US cases to watch in 2017

Akin Gump's **Steven Zager** and **John Wittenzellner** review the most eagerly awaited decisions in patent law for the coming year

2017 is poised to continue the trend of increased involvement of the Supreme Court of the United States (SCOTUS) in patent law. This year differs, however, in that the *In re Aqua Products, Inc* case, which the Federal Circuit is currently reviewing en banc, presents an opportunity for the Supreme Court to delve into patent office procedure, rather than more general legal issues, such as obviousness and subject-matter eligibility.

The Supreme Court has heard arguments on two patent cases related to venue and the laches defence, respectively: *TC Heartland LLC v Kraft Foods Group Brands LLC* and *SCA Hygiene Products Aktiebolag v First Quality Baby Products, LLC*. *TC Heartland* could limit the availability of the Eastern District of Texas, resulting in increased filings in the District of Delaware. *SCA Hygiene Products* could increase the value of patent law suits by eliminating the laches defence to damages, consistent with the 2014 Supreme Court copyright ruling in *Petrella v Metro-Goldwyn-Mayer*.

As a result of recent pro-defendant rulings from the Supreme Court and Federal Circuit, patent lawsuits arguably involve more risk for less return. Certain industries – biomedical and pharmaceuticals – have responded by relying more heavily on trade secret protection. With the enactment of the Defend Trade Secrets Act and continuing assault on software- and internet-related patents through Section 101, 2017 may see additional industries increasing their reliance on trade secret protection.

Will the Supreme Court delve into patent office procedures?

With the America Invents Act (AIA) came heightened importance of proceedings before the Patent Trial and Appeal Board (PTAB). Four years later, the statistics continue to tell us that institution of proceedings before the PTAB will overwhelmingly result in cancellation of at least one patent claim.[1] Not surprisingly, this has resulted in appeals regarding not only how the PTAB applies patent law, but also its procedures.[2] *In re Aqua Products, Inc* is shaping up to be an opportunity for the Supreme Court to expand its interest to the minutiae of patent law, by reviewing PTAB procedures.

The genesis of *In re Aqua Products, Inc* is a petition for *inter partes* review of US Patent No 8,273,183, filed by petitioner Zodiac Pool Systems, Inc. After institution, the PTAB issued a final written decision on 22 August, 2014, canceling certain claims, and denying patent owner's motion to amend the claims. Patent owner Aqua Products, Inc appealed the final written decision, arguing, *inter alia*, that the PTAB erred in interpreting 37 CFR § 42.121 to place the burden of proving patentability of proposed substitute claims on the patent owner.[3] The Federal Circuit disagreed, relying on precedential decisions.[4] Undeterred, the patent owner filed a petition for rehearing *en banc*, which was granted on 12 April, 2016.[5] That decision directs the patent owner and the patent office (as intervenor) to identify the proper burdens of persuasion and production regarding proposed substitute claims.[6] Oral

argument took place on 9 December. Regardless of which party prevails at the Federal Circuit, the losing party will likely petition the Supreme Court for review.

Will the Eastern District of Texas remain the preferred venue for patent plaintiffs?

Yet again, the Eastern District of Texas was the preferred venue for patent plaintiffs, accounting for 37% of patent filings in 2016. Patent defendants have sought transfer to more favourable venues, and more recently have petitioned for writs of *mandamus* when their motions to transfer were denied or, in their opinion, not ruled upon in a timely manner. Although it did not originate in the Eastern District, *TC Heartland LLC v Kraft Foods Group Brands LLC*, is the latest opportunity for patent defendants to move patent litigation to their preferred venues.

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TC Heartland was sued by Kraft in the District of Delaware, then moved to transfer the case to the Southern District of Indiana, where it is incorporated. The district court denied the motion, relying on the holding in *VE Holding Corporation v Johnson Gas Appliance Company*, 917 F.2d 1574 (Fed Cir 1990) that venue is appropriate where personal jurisdiction over the defendant exists. In doing so, the district court also disagreed with TC Heartland that the 2011 Jurisdiction and Venue Clarification Act vitiated the *VE Holding* decision. The Federal Circuit denied TC Heartland's petition for a writ of *mandamus,* again relying on the precedent of *VE Holding*.[7]

The Supreme Court granted cert on 14 December, 2016. If *TC Heartland* is successful, the Supreme Court ruling could significantly limit availability of the Eastern District as a patent venue because few serial patent defendants are incorporated there. At the same time, a ruling in TC Heartland's favour could cause a significant uptick in patent filings in the District of Delaware.

Will laches continue to be a defence to patent infringement?

Although 35 USC § 286 allows a plaintiff to recover damages up to six years before filing suit, the laches doctrine limits that recovery if the plaintiff unreasonably and inexcusably delays filing suit to the prejudice of the alleged infringer. Roughly two years ago, the Supreme Court reviewed a similar situation in copyright law. In *Petrella v Metro-Goldwyn-Mayer,* 134 S. Ct. 1962 (2014), the court held that the laches defence cannot be used to limit damages beyond 17 USC § 507(b), which already limits pre-suit damages to three years. The opinion also noted that the Federal Circuit has held that laches can bar damages, but that the issue had not been presented to the court.[8]

On 1 November, 2016, the Supreme Court heard arguments in *SCA Hygiene Products Aktiebolag v First Quality Baby Products, LLC* on the same issue. It is generally expected that the Supreme Court will reverse the Federal Circuit's *en banc* ruling. The remaining scope of laches, however, remains less certain, such as whether it will still apply to equitable relief, such as injunctions.

Will companies continue to reallocate their intellectual property between trade secrets and patents?

One of the cardinal rules of investing is that investors should diversify their portfolios to minimise risk and maximise return. In recent years, risk to patent owners has increased risk by way of decisions, such as *Alice*, that narrow the scope of patentable subject matter. The value of patents has also fallen through decisions on apportionment, such as *VirnetX Incorporated v Cisco Systems Inc*. In other words, patent "investment" is now higher risk with lower returns.

At the same time, the Defend Trade Secrets Act, which was signed into law on 11 May, 2016, provides civil federal trade secret protection. The result is less uncertainty regarding the scope of trade secret protection and enforcement as opposed to having to navigate different state-level regimes. In other words, the risk of trade secret "investment" has fallen.

Several industries have already taken notice of these developments and rebalanced their intellectual property portfolios accordingly. For example, Myriad Genetics purportedly moved to using trade secrets to protect its genetic variant information, rather than disclose that information and risk not obtaining patent protection.[9] What remains to be seen in 2017 is whether industries other than biomedical and pharmaceuticals will increase their use of trade secret protection over patents. Recently, the patent bar has increasingly – and successfully – turned to Section 101 to fight software- and internet-related patents, so one would expect that industry to utilise more trade secret protection going forward.

Footnotes

1. See eg, Patent Trial and Appeal Board Statistics, United States Patent and Trademark Office (30 Nov, 2016), available at www.uspto.gov/sites/default/files/documents/aia_statistics_november2016.pdf.
2. The Supreme Court denied cert in the *Ethicon v Covidien* case on 9 January which related to whether the Patent Office director can delegate authority to institute proceedings to the PTAB and whether the same panel of judges can decide to institute proceedings and issue the final written decision.
3. *In re Aqua Prods.*, 823 F.3d 1369, 1372 (Fed Cir 2016).
4. Id at 1373 (citing *Microsoft Corp v Proxyconn, Inc,* 789 F.3d 1292, 1307–1308 (Fed Cir 2015); *Prolitec, Inc v ScentAir Techs, Inc,* 807 F.3d 1353, 1363 (Fed Cir 2015); Nike, Inc v Adidas AG, 812 F.3d 1326, 1333-34 (Fed Cir 2016)).
5. *In re Aqua Prods.*, 833 F.3d 1335 (Fed Cir 2016).
6. Id at 1336 (the Federal Circuit also asked the parties to consider whether the PTAB can *sua sponte* challenge proposed substitute claims and, if so, where the burdens of persuasion and production would lie).
7. *In re TC Heartland LLC*, 821 F.3d 1338, 1341 (Fed Cir 2016).
8. *Petrella v MGM*, 134 S. Ct. 1962, 1974 n.15 (2014).
9. *See* "Myriad's Trade Secret Trump Card: The Myriad Database of Genetic Variants," PharmaPatents (18 July, 2013), www.pharmapatentsblog.com/2013/07/18/the-myriad-database-ofgenetic-variants/.

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