



OCTOBER 31, 2017 – NOVEMBER 1, 2017

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

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Farella Braun + Martel LLP and Fieldfisher



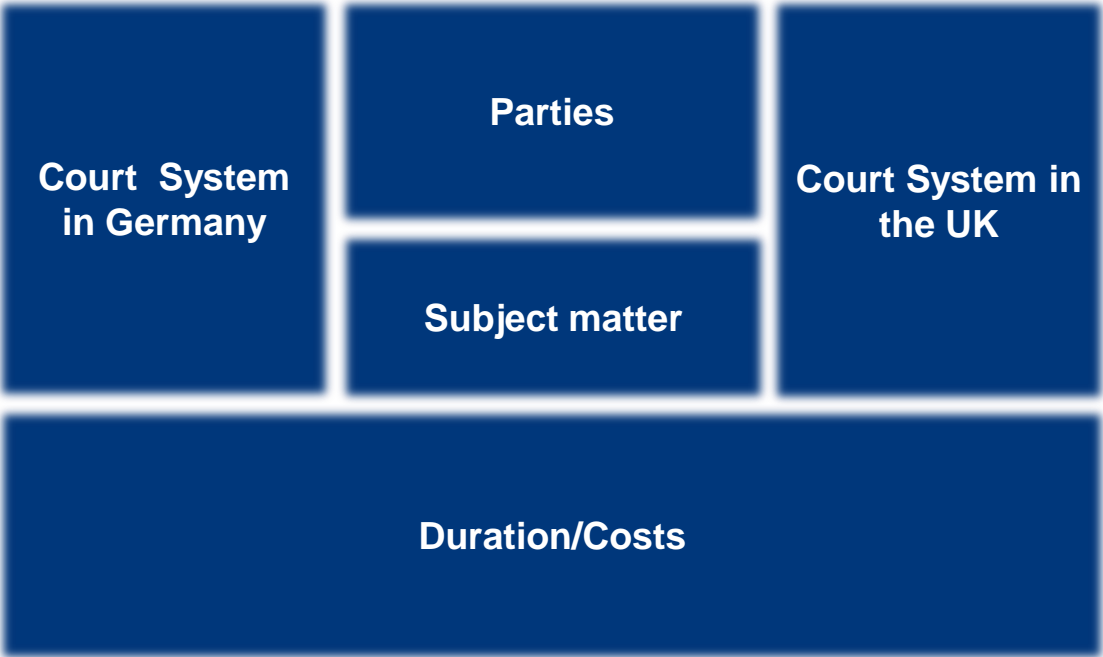
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Patent Litigation in Germany and the UK

Ben Grzimek and David Knight

October 31/November 1, 2017

Agenda



About us





Offices worldwide



A nighttime photograph of a cityscape. On the left, a tall, white, cylindrical tower with a pointed top stands prominently. To its right, several modern buildings with illuminated windows and facades are visible. The scene is reflected in a body of water in the foreground. The sky is a deep blue, and the overall atmosphere is urban and modern.

Patent litigation in Germany

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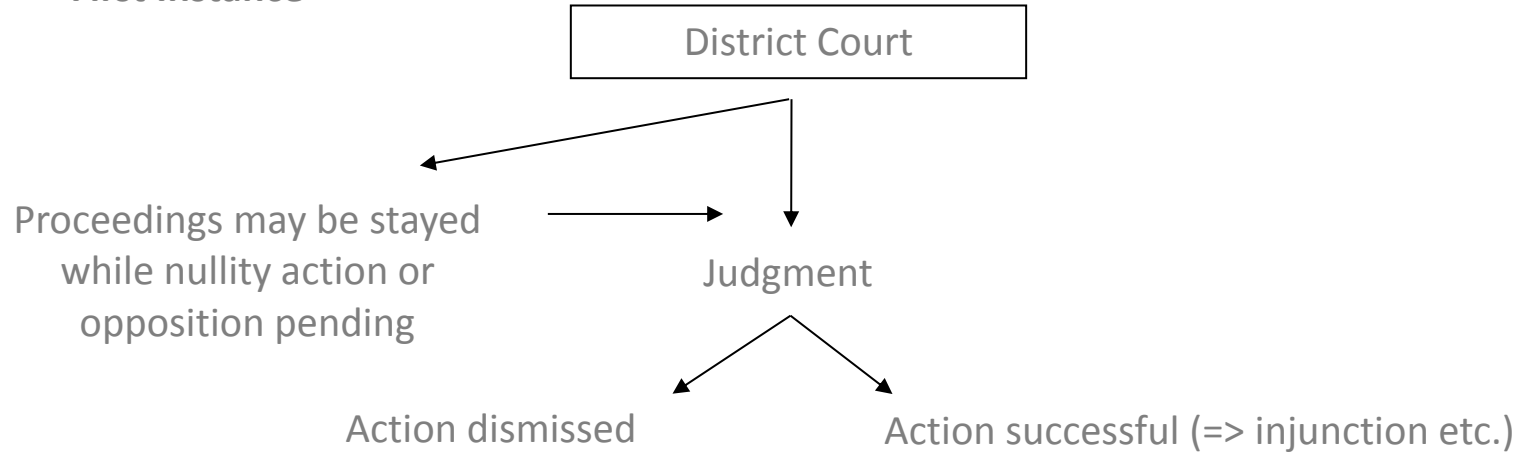
Court System in Germany

- **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



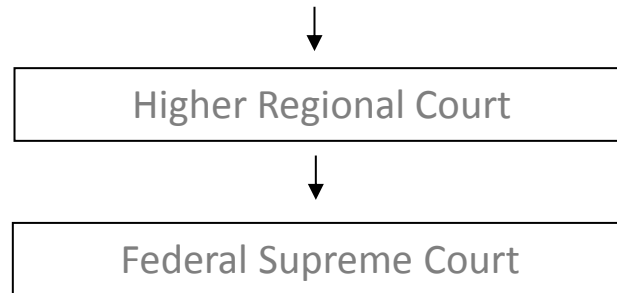
Court System in Germany

First Instance



Appeal

Further Appeal
- to be allowed -





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)

Forum	Actions started (2016)	Duration
Düsseldorf District Court	approx. 500	- If not stayed - 14 – 18 months
Düsseldorf Court of Appeal		- If not stayed - 15 – 18 months

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



Duration (nullity proceedings)

Forum	Duration
Federal Patent Court	approx. 18 – 30 months
Federal Court of Justice	approx. 2 – 4 years



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

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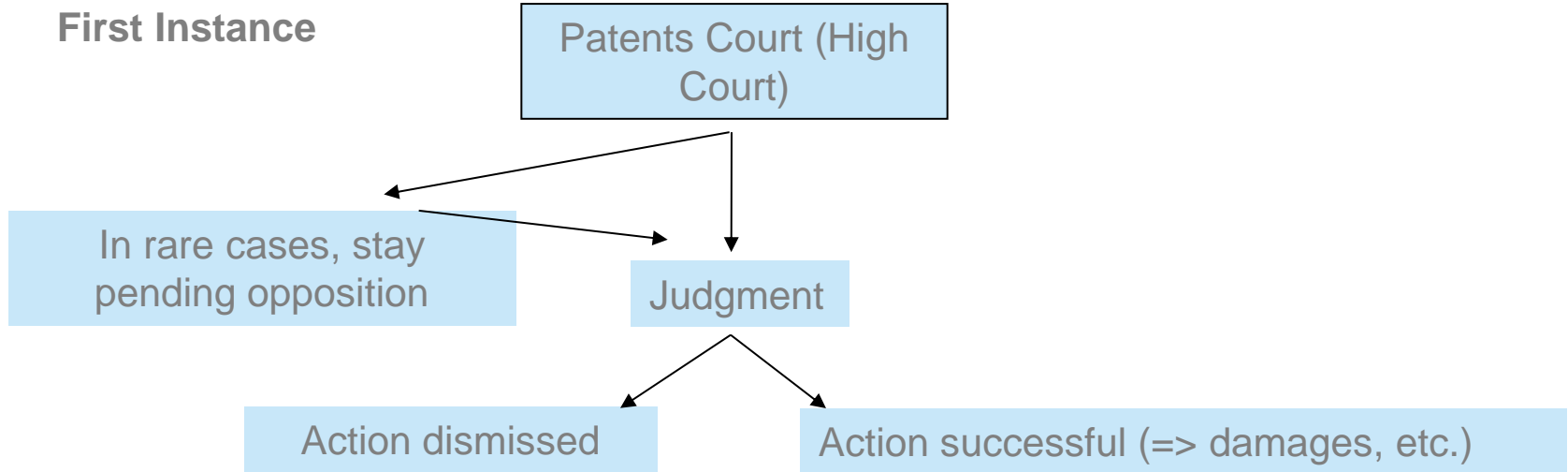


Court System

- **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

Court System

First Instance



Appeal

- often allowed -

UK Court of Appeal

Further Appeal

- rarely allowed -

UK Supreme Court

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



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Contraction Of Patent Litigation In the Federal Courts

- *eBay v. MercExchange* (2006)
- *KSR v. Teleflex* (2007)
- *Bilski v. Kappos* (2010)
- *Uniloc v. USA* (2011)
- *Alice Corp v. CLS Bank* (2011)
- *TC Heartland v. Kraft Foods* (2017)

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.”

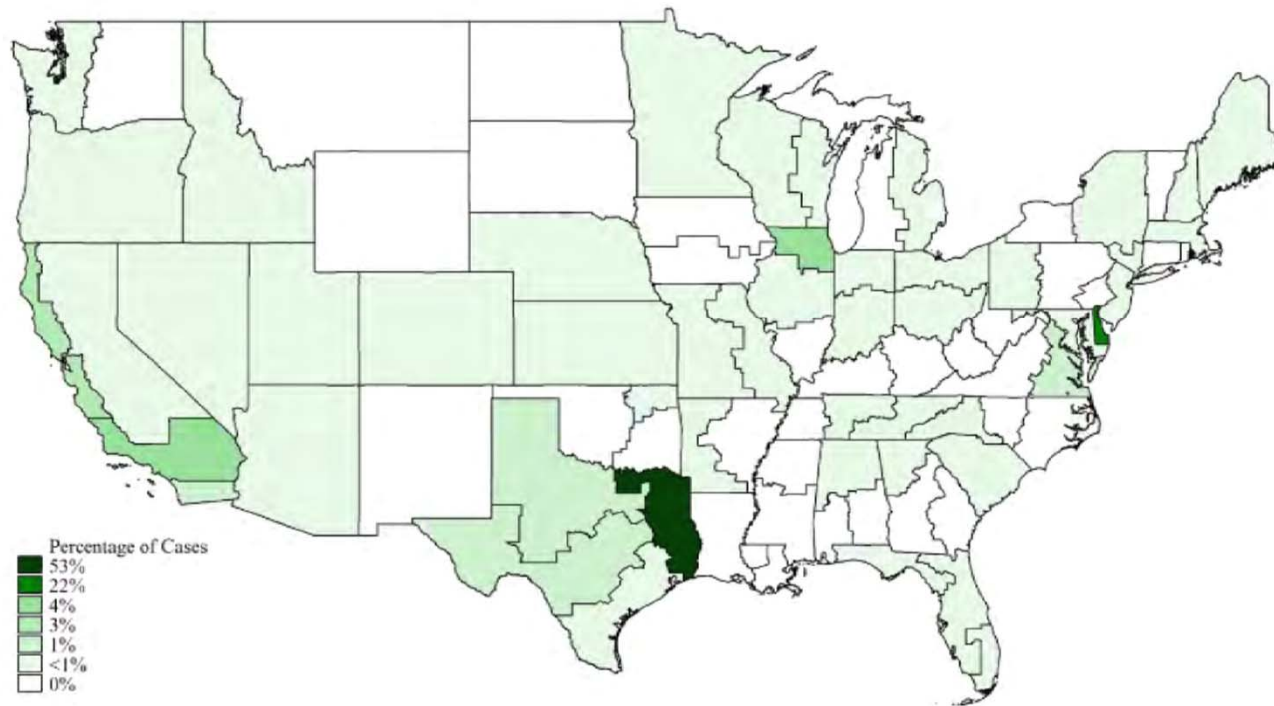
VE Holding Corp. v. Johnson Gas Appliance Co. (1990)

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

Patent Venue from 1990 to 2017

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>

Cases Brought in E.D. Tex. (1990 to 2017)



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>

TC Heartland: What Changed

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.

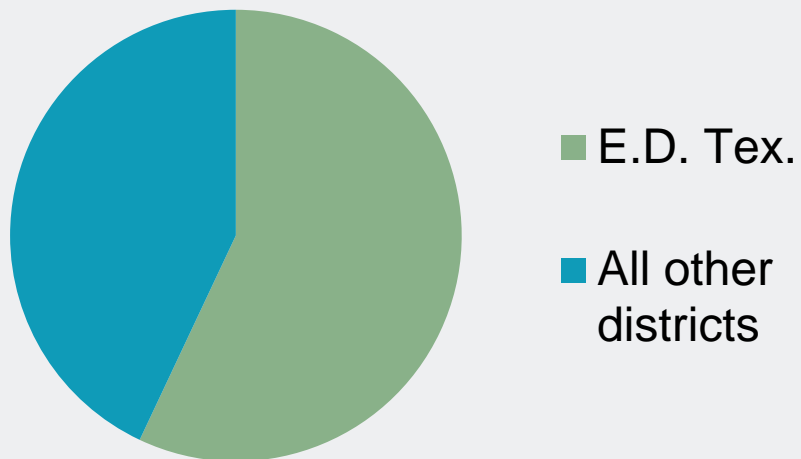
TC Heartland LLC v. Kraft Foods Brand Group LLC (2017)

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

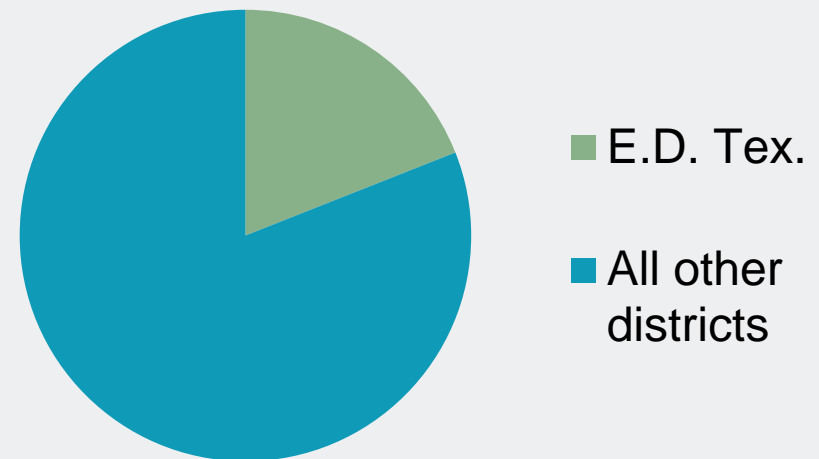
8-0 decision:
Overturned Federal Circuit’s *VE Holding* and upheld the Supreme Court’s *Fourco*

Effect on Patent Litigation Strategies

**January 2017
(Before *TC Heartland*)**



**July 2017
(After *TC Heartland*)**



From <https://www.rpxcorp.com/2017/07/27>

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

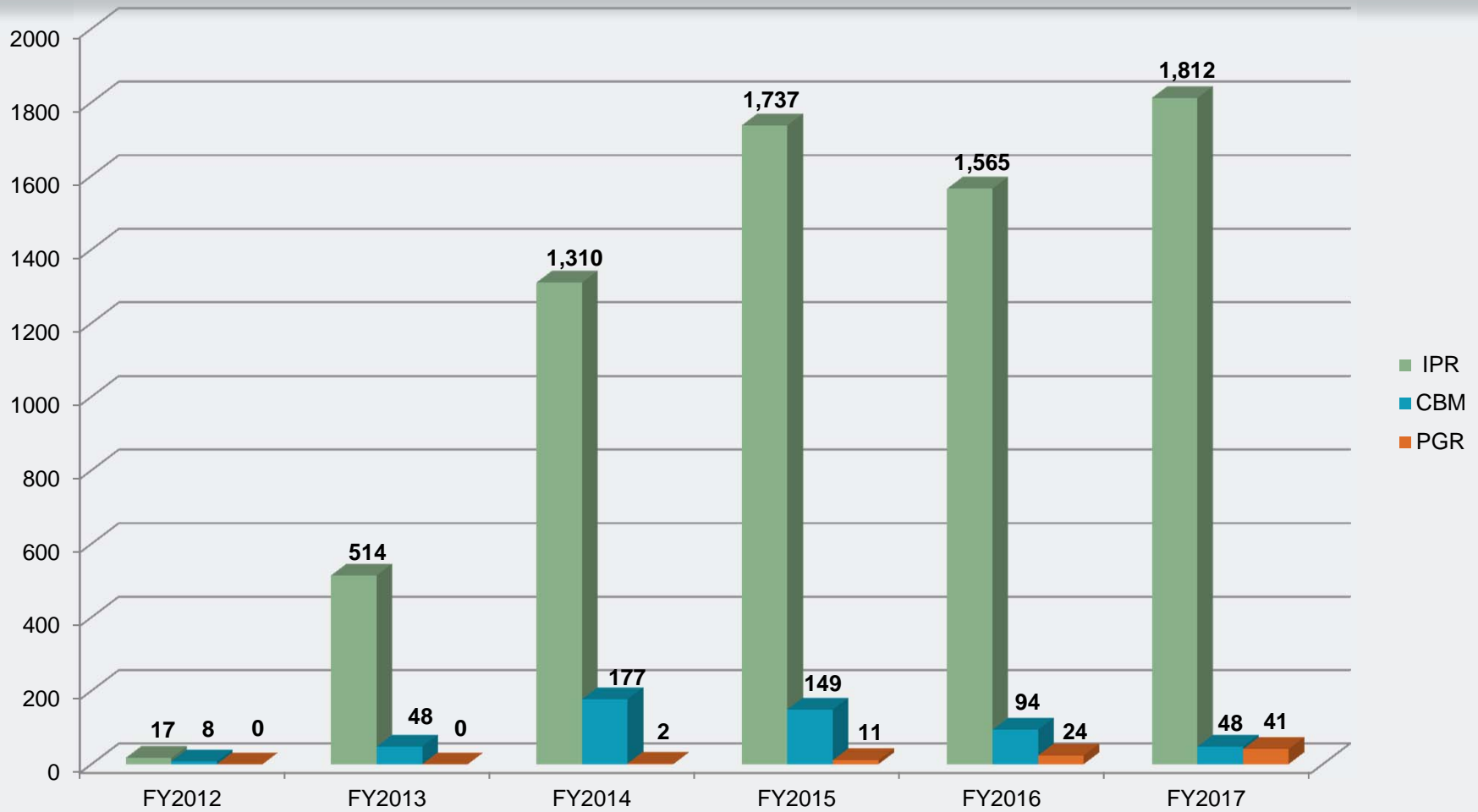
America Invents Act: First Five Years



Patent Office Litigation

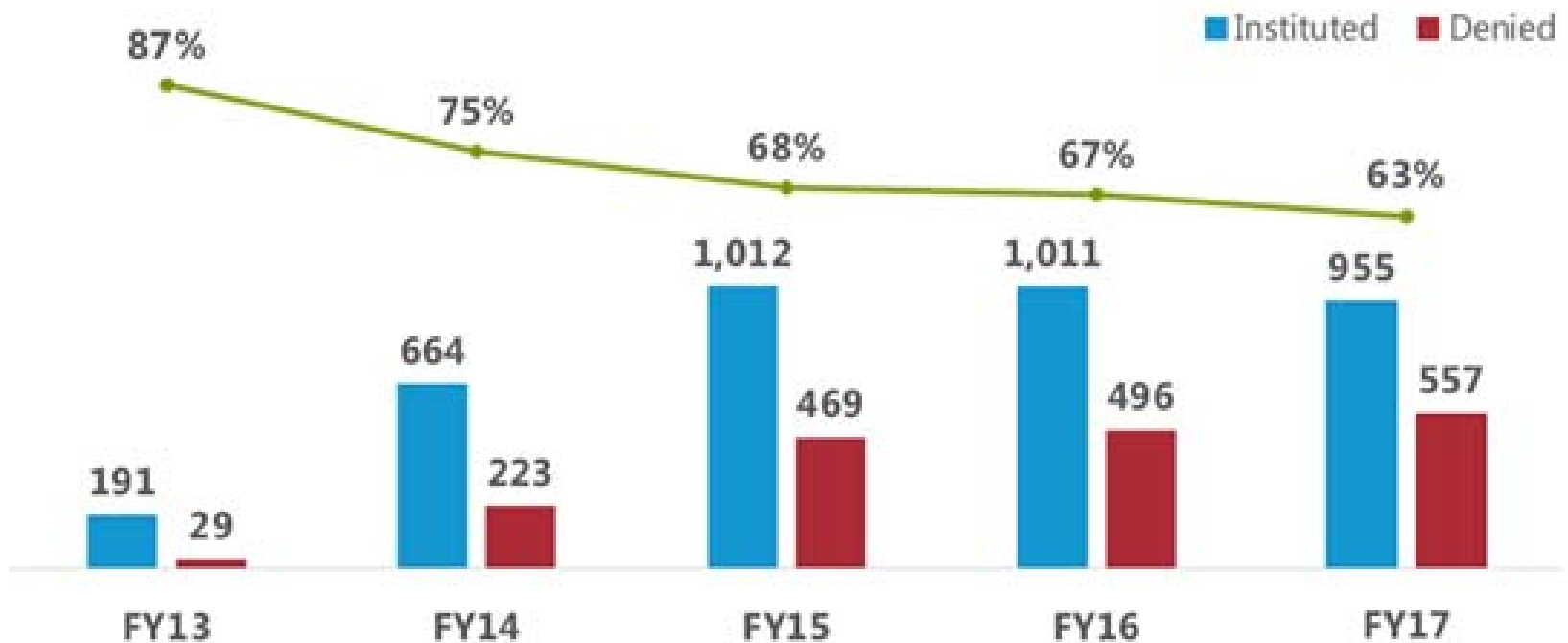
	Inter Partes Review (IPR)	Covered Business Method (CBM)	Post-Grant Review (PGR)
Applicable	all patents	only certain financial patents	only new patents
Defenses	only prior art patents and publications	most defenses	most defenses
Timing	no more than 1 year after being sued	any time after being sued	only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

Petitions Filed



Institution Rates

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



From https://www.uspto.gov/sites/default/files/documents/Trial_Stats_2017-09-30.pdf

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)

N.D. California	E.D. Texas
62% stay rate	32% stay rate

Sovereign Immunity and Legal Creativity

Dec. 2016	PTAB institutes IPR on Allergan patents for Restasis
Jan. 2017	PTAB decides that state sovereign immunity applies to IPRs, barring a challenge to a patent owned by a state university
Sept. 2017	Allergan sells Restasis patents to the St. Regis Mohawk Tribe in NY with license-back
Sept. 2017	St. Regis Mohawk Tribe moves to dismiss IPRs based on sovereign immunity

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.

Oil States Energy Services v. Greene's Energy Group

“... 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.”

Are IPRs Unconstitutional?

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Oil States Energy Services v. Greene's Energy Group

- patents are 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.

What Would Blackstone Have Thought?

“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!