards of Samsung's smartphones were not sold separately from their shells as distinct articles of manufacture to ordinary purchasers," the "article of manufacture" applies to the entire (smartphone) product.

The Supreme Court determined that the article of manufacture need not be the final product sold to a consumer—instead, it may be a component of the product as well. However, the Supreme Court did not devise a test for determining what exactly is the article of manufacture and, instead, remanded to the Federal Circuit. The Federal Circuit asked the district court to consider whether a new damages trial is necessary and if so, to identify and devise a new test for determining an article of manufacture under 35 U.S.C. § 289. In front of the district court again, Samsung argued that the initial jury instructions were erroneous, whereas Apple argued that Samsung had waived its right to a new trial on this issue and that the instructions were not erroneous.

The district court held that, in determining the scope of an "article of manufacture," the court must consider: (1) the scope of the design claimed in the patent, including

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the drawing and written description; (2) relative prominence of the design within the product as a whole; (3) whether the design is conceptually distinct from the product as a whole; and (4) the physical relationship between the patented design and the rest of the product, including whether the design pertains to a component that a user or seller can physically separate from the product as a whole and whether the design is embodied in a component manufactured separately from the rest of the product.

The district court then devised a burden-shifting test. The plaintiff bears the burden of persuasion in proving the relevant article of manufacture and the total profit of the defendant, and bears the initial burden of production. Once satisfied, the burden of production shifts to the defendant to show evidence supporting an alternative article of manufacture and any deductible expenses. Consequently, the Court found that the initial jury instructions were prejudicial and ordered a new trial on design patent damages.

It remains to be seen whether the district court can efficiently implement this test or if the Federal Circuit will determine that the test misses the mark.

Scrutiny of Frand Royalties for Standard Essential Patents

In December 2017, the U.S. District Court for the Central District of California addressed two important patent royalty issues in *TCL Communications v. Ericsson* No. CV 15-2370 JVS(DFMX), 2017 WL 6611635, at *1 (C.D. Cal. Dec. 21, 2017). The Court addressed the appropriate way to calculate the royalty rate for a standard essential patent (SEP) under the fair reasonable and non-discriminatory (FRAND) obligations required by ETSI (as well as most other standards setting organizations). The Court also defined what entities may be considered "similarly situated" for purposes of license negotiations under the FRAND standard. The Court's formulation offers guidance on a highly debated issue and appears to benefit small businesses in licensing negotiations. This is the first U.S. case we are aware of that seeks to set a portfolio rate for SEPs subject to FRAND obligations.

After a series of failed licensing negotiations and foreign law suits, *TCL Communications* sued Ericsson, in the United States, for failure to offer a license that complied with FRAND requirements. Ericsson holds a significant percentage of patents declared to be essential for 2G, 3G, and 4G technology as defined by the ETSI. Such patents, which cover technology required by a standards organization, are known as SEPs.

Here, the Court determined a FRAND compliant SEP royalty using a "top down" valuation method. TCL, a proponent of this methodology, argued that a top-down methodology addresses concerns about royalty stacking by setting a cap on aggregate royalties on a per-standard basis. The top-down methodology as a second step involves calculating the portion of those aggregate royalties that would be consistent with a FRAND rate for a given licensor. The Court applied the top-down methodology based on Ericsson's prior commitment to that methodology and its public endorsement of low, single-digit aggregate royalties. Most courts, by contrast, use a "bottom up" royalty rate calculation that is based on patent license offers for comparable SEPs.

The Court further stated that a top-down-approach, although effective, "is not necessarily a substitute for a market-based approach that considers comparable licenses." To address the "discriminatory" prong in its FRAND analysis, the Court still considered Ericsson's offers to other similarly situated entities. The Court defined "similarly situated" entities by determining whether TCL and its competitors could each be considered "well established global firms." The Court identified Apple, Samsung, LG, HTC, Huawei, and ZTE as similarly situated entities under this definition. Ericsson argued that the market share for each of these comparative brands was significantly larger than TCL's, and they were inappropriate benchmarks for the TCL negotiations. But the Court rejected Ericsson's market share based formulation, stating that such a formulation would generally favor the high-end market leaders in licensing negotiations and would be unfair to other competitive companies.

The Court maintained that a "well-established global firm" may be considered similarly situated to another. This standard will require licensors to make comparable licensing offers to smaller global companies and industry leaders. Because of this decision, smaller entities seeking SEP licenses will likely be able to negotiate more competitive licensing deals going forward.

This case is sure to make its way to the Federal Circuit, possibly late this year, and we expect a growing number of decisions on FRAND rates for SEPs.

Earlier in the year, a court in the United Kingdom set a FRAND rate for a portfolio of patents that primarily originated from Ericsson as well. *Unwired Planet Int'l Ltd. v. Huawei Techs.* [2017] EWHC 711 (Pat). The Unwired Planet Court used a comparative licensing analysis, relying on other existing licenses, to calculate a FRAND rate. It rejected using a top-down approach as an unreliable starting point but used it as a check to see if the rate arrived at by reviewing comparable licenses was reasonable.

Several other non-U.S. courts considered whether injunctions were permissible. The key focus in these courts was whether

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FRAND offers were made by the patentee and potential licensee, which tipped the scales on the availability of an injunction.

Finally, the European Commission published the EU's approach to SEPs on November 29, 2017, which does not have rigid guidelines for royalty rates or injunctive relief. As to FRAND rates, it supports looking at both whether "terms have to bear a clear relationship to the economic value of the patented technology" (bottom up) and "into account a reasonable aggregate rate for the standard, assessing the overall added value of the technology" (top down). In the fall of last year the Japanese Patent Office solicited comments on proposed guidelines for SEP licensing negotiations and we may see the JPO guidelines sometime this year.

Biosimilars and Interpretation of the BPCIA

On June 12, 2017, in *Sandoz Inc v. Amgen Inc.,* 137 S. Ct. 1664 (2017), the U.S. Supreme Court issued its first interpretation of the biosimilars statute, the Biologics Price Competition and Innovation Act of 2009 ("BPCIA"). Biosimilars are biologic medicines that copy innovator biologics which are drugs manufactured in a living system such as a microorganism, or plant or cell. The BPCIA creates an abbreviated approval pathway for biosimilar medicines and prescribes defined procedures for a biosimilar applicant to challenge innovator patents, a process often referred to as the "patent dance." The Court's ruling addressed the patent dispute resolution procedure under the BPCIA, involving the first U.S. biosimilar product, Sandoz's Zarxio.

In a unanimous decision, the Court addressed two issues fundamental to patent litigation under the BPCIA. First, the Court held that the BPCIA's requirement that biosimilar applicants provide the innovator company with their biosimilar application and manufacturing information is not enforceable under federal law. Section 262(l)(2)(A) of the BPCIA sets forth the first step of the patent dance and states that the biosimilar applicant "shall" provide its biosimilar application and manufacturing information to the innovator. In addition, Section 262(l)(9)(C) provides that if the biosimilar applicant fails to provide its application and information, then the innovator can initiate a declaratory judgment action for patent infringement. In finding that "shall" is not a mandatory requirement, the Court relied on the fact that the BPCIA itself provides a remedy: the innovator can bring a declaratory judgment action against the biosimilar applicant if it fails to provide the required information.

Second, the Court concluded that a biosimilar maker can provide its 180-days' notice of commercial marketing at any time prior to approval, reversing the Federal Circuit's holding that the BPCIA creates a defined statutory window to litigate patent disputes. Section 262(l)(8)(A) states that the applicant "shall provide notice to the reference product sponsor not later than 180 days before the date of first commercial marketing of the biological product licensed under" the BPCIA's regulatory pathway. The Court disagreed that the word "licensed" means that notice can be provided only after the FDA approved the biosimilar. The Court's holding provides a substantial benefit to biosimilar makers. Previously, biosimilar makers had to wait until FDA licensure to give their notice, and then wait an additional six months before selling the product. Under the Court's decision, notice can be given at any time, and sales can begin as soon as the FDA approves the biosimilar.

The Court's ruling is a win for biosimilar makers who can obtain significant benefits by following the BPCIA's procedures. If they do not follow the BPCIA procedures and refuse to provide their biosimilar application and manufacturing information, innovators may have no choice but to litigate in an effort to protect their patent rights. However, this creates more uncertainty for the innovators since biosimilar makers can now provide their notice of marketing at any time, disadvantaging innovators who will not be able to control the timing of any litigation they want to commence.

Leveraging Sovereign Immunity to Protect Patents

Allergan's original patents for its billion dollar dry eye drug Restasis expired in 2014. To block several generic drug manufacturers poised to enter the market with generic versions of the drug, Allergan obtained a series of follow-on patents allegedly covering later formulations of Restasis in an attempt to evergreen patent protection until 2024, then sued a group of generic drug manufacturers in the Eastern District of Texas for infringement of the follow-on patents.

In addition to the district court litigation, the generic drug manufacturers challenged Allergan's patents in the U.S. Patent and Trademark Office's (PTO) Patent Trial and Appeal Board (PTAB) in an *inter partes* review (IPR) proceeding. The IPR process —a mini-trial proceeding between a patent owner and challenger—was authorized by the America Invents Act in 2011 and is a relatively inexpensive and efficient alternative to invalidate patents that has become an increasingly popular route taken by generic drug manufacturers.

In September 2017, one week before final oral argument in Allergan's IPR proceeding, Allergan announced that it transferred its Restasis patents to the Saint Regis Mohawk Tribe—a bold and unprecedented move that brought the juxtaposition of patent law and

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tribal sovereign immunity to the headlines. Under the transaction, Allergan assigned its rights to the six patents at issue in the IPR proceeding (and in the companion district court litigation) to the tribe and the tribe granted an exclusive license under the patents back to Allergan. The tribe will receive $13.5 million upon execution of the agreement and will be eligible to receive $15 million in annual royalties. The tribe further agreed not to waive its sovereign immunity with respect to any IPR or other administrative action in the PTO related to the patents.

Sovereign immunity has been successfully employed twice in the past to dismiss IPR proceedings, both times by state universities asserting state sovereign immunity. But the Allergan case is the first time the PTAB is ruling on whether tribal sovereign immunity may be invoked to bar an IPR proceeding. There are differences between state sovereign immunity and tribal sovereign immunity that could potentially result in different outcomes. We await the PTAB's ruling in the Allergan case on whether the tribe, as patent owner, may invoke its sovereign immunity to bar review of the Restasis patents.

A decision in the district court litigation was issued in October 2017 where Judge Bryson (a senior Federal Circuit judge sitting by designation in the Eastern District of Texas) found four of six Allergan patents invalid for obviousness. In a separate order, the Court joined the tribe as a co-plaintiff to the litigation as a discretionary action to ensure that the judgment with respect to the Restasis patents was not rendered invalid because of the absence of a necessary party, but the Court expressly did not hold that the assignment of the Restasis patents to the tribe was valid (leaving that decision to the PTAB where the question is directly presented in the context of patent ownership) and, indeed, expressed "serious concerns" about the legitimacy of the tactic employed by Allergan and the tribe. Rather than selling its patents to the tribe, the Court stated that "in reality Allergan has paid the tribe to allow Allergan to purchase—or perhaps more precisely, to rent—the tribe's sovereign immunity in order to defeat the pending IPR proceedings in the PTO." The Court analogized the Allergan transaction to abusive tax shelter arrangements and payday lenders who tried to assert tribal sovereign immunity and were barred because such transactions are not the kind of transactions to which the tribal sovereign immunity was meant to extend.

Allergan argues that its legal maneuver was only intended to block administrative patent challenges by the PTAB, a procedure that Allergan contends is "flawed and broken." On February 23, 2018, the PTAB ruled that tribal sovereign immunity does not apply to IPRs and dismissed the Tribe's motion holding that "[i]n view of the recognized differences between the state sovereign immunity and tribal immunity doctrines, and the lack of statutory authority or controlling precedent for the specific issue before us, we decline the tribe's invitation to hold for the first time that the doctrine of tribal immunity should be applies in *inter partes* review proceedings."

However, tribal sovereign immunity has implications beyond PTAB proceedings and could be invoked to insulate patents in other contexts such as federal court proceedings and counterclaims of invalidity as part of a Paragraph IV ANDA litigation.

On a separate front, Congress was spurred to action by Allergan's transaction with the tribe. Unlike state sovereign immunity, which derives from the 11th Amendment and cannot be generally abrogated by congressional action, tribal sovereign immunity can be abrogated by Congress. In response to Allergan's tactic to block PTAB patent review, Senator Claire McCaskill (D-Mo) has introduced a bill to shut down the tribal sovereign immunity tactic before other companies follow suit.

We expect to see more action on whether these types of entities can utilize sovereign immunity, particularly in the pharma space.

Developing Standards for Patentable Subject Matter

In 2017, patent eligibility under Section 101 continued to be a developing area of jurisprudence, and one that is closely watched, particularly due to its importance to the protection of software-based inventions, as well as new medical diagnostic techniques and treatments. In the summer of 2014, the Supreme Court in *Alice (Alice Corp. v. CLS Bank Int'l,* 134 S. Ct. 2347 (2014)), set out broad guidelines by providing a two-step test for determining whether or not a patent claim avoided the historical proscription against patenting abstract ideas, laws of nature, and natural phenomena. The next few years saw the Federal Circuit continue to hone these guidelines, providing guideposts on what is and is not eligible. See, e.g., What Courts Are Saying About Software Patents Post-Enfish.

In 2017, the Federal Circuit and district courts continued to provide guidance on how the Supreme Court test delimits the boundaries of what is and is not patentable subject matter. For example, Federal Circuit decisions clarified that claims that set forth an improvement to a computer's capabilities, rather than those using a computer as a tool, are likely to survive Section 101 scrutiny. On the other hand, claims that simply set forth generic computer components and use them to perform conventional computer functions will likely not survive a patent eligibility attack. See, e.g., *Visual Memory,*

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LLC v. Nvidia Corp, 867 F.3d 1253 (Fed. Cir. 2017). In this regard, simply identifying an inventive concept in the Specification is not sufficient to support a broad claim. See, *Two-Way Media Ltd v. Comcast Cable Communs, LLC,* 874 F.3d 1329 (Fed. Cir. 2017). Rather, to save a patent claim that has been identified as setting forth an abstract idea under step one of the *Alice* test, an inventive concept must be clearly set forth in the claim language. See, *RecogniCorp, LLC v. Nintendo Co.,* 855 F.3d 1322, 1327 (Fed. Cir. 2017).

Faced with the increased invalidation of patents under *Alice* and frustration over the slow pace of guidance coming from the courts, 2017 also saw several major intellectual property organizations (the American Bar Association, the Intellectual Property Owners, and the American Intellectual Property Law Association (AIPLA) propose legislation to clarify, and for the most part, limit the scope of the inquiry under §101.

Inter Partes Review (IPR) and Patent Trial and Appeal Board (PTAB) Precedential Decisions

Of the thousands of appeals and post grant reviews decided by the Patent Trial and Appeal Board, a very limited number are designated precedential. The following are the key precedential decisions this year:

Facebook, Inc. v. Skky, LLC (designated precedential December 21, 2017) differentiates the PTAB from the federal courts ("we are not a federal court, but an administrative agency whose authority has been granted by Congress") and rules applied by the federal courts do not necessarily apply to the PTAB. The federal courts apply a time-of-filing rule, in which the jurisdiction of the court depends on the time the action is brought. The PTAB did not apply the time-of-filing rule in a covered business method (CBM) patent review. The America Invents Act instituted a transitional (due to sunset September 16, 2020) proceeding to review claims of an issued patent drawn to a method or apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service. Facebook petitioned for a CBM review of claims 1-11 of Skky patent US 9,037,502 ("Media Delivery Platform"). Claims 6 and 8-11 of the patent qualified for CBM review while the other claims did not. Subsequent to the filing of the petition, but prior to the PTAB initiating review, *Skky* filed a statutory disclaimer of claims 6 and 8-11 relinquishing any interest in those claims. The PTAB then refused to initiate a CBM, holding that the CBM review eligibility is based on the claims of the challenged patent at the time of a decision whether to institute. Statutorily disclaimed claims are treated as if they never existed, even if present at the time the CBM petition is filed.

General Plastic Industrial Co., Ltd. v. Canon Kabushiki Kaisha IPR2016-01357 Paper 19 (P.T.A.B. Sept. 6, 2017) (designated precedential September 6, 2017) discusses discretionary factors applied by the PTAB when considering a subsequent petition for *inter partes* review when the initial petition was rejected. General Plastic petitioned for *inter partes* review of claims of two Canon patents, US 8,909,094 and US 9,046,820 (both "Sealing Member, Toner Accommodating Container and Image Forming Apparatus") based on prior art not previously considered by the Patent Office. The Director determined that General Plastic was not likely to prevail and denied the petition. After the denial, General Plastic conducted a search for additional prior art and submitted a subsequent petition for *inter partes* review of the same claims of the same two Canon patents. The subsequent petition cited new prior art and addressed the Director's reasons for denial of the first petition. In denying the subsequent petition, the PTAB indicated that while there is not a *de facto* bar against all follow-on petitions, follow-on petitions should not be used strategically to allow petitioners to stage prior art and arguments in later petitions using earlier decisions as a road map until a ground for review is found. As guidance, the PTAB indicated it may consider the following factors when determining whether to consider a subsequent petition:

1. whether the same petitioner previously filed a petition directed to the same claims of the same patent;
2. whether at the time of filing of the first petition, the petitioner knew of the prior art asserted in the second petition or should have known of it;
3. whether at the time of filing the second petition, the petitioner already received the patent owner's preliminary response to the first petition or received the Board's decision on whether to institute review in the first petition;
4. the length of time elapsed between the time the petitioner learned of the prior art asserted in the second petition and the filing of the second petition;
5. whether the petitioner provided adequate explanation for the time elapsed between the filings of multiple petitions directed to the same claims of the same patent;
6. the finite resources of the Board; and
7. the statutory requirement that the Board issue a final determination not later than one year after the date on which the Director notices institution of review.

Ex parte McAward IPR2015-006416 (P.T.A.B. Aug. 25, 2017) (designated precedential August 25, 2017) discusses the clarity and definiteness required of a claim of a patent application. Recognizing that the definite-

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ness requirement secures to the patentee all to which he is entitled and apprises the public of what is still open to them, the PTAB indicated that a claim is indefinite when it contains words or phrases whose meaning in unclear. McAward filed US patent application 13/435,655 ("Wireless Automated Shutoff Valve") claiming the structure of a water detector and claiming the water detector is "configured to be reliably installed by an untrained installer or homeowner." As the level of skill of an untrained installer or homeowner and the tools available to such a person are not defined in the patent application specification, the claim is indefinite.

Athena Automation Ltd. v. Husky Injection Molding Systems Ltd. IPR2013-00290 Paper 18 (P.T.A.B. Oct. 25, 2013) (designated precedential August 1, 2017) discusses the applicability of assignor estoppel to a petition for *inter partes* review. Assignor estoppel prohibits an assignor of a patent, or one in privity with the assignor, from attacking the validity of that patent when he is sued for infringement by the assignee. Athena petitioned for *inter partes* review of Husky patent 7,670,536 ("Molding-System Clamp"). Robert Shad, a named inventor on the Husky patent, assigned his rights in the patent to Husky. He is also founder, co-owner, President and member of the Board of Directors of Athena. Husky asserted that assignor estoppel prevented Mr. Shad's company from challenging the validity of the Husky patent by an *inter partes* review. The PTAB disagreed and allowed the petition to go forward. Under the America Invents Act, the only persons who may not institute an *inter partes* review are owners of the patent. As Mr. Shad gave up ownership rights when he assigned his interest in the patent to Husky, he, and by extension Athena, may petition for *inter partes* review.

Design Elements Protected Under Copyright Law

On March 22, 2017, in *Star Athletica LLC v. Varsity Brands Inc.,* 137 S. Ct. 1002 (2017), the Supreme Court clarified the extent to which copyright law can protect design elements of a useful article, such as an article of clothing. The case involves certain design elements of Varsity Brand's cheerleader uniforms, such as arrangements of lines, chevrons and colorful shapes on the uniforms, which it accused Star Athletica of illegally copying. The Copyright Act states that "useful articles" are generally not eligible for copyright protection. Because an article of clothing is "useful", many courts have limited copyright protection for clothing to elements such as fabric prints leading to "widespread disagreement" as to when decorative elements are eligible for protection.

By a 6-2 vote, the Court ruled that a design element incorporated into clothing (or another useful article) is eligible for copyright protection if (1) the element can "be perceived as a two-or-three-dimensional work of art separate from the useful article"; and (2) the element would qualify as a protectable pictorial, graphic or sculptural work if "imagined separately from the useful article into which it is incorporated." The Court noted that for an element to qualify as a copyrightable work on its own, the element "cannot itself be a useful article." The Court characterized the arrangement of colors, shapes, stripes and chevrons as "surface decorations" that could be applied to another medium such as a painter's canvas. Thus, the Court distinguished the work of art from the medium to which it is applied. With respect to uniforms, the Court noted that "the only feature of the cheerleading uniform eligible for a copyright in this case is the two-dimensional work of art fixed in the tangible medium of the uniform fabric."

The Court further clarified that copyright does not "prohibit any person from manufacturing a cheerleading uniform of identical shape, cut and dimensions." Thus under the Court's ruling, copyright protects a "surface design" but may not protect the surface on which the design is placed.

The Court's decision has created a new legal rule that will inevitably lead to less predictability in the already murky area of copyright law. Its new imaginative separability test for copyright eligibility for useful articles, such as footwear, clothing, and furniture, may be so easy that few designs will fail to qualify. Yet, *Star Athletica* may have the likely consequence of making copyright protection less desirable for qualifying designs. Thus, for those seeking the benefits of potential copyright protection for useful designs, it will be prudent to proceed with caution.

Prohibitions Against Disparaging, Immoral and Scandalous Marks Ruled Unconstitution Based on First Amendment

It's official; the Lanham Act's Section 2(a) prohibitions against registration of disparaging, immoral and scandalous marks are dead!

On June 19, 2017, the Supreme Court of the United States ruled in the case *Matal v. Tam* 582 U.S. ____ (2017), that the Lanham Act's prohibition against registration of marks that are deemed to disparage under Section 2(a) violates the First Amendment. Simon Shiao Tam's application for federal registration of the name of his band, "The Slants" was refused under Section 2(a) of the Lanham Act ("Trademark Act") on the basis that the designation was disparaging to Asian Americans. Tam, who is of Asian descent, said that his band had in fact purposely chose the name "the Slants" because of its historical use as a racial slur "in an effort

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'to reclaim' and 'take ownership' of Asian stereotypes." Nevertheless, the reviewing Examining Attorney and the Trademark Trial and Appeal Board, on appeal, found that "a substantial composite of persons of Asian descent would find the term offensive."

On appeal to the Court of Appeals for the Federal Circuit, the Court reversed, finding that First Amendment jurisprudence had evolved significantly, in an en banc review, the Court of Appeals for the Federal Circuit held:

- Lanham Act Section 2(a)'s denial of important legal rights to private speech based on disapproval of the message conveyed is subject to, and cannot survive, strict scrutiny;
- Lanham Act Section 2(a)'s disparagement provision regulates the expressive aspects of the mark, not its function as commercial speech;
- Lanham Act Section 2(a) is not saved from strict scrutiny because it bans no speech or by government speech or government-subsidy doctrines;
- Lanham Act Section 2(a) is unconstitutional even under the *Central Hudson* Test for commercial speech

Having granted *certiorari,* the U.S. Supreme Court unanimously affirmed the decision of the Court of Appeals for the Federal Circuit, striking down the disparagement provision of Section 2(a) as an unconstitutional restriction on free speech guaranteed by the First Amendment.

As an expected consequence of the Supreme Court's having declared the disparagement section of Section 2(a) unconstitutional, the Court of Appeals for the Federal Circuit, in the case *In re Brunetti,* 2015-1109 (Fed. Cir. Dec 15, 2017), reversed the U.S. Patent and Trademark Office Trademark Trial and Appeal Board's decision affirming the Patent and Trademark Office Examining Attorney's refusal of registration of "FUCT" as being immoral or scandalous within contemplation of Section 2(a)'s prohibition against registration of immoral or scandalous marks. In reaching its decision, the Court did not find a lack of evidence that the term "FUCT" comprises immoral or scandalous matter. Rather, the Court found, in keeping with *Tam* that Section 2(a) of the Lanham Act's prohibition against registration of immoral or scandalous matter constitutes an unconstitutional restriction on free speech in violation of the First Amendment.

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CASES & TRENDS TO WATCH IN 2018

Patent Eligibility

The Federal Circuit began the New Year by giving practitioners another patent subject matter eligibility clue in *Finjan, Inc. v. Blue Coat Systems, Inc.* 879 F.3d 1299 (Fed. Cir. 2018). Finjan brought an infringement action against Blue Coat Systems (BCS) regarding patents directed to "identifying and protecting against malware." BCS argued that Finjan's patent claims were invalid as "unpatentable subject matter." But, the Federal Circuit found that the Finjan patent was directed to a patentable computer program. The Federal Circuit distinguished the Finjan patent from the unpatentable subject matter found in "*Apple, Inc. v. Ameranth, Inc., Affinity Labs of Tex., LLC v. DIRECTTV, LLC,* and similar cases" stating that "the [Finjan] claims recite more than a mere result. Instead, they recite specific steps… that accomplish the desired result." The Federal Circuit also emphasized that the art at issue "does a good deal more" than a "perfectly conventional approach."

Here the Federal Circuit was less interested in the invention's result than the way that the invention achieved its result. In light of this decision, patent drafters and owners may emphasize unconventional problem solving steps and de-emphasize problem solving results in their respective applications and arguments. Of course, there is still much ambiguity surrounding patent subject matter eligibility, but the Finjan decision certainly points practitioners in a meaningful direction.

The importance of claiming inventive features with specificity to avoid attacks under Section 101 is also made clear by the very recent Federal Circuit decision in *Berkheimer v. HP, Inc.* 2018 WL 774096 (Fed. Cir. Feb. 8, 2018), which may reduce the trend of district courts frequently granting summary judgment motions that the claims in question only cover impermissible abstract ideas when there are significant factual issues raised by the patentee.

In *Berkheimer*, the Federal Circuit upheld the district court's summary judgment determination that broad claims of Mr. Berkheimer's patent only covered unpatentable abstract ideas that failed the two-step *Alice* test. However, it overturned the district court's determination on summary judgment that certain of the narrower claims were also invalid under Section 101 because they were more directed at the "arguably unconventional inventive concept described in the specification." (Slip op. at 16). The narrower claims had limitations that were described in the specification as improvements to existing systems. HP did not provide any counter evidence. The Federal Circuit held that, based on the record before it, the narrower claims raised genuine factual issues under the second step of *Alice,* as to whether they set forth inventions that were "well-understood, routine and conventional." Since this factual question remained unresolved, the Federal Circuit vacated the district court's grant of summary judgment that the narrow claims were ineligible under Section 101, and remanded this issue for further proceedings. *Berkheimer* reminds us that while patent eligibility under Section 101 is ultimately a question of law, underlying facts may be relevant to the inquiry.

Patent Damages

Already 2018 has provided an important development related to the damages recoverable for patent infringement. On January 12th the Supreme Court agreed to hear the appeal of *WesternGeco LLC v. ION Geophysical Corp.* 791 F.3d 1340, 1343 (Fed. Cir. 2015) cert. granted, judgment vacated sub nom. *WesternGeco LLC. v. ION Geophysical Corp.,* 136 S. Ct. 2486, 195 L. Ed. 2d 820 (2016). U.S. law prohibits the export of components where their extraterritorial combination would have infringed a patent had it occurred in the U.S. In *WesternGeco,* the defendant was found to have performed such an infringing combination in international waters by using patented oceanic geographic surveying technology. While the Federal Circuit allowed the plaintiff to recover damages according to a hypothetical royalty agreement, the Federal Circuit prohibited the plaintiff from recovering its lost profits in the form of actual contracts which it would have secured but for the infringement. The Federal Circuit reasoned that irrespective of liability for infringement, the presumption of territoriality, or that damages are limited to U.S. territory, prevented the collection of damages for the contracts as they occurred in international waters.

The Supreme Court will now decide whether lost profits stemming from patent-infringing combinations made outside of the U.S. are categorically unavailable. If so, that will represent a sizable reduction in available patent damages for many companies that rely heavily on their U.S. patents.

Shift in Patent Litigation Venues in the Aftermath of *TC Heartland*

As discussed above, the number of patent cases filed in the Eastern District of Texas has fallen significantly and this trend will play out to a greater extent in 2018. According to the Lex Machina report, before the *TC Heartland* decision, 312 patent suits were filed in the Eastern District of Texas before the Court's May ruling but only 121 suits in the fourth quarter of 2017. In contrast, in the District of Delaware 222 patent suits were filed in the fourth quarter of 2017, about double those filed in the first quarter of 2017. In addition, other districts in Texas, California, Washington and possibly Massachusetts which are all home to many large companies will likely see an increase in 2018 in patent complaints being filed.

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About Wiggin and Dana LLP

Wiggin and Dana is a full service firm serving clients domestically and abroad from offices in Connecticut, New York, Philadelphia, Washington, DC and Palm Beach. For more information on the firm, visit our website at www.wiggin.com.

Despite the shift in where patent suits are being filed, district courts across the country, including the Eastern District of Texas, will continue to be faced with motion practice as plaintiffs take novel approaches to decipher and interpret the *TC Heartland* decision.

Increased Guidance and Changes at the PTAB

Several changes are expected at the USPTO in 2018. Michelle Lee's resignation in June as director of the U.S. Patent and Trademark Office and the subsequent appointment of former Irell & Manella LLP partner Andrei Iancu as her replacement could bring significant changes at the PTAB attorneys said. Iancu who is expected to be confirmed by the Senate in early 2018 has a strong patent litigation background and this might impact current standards applied by the PTAB as well as result in decisions more favorable to patent owners.

The elephant in the room for the PTAB is *Oil States v. Greene's Energy Group.* On June 12, 2017, the United States Supreme Court granted certiorari in Oil States to decide whether *inter partes* review violates the Constitution by extinguishing private property rights through a forum without a jury. As far back as 1898, the Supreme Court held that once a patent is granted, it is not subject to be revoked or canceled by the president, or other officer of the Government, because it has become the property of the patentee, and, as such, is entitled to the same legal protection as other property. However, the courts have allowed patent reissue and reexamination procedures for many years. The new proceedings are arguably judicial in nature, which the petition contends improperly trespasses on the role given to the courts. Oral argument was held on November 27, 2017 and a decision is expected early in 2018. The consensus of practitioners is that it would be surprising if the Supreme Court strikes down the new post-grant challenge venue. Nevertheless, as reported in a new year-in-review report from Lex Machina, fewer petitions were filed after the Court put the future of these proceedings into doubt. In addition, as Lex Machina also reports, the lower number of *inter partes* review filings at the PTAB in 2017 may also be driven by the slowing down in patent litigation in federal courts.

Increased Use of ITC Proceedings

The U.S. International Trade Commission in 2016 saw the most new patent cases since the peak of the smartphone wars. The ITC offers some significant advantages for patent owners, including a relatively quick timeline for resolving disputes. It can also be easier to get injunctive relief as compared with district court. In addition, the Commission has been reluctant to pause an investigation when there is a parallel case at the PTAB. Furthermore, there could be advantages in filing at the ITC to control rising legal budgets. As a result, more companies, not just in the smartphone space, are likely to turn to the ITC as a forum for patent litigation. In addition, as Lex Machina reports, the increasing popularity of the ITC can also be attributed to the uncertainty for patent owners in district court litigation and PTAB proceedings.

We will continue to monitor all of these developments in 2018.