The Changing Battlefields of Patent Litigation: TC Heartland, the PTAB, UK and Germany

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Agenda

Court System in Germany

Parties

Subject matter

Duration/Costs

Court System in the UK
About us

- 1100+ people
- Offices in 14 cities
- 770+ lawyers
- 240+ Partner
- Offices in 9 countries
- Worldwide network
Offices worldwide

- London
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- Manchester
- Hamburg
- Düsseldorf
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Patent litigation in Germany
Court System in Germany

- **Jurisdiction:** 13 specialized courts (per Bundesland / state)
  - particularly Dusseldorf and Mannheim (infringement)
  - ⇔ any US District Court, ITC

- **Judges:** no jury
  - ⇔ necessary in some cases

- **Appeals:** (almost) unlimited access to 2nd instance

- **Forum Shopping:** only available to patentee
  - ⇔ DJ actions more of a threat in the US
Court System in Germany

First Instance

District Court

Proceedings may be stayed while nullity action or opposition pending

Judgment

Action dismissed

Action successful (= injunction etc.)

Appeal

Higher Regional Court

Further Appeal
- to be allowed -

Federal Supreme Court
Parties & subject matter

- **Plaintiff:** Exclusive licensee may also sue
  - needs express consent from patentee
- **Defendant:** CEOs may be sued
- **Infringement:** Injunctions are automatic and may be suspended only under exceptional circumstances
- **Validity:** Bifurcation: infringement court may not invalidate patents, separate validity attack necessary
  - stay of infringement litigation possible
  - German bifurcated system generally favors patentees
- **Damages:** Separate action necessary
Duration

- Fairly predictable in both the first and second instances
  - multiple motions may delay proceedings
- No discovery/very limited access to opponent’s documents
- Expert evidence used in less than 20% of the cases
- Stay pending validity attack in less than 10% of first instance proceedings
- Main trial lasts less than one day (as opposed to 3-60 days in the US)
- Germany generally provides a fast and reliably inexpensive way to enforce patents
# Duration (infringement proceedings)

<table>
<thead>
<tr>
<th>Forum</th>
<th>Actions started (2016)</th>
<th>Duration</th>
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<tbody>
<tr>
<td>Düsseldorf District Court</td>
<td>approx. 500</td>
<td>- If not stayed - 14 – 18 months</td>
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<tr>
<td>Düsseldorf Court of Appeal</td>
<td></td>
<td>- If not stayed - 15 – 18 months</td>
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</tbody>
</table>

- District Court usually decides without expert reports
- Postponement of trials very rare
- Estimated settlement rate: 30-40 % (higher after judgment issued)
## Duration (nullity proceedings)

<table>
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<th>Forum</th>
<th>Duration</th>
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<tbody>
<tr>
<td>Federal Patent Court</td>
<td>approx. 18 – 30 months</td>
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<tr>
<td>Fedral Court of Justice</td>
<td>approx. 2 – 4 years</td>
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</tbody>
</table>
Costs

- For patentee, cost risk is a known quantity (reimbursement of statutory court and opponent’s attorneys’ fees only)

- For infringer, much more is at stake:
  - Injunction will probably shrink market share
  - Design-around (if at all possible) can be costly
  - Damages may amount to a considerable share of profits made with attacked embodiments
Patent litigation in the UK

fieldfisher
Court System

- **Jurisdiction:** Specialized court – UK Patents Court (part of the UK High Court), or in smaller cases (damages cap US$650k) the IPEC, both in London.

- **Judges:** One technically-qualified judge, no jury.

- **Appeals:** Leave will be granted in many cases.

- **Forum Shopping:** The IPEC provides a streamlined, cheaper procedure – however, in large cases, only the Patents Court will have jurisdiction.
In rare cases, a stay may be granted pending opposition.

**Action dismissed**

**Action successful** (=> damages, etc.)

**Appeal**
- Often allowed -

**Further Appeal**
- Rarely allowed -

**Note** – Interim orders from the IPEC are appealed to the High Court, while final orders from the IPEC are appealed to the Court of Appeal.
Parties

- **Claimant (Plaintiff):** Exclusive licensee may also sue
  - does not need consent from patentee

- **Defendant:** Company directors may in some cases be liable as joint tortfeasors
Subject matter

- **Infringement:** Standard remedies are damages or (at the patentee’s option) account of profits
  
  Injunction can be granted, but not mandatory,
  
  Defendant can apply for negative declaratory relief

- **Validity:** Infringement and validity are heard together

- **Damages:** Separate procedure after trial. If appropriate, FRAND terms may also be determined in separate procedure after trial
Pre-action considerations

- Minor risk that a foreign declaratory judgment action (Italian Torpedo) is filed
- Unjustified threats constitute a cause of action
  - Therefore, warning letters should be drafted carefully
- Initial pleadings do not typically contain much detail – the arguments only crystallize on exchange of expert reports (typically around 2 months before trial)
UK proceedings – the basics

- Cases typically last 12 to 15 months from claim form to first-instance trial
- Appeals typically add another 10-14 months
- Discovery ordered in many cases, but much more limited than in the US
- Infringer typically provides product / process description in lieu of disclosure
- Technical experts used in all cases
  - Each side retains their own expert witnesses
- Stay pending EPO opposition in very few cases
- Main trial typically lasts 3 to 10 days, depending on the number of issues and their complexity
- Well reasoned Judgments follow a few weeks later

*The UK Patents Court is speedy and well-regarded by other courts in Europe*
UK proceedings – the trial

- Trial consists of the following stages:
  - Opening speech from claimant (defendant does not open)
  - Claimant’s witnesses’ evidence in chief (typically just an affirmation of their witness statements / expert reports) and cross-examination
  - Defendant’s witnesses’ evidence, as above
  - Claimant’s closing speech
  - Defendant’s closing speech

- Hearings are in public, unless the court directs otherwise (which it is typically reluctant to do)
Costs

- For first instance trial – typically USD 300k to 2m
- Costs for the IPEC are typically much lower
- In the event of a win, costs are recoverable from the other side (usually around 70% to 80% of costs), BUT
- In the event of a loss, the other side’s costs must be reimbursed (again, typically around 70% to 80%)
- In IPEC costs recovery capped at US$65k
- Note that a claimant based outside the EU may be required to provide security against its costs liability
Essentiality to standard as evidence

- The UK Court has the power to grant (or, of course, to refuse) declarations of essentiality

- The patentee’s own declarations of essentiality in the standard-setting process is not relevant

- A declaration of essentiality inherently means that either (a) the defendant is not complying with the standard, or (b) the defendant is infringing the patent
Eli Lilly v Actavis

- A new doctrine of equivalents
  - Now much broader
- No file wrapper estoppel
The UPC – latest developments

- Germany: Complaint with Federal Constitutional Court against national laws ratifying the Unitary patent package
  - Establishment of courts by an international entity
  - Appointment of judges
  - Language of the proceedings
- Brexit
  - Role of the Court of Justice of the European Union
Contraction Of Patent Litigation In the Federal Courts

- KSR v. Teleflex (2007)
- Uniloc v. USA (2011)
- Alice Corp v. CLS Bank (2011)
Big Change in the Venue Rules
Patent Venue from 1990 to 2017

“It is true that §1391(c) is a general venue statute and that §1400(b) is a specific one. But the general rule that a specific statute is not controlled or nullified by a general statute…does not govern the present situation.”

VE Holding Corp. v. Johnson Gas Appliance Co. (1990)

Federal Circuit read the wide-reaching §1391(c) definition of corporate residence into the specific patent venue statute

Expanded patent venue to any district in which the defendant would be subject to personal jurisdiction
Figure 3.7: Proportion of Study PAE Cases by Judicial District of Initial Complaint

From https://www.eff.org/deeplinks/2016/10/patent-forum-shopping-must-end
Before *TC Heartland*: Nearly half (44%) of all patent cases nationwide brought in E.D. Tex. in 2015

From 7 total cases in 1991 to 2558 total cases in 2015

From [https://www.eff.org/deeplinks/2016/10/patent-forum-shopping-must-end](https://www.eff.org/deeplinks/2016/10/patent-forum-shopping-must-end)
The current version of §1391 does not contain any indication that Congress intended to alter the meaning of §1400(b) as interpreted in Fourco… As applied to domestic corporations, “reside[nce]” in §1400(b) refers only to the State of incorporation.

§1391 was not intended to be read into the definition of “residence” in §1400(b)

8-0 decision:
Overturned Federal Circuit’s VE Holding and upheld the Supreme Court’s Fourco

Effect on Patent Litigation Strategies

January 2017 (Before *TC Heartland*)

- **E.D. Tex.**
- **All other districts**

July 2017 (After *TC Heartland*)

- **E.D. Tex.**
- **All other districts**

Effect on Patent Litigation Strategies

- 350 Motions to Transfer or Dismiss in E.D. Tex. after the *TC Heartland* decision
- Fewer number of new patent infringement suits brought in E.D. Tex.
  - From 25.7 NPE defendants per week to 7.9 after decision
- More suits in District of Delaware and Northern District of California
  - Projected: D. Del: 230% increase
  - N.D. Cal: nearly 300% increase
Federal Circuit’s Venue Test in *In re Cray*

- Venue test from the Federal Circuit’s decision in *In re Cray*:
  - (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

- If any statutory requirement is not satisfied, venue is improper under §1400(b)

- Rejected E.D. Tex’s post-*TC Heartland* four factor test
“Physical Place”

“The district court erred as a matter of law in holding that “a fixed physical location in the district is not a prerequisite to proper venue. The statute requires a “place,” i.e., “[a] building or a part of a building set apart for any purpose” or “quarters of any kind” from which business is conducted.”

*In re Cray (2017)*

A virtual space or electronic communications between people in the district do not constitute a “physical place” under § 1400(b)
“Regular and Established Place of Business”

“A business may be ‘regular,’ for example, if it operates in a ‘steady[,] uniform[,] orderly[,] and] methodical’ manner…In other words, sporadic activity cannot create venue.”

In re Cray (2017)

Business must be carried on “regularly” and not “temporarily”

The “doing of a single act pertaining to a particular business” is not sufficient to create venue
“Place of the Defendant”

- Cannot solely be the place of the defendant’s employee.
- Advertising a place of business or setting up an office is not sufficient.
  - Must conduct actual business from the location.
- If a small business operates from a home, that can satisfy the §1400(b) requirement.
- “[W]hether the defendant owns or leases the place, or exercises other attributes of possession or control over the place” is relevant.
America Invents Act: First Five Years
## Patent Office Litigation

<table>
<thead>
<tr>
<th></th>
<th>Inter Partes Review (IPR)</th>
<th>Covered Business Method (CBM)</th>
<th>Post-Grant Review (PGR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Applicable</strong></td>
<td>all patents</td>
<td>only certain financial patents</td>
<td>only new patents</td>
</tr>
<tr>
<td><strong>Defenses</strong></td>
<td>only prior art patents and publications</td>
<td>most defenses</td>
<td>most defenses</td>
</tr>
<tr>
<td><strong>Timing</strong></td>
<td>no more than 1 year after being sued</td>
<td>any time after being sued</td>
<td>only first 9 months</td>
</tr>
<tr>
<td><strong>Estoppel</strong></td>
<td>raised or could have been raised</td>
<td>actually raised</td>
<td>raised or could have been raised</td>
</tr>
<tr>
<td><strong>Claim Construction</strong></td>
<td>broadest reasonable interpretation</td>
<td>broadest reasonable interpretation</td>
<td>broadest reasonable interpretation</td>
</tr>
<tr>
<td><strong>Burden of Proof</strong></td>
<td>preponderance</td>
<td>preponderance</td>
<td>preponderance</td>
</tr>
</tbody>
</table>
Petitions Filed

--- | --- | --- | --- | --- | ---
17 | 514 | 1,310 | 1,737 | 1,565 | 1,812
8 | 48 | 177 | 149 | 94 | 48
0 | 0 | 2 | 11 | 24 | 41

Legend:
- IPR
- CBM
- PGR
Institution Rates

(FY13 to FY17: 10/1/12 to 9/30/17)

Stay of Litigation Pending IPR

While courts are “under no obligation to stay proceedings pending parallel litigation in the PTAB … judicial efficiency and the desire to avoid inconsistent results may, after a careful consideration of the relevant factors, counsel in favor of a limited stay, even before the PTAB has acted on a petition for IPR.”

*Delphix Corp. v. Actifio, Inc.,* 2014 WL 6068407 (N.D. Cal. Nov. 13, 2014)

<table>
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<tr>
<th>N.D. California</th>
<th>E.D. Texas</th>
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<tr>
<td>62% stay rate</td>
<td>32% stay rate</td>
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</table>
# Sovereign Immunity and Legal Creativity

<table>
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<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>Dec. 2016</td>
<td>PTAB institutes IPR on Allergan patents for Restasis</td>
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<tr>
<td>Jan. 2017</td>
<td>PTAB decides that state sovereign immunity applies to IPRs, barring a challenge to a patent owned by a state university</td>
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<tr>
<td>Sept. 2017</td>
<td>Allergan sells Restasis patents to the St. Regis Mohawk Tribe in NY with license-back</td>
</tr>
<tr>
<td>Sept. 2017</td>
<td>St. Regis Mohawk Tribe moves to dismiss IPRs based on sovereign immunity</td>
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</table>
Are IPRs Unconstitutional?
Are IPRs Unconstitutional?

Whether *inter partes* review—an adversarial process used by the Patent and Trademark Office (PTO) to analyze the validity of existing patents—violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury.

“… a case that has the patent world *on the edge of its seat* …”

“The proceedings not surviving is a possibility that *has the patent community hyperventilating*.”

*Oil States Energy Services v. Greene’s Energy Group*
Are IPRs Unconstitutional?

Whether \textit{inter partes} review—an adversarial process used by the Patent and Trademark Office (PTO) to analyze the validity of existing patents—violates the Constitution by \textcolor{green}{extinguishing} private property rights through a non-Article III forum without a jury.

\textit{Oil States Energy Services v. Greene's Energy Group}

- patents are \textcolor{green}{private} property
- U.S. Constitution, Article III
- Seventh Amendment
Or Are IPRs Constitutional?

• patents are public rights
• Article III does not apply …
• … so Seventh Amendment does not apply either

Where Congress has acted “for a valid legislative purpose pursuant to its constitutional powers under Article I,” it may delegate even a “seemingly private right” to non-Article III courts if the right “is so closely integrated into a public regulatory scheme as to be a matter appropriate for agency resolution.”

Solicitor General Br. in Opp. to Pet.
“When a suit is made of ‘the stuff of the traditional actions at common law tried by the courts at Westminster in 1789,’ … the responsibility of deciding that suit rests with Article III judges in Article III courts.”

Oil States Br.

The Seventh Amendment guarantees federal litigants a jury “[i]n suits at common law,” … “preserv[ing] the right to jury trial as it existed in 1791.”

Oil States Br.
What’s Next?

What’s going to happen?

What should you do?
QUESTIONS?

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THANK YOU!