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CD corporate disputes

PATENT DISPUTES

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MINI-ROUNDTABLE

PATENT DISPUTES

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Mike Connor is a partner in Alston & Bird's intellectual property (IP) litigation group. He handles patent infringement and other IP disputes and counselling, and for many years led the firm's national IP practice and IP litigation group. He has experience in technologies such as automotive, orthopedics, cardiology, medical imaging, mobile telephony, computer networks, financial services, robotics, textiles, fibre optics, rare-earth magnets and semiconductors. He has led trial teams in federal courts across the US, at the US International Trade Commission (ITC), and in inter partes review and covered business method trials at the Patent Trial and Appeal Board (PTAB).

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David Fyfield has wide-ranging experience with regard to the creation, exploitation and enforcement of intellectual property rights, in particular in relation to patents, trademarks, design rights and copyright. He has advised on cases before the UK's Intellectual Property & Enterprise Court, High Court and Court of Appeal. He has worked with clients in a wide range of business sectors including healthcare, food and drink retail, engineering, packaging and financial services.

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Sean Sheridan is a principal in the intellectual property practice at Charles River Associates. He provides economic and financial consulting, analysis and expert testimony in complex intellectual property litigation. He has developed numerous damages analyses related to patent infringement, breach of contract and trade secret misappropriation, including analyses quantifying lost profits, reasonable royalties and unjust enrichment. He has analysed commercial success, the economic impact of injunctions and the economic prong of the domestic industry requirement in International Trade Centre (ITC) proceedings. He has also provided financial consulting services for a variety of non-litigation purposes.

CD: In your opinion, what have been the key trends and developments shaping patent disputes over the past 12 months or so?

Sheridan: One of the most significant recent trends has been the sharp decline in petitions for *inter partes* review (IPR) filed at the Patent Trial and Appeal Board (PTAB), one of the most popular venues for patent disputes. At the same time, the rate of unpatentability determinations by the PTAB has also been decreasing. Historically, the speed, cost efficiency and high rate of patent claim invalidation at the PTAB have made IPRs popular with patent challengers. In fact, as the popularity of IPRs has grown, there has, until recently, been a steady decline in the number of patent lawsuits filed in district courts. It will be interesting to see whether the decline in IPR petitions and the decline in patent challenger success continues. If so, these trends could potentially have a significant impact on the patent dispute landscape.

Connor: In the US, the incidence and effectiveness of IPR petitions and trials in the PTAB, concurrent with infringement litigation in federal district court, have continued to evolve. IPRs may not be instituted as readily as in prior years, especially when prior IPR petitions were filed or the litigation is at an advanced stage. Also, the scope of IPR estoppel has become broader, generally.

Fyfield: 2019 was a busy year for patent disputes, particularly in relation to standard essential patents (SEPs) and the terms on which they are licensed, including fair, reasonable and non-discriminatory (FRAND) and reasonable and non-discriminatory (RAND) licences. Following on from the English High Court decision in *Unwired Planet v Huawei* in 2017, upheld by the Court of Appeal in 2018, the UK has become a more popular destination for owners of SEP patents to litigate their disputes, due to the courts' willingness to make a determination with regard to a global FRAND licence, following a finding of infringement in relation to a UK SEP. In addition, the royalties awarded by English courts to SEP owners have tended to be somewhat higher than those in equivalent litigation in other jurisdictions.

CD: To what extent have you observed an increase in the number of patent disputes in today's business world? What are the most common causes of conflict?

Connor: Although the overall number of patent infringement suits filed in 2019 was slightly down from 2018, the number of patent infringement suits filed by non-practicing entities (NPEs) rose slightly in 2019. The most significant increase in patent infringement suit filings took place in the District of Delaware, which has become the busiest court for patent infringement litigation in the US. Causes of conflict depend on industry, but it is common

that conflicts arise when companies in established industries begin to adopt technologies from other fields, for example autos with advanced electronics, or when disruptive technologies emerge.

Fyfield: There was a notable increase in the number of judgments handed down by UK courts in relation to patent disputes in 2019. Given that many disputes are resolved before they reach trial, it suggests that the risk that businesses may find themselves engaged in patent-related conflicts may be on the rise. Patents remain a crucial tool for businesses to protect their innovations. In addition to the growth in litigation in relation to SEPs and FRAND in the tech sector, disputes in the life sciences field remain a staple of patent litigation in the UK. This includes conflicts between innovator pharmaceutical companies, as well as between innovators and generic manufacturers. Areas of contention in the life sciences sector in 2019 included supplementary protection certificates (SPCs), dosage patents, a patent concerning the identification and isolation of a novel human cytokine, and the entitlement of employees to claim compensation from their employers for patented inventions.

Sheridan: While we have not seen an increase in the number of patent cases, it is notable that the significant decline in district court patent cases, which began several years ago, appears to have stopped in 2019. In fact, in each year from 2016 to 2018, the number of new patent lawsuits filed in district courts declined by double digit percentages.

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> *Sean Sheridan, Charles River Associates*

This trend came to a halt in 2019 as the number of new patent cases remained basically unchanged from 2018. There are, of course, numerous causes of patent disputes between operating companies in the business world. However, it is important to keep in mind that NPEs continue to file most new district court cases each year. Unlike disputes involving operating companies that may have a variety of business motivations or goals, for the vast majority of NPEs, the primary objective in a patent dispute is obtaining a royalty or settlement payment from the defendant.

CD: Have there been any legal or regulatory developments which have had a particularly significant impact on patent disputes?

Sheridan: One of the more interesting developments has been the numerous bills that have recently been proposed that seek to limit patent protection for pharmaceutical and biologic products. These bills generally share the goal of reducing drug prices, though they take a variety of approaches to address the issue. These bills have not yet had an impact on patent disputes given that they have not yet been passed into law. While these bills would have a significant impact on patent disputes in the pharmaceutical industry, it is unknown whether they would have their intended effect on drug prices and what, if any, unintended effects they might have on pharmaceutical innovation.

Fyfield: Following on from the UK's departure from the EU, its government announced that it no longer intends to try and participate in the Unified Patent Court (UPC). With or without the UK, the status of the UPC is still in question, due to a challenge to its constitutionality before the German Constitutional Court. A judge of the German Constitutional Court has indicated that it will hand down its judgment in early 2020. If the court finds against the complainant, then Germany is likely to ratify the UPC agreement, and it may come into being in 2021. Assuming the UPC proceeds, it is likely to have a marked impact on patent disputes in Europe, including in the UK. While the UK will no doubt remain a popular venue for patent litigation, with its specialist courts and judges, the ability of the UPC to make decisions covering acts in multiple European jurisdictions provides it with a distinct advantage for businesses.

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Connor: The US Patent and Trademark Office (PTO) issued guidance for subject matter eligibility under Section 101 of the Patent Act in early 2019, with the goal of improving PTO examination and the issuance of stronger patents. Also, in summer 2019, the Senate Judiciary Committee held multiple

hearings concerning the issue of patent eligibility and proposals for revising this aspect of the Patent Act. Many witnesses from industry and professional organisations testified about possible reforms, with differing views being espoused by the electronics and pharmaceutical industries. The matter has not been resolved, in part due to other issues on Capitol Hill this past autumn.

CD: Could you outline any recent examples of court cases and judgments with important implications for the patent dispute arena?

Fyfield: If the UK Supreme Court upholds the judgments of the High Court and Court of Appeal in *Unwired Planet v Huawei*, then the UK's popularity as a venue for FRAND disputes will continue to grow. With the hearing taking place in the latter half of 2019, the Supreme Court's judgment can be expected soon. In *Shanks v Unilever*, the UK's Supreme Court looked again at the entitlement of an employee to claim compensation from their employer in respect of patented inventions developing during the course of their employment. The Supreme Court overturned decisions of the Patent Office, High Court and Court of Appeal in finding that the claimant was entitled to compensation. However, although the Supreme Court's decision suggests it may be somewhat easier to bring a successful claim for compensation than was previously thought to be the case, it is unlikely to result in a flood of similar litigation, as the bar is still set at an intimidatingly high level. Following on from the UK Supreme Court's 2018 decision on second-medical use patents – *Warner-Lambert Company LLC (Appellant) v Generics (UK) Ltd* – we may well also see further disputes in this field, requiring the courts to grapple further with the need for the scope of the claimed invention to be plausible in light of the disclosures in the patent.

Connor: The constitutionality of the America Invents Act (AIA) provisions for appointing administrative patent judges to handle IPRs is under question from *Arthrex v. Smith & Nephew* at the Federal Circuit.

Sheridan: One notable recent case is *Arthrex, Inc. v. Smith & Nephew, Inc*. in which the Federal Circuit ruled that the appointment of administrative patent judges at the PTAB is unconstitutional. This decision is particularly significant because it raises the possibility that many PTAB cases may need to be reheard. Another important case, though not quite as recent, is the Federal Circuit's ruling in *Acorda Therapeutics, Inc. v. Roxane Laboratories, Inc.* In this case, the court applied the 'blocking patent' doctrine, under which evidence that a patent is not obvious, such as evidence of a product's commercial success, is discounted if another patent is considered to have prevented or 'blocked' others from coming up with the claimed invention. Although the blocking patent doctrine existed prior to *Acorda*, this ruling may lead to further applications of the doctrine and may make it harder for patent owners to argue that their patents are not obvious.

CD: In your opinion, how important is it to develop a quick and decisive strategy for resolving patent disputes? Are companies paying enough attention to dispute prevention strategies?

Connor: Patents play different roles in different industries. Most sophisticated technology companies

have strategies in place to avoid disputes relating to a competitors' patents, but that may not be the case in more mature industries that experience change at a slower pace. Whether patent disputes can be resolved quickly and decisively depends on the adversary and court. Sometimes parties with ongoing business relationships can agree to alternative dispute resolution (ADR) methods, such as mediation or arbitration, to resolve disputes that otherwise might go on for years.

Sheridan: It is always a good idea for litigants to have a strategy for resolving patent disputes. However, the potential strategies for resolving these disputes can vary significantly since all patent disputes are different. Each case has a unique set of facts and circumstances and the interests of companies in different industries and markets can vary as well. And although patent ligation can be expensive and time consuming, it is not clear that a quick strategy is necessarily the best strategy. For example, there may be cases where it is helpful to wait for documents to be produced during litigation that may shed light on the opposing party's sales and other financial information before making a settlement offer.

Fyfield: Given the cost of patent litigation, it is vital for businesses to have a strategy in place for effectively dealing with disputes, even if it is not something that they encounter on a frequent basis. Businesses should have mechanisms in place to ensure that potential issues are escalated quickly to relevant management personnel and that well-considered assessments are made with regard to the options available for resolving a dispute. This should involve drawing on the expertise of in-house and external legal counsel, with input on the commercial environment, and from a business's own technical experts, with regard to issues of infringement and validity. Although litigation through the courts remains a key option for resolving disputes, it is also important for businesses to keep an open mind with regard to alternatives, such as mediation, that may result in a satisfactory outcome at a lower cost.

CD: What key piece of advice would you give to companies on effectively protecting their patents and enforcing their rights? What are the essential elements of an ongoing monitoring and detection process, for example?

Fyfield: It remains crucial for businesses to have efficient mechanisms in place for identifying innovations at an early stage, so that they can be kept confidential until their patentability has been assessed and any applications filed. Market intelligence is key for identifying both infringements and patents and patent applications that may pose a risk to a business. Larger businesses will have

systematic patent and infringement monitoring systems in place, which benefit from an in-depth knowledge of the competitors likely to file patents that may be of concern and pose the greatest commercial risk if they commenced acts of infringement. For many businesses, however, investing in the education of staff with regard to their patent portfolio and proposed new products and processes, and in particular those at the customer interface and not just in research and development roles, will help them to identify causes for concern at an early stage.

Sheridan: Companies should think carefully about the economics of any patent litigation upfront. They should begin thinking about potential damages at the beginning of the litigation instead of leaving it as an afterthought to be addressed months or even years later. This is also helpful for the litigation team who can set client expectations regarding potential outcomes. Additionally, companies should do their best to avoid focusing on sunk costs when making decisions about how to pursue or resolve a patent dispute.

Connor: Companies with extensive patent portfolios may wish to have sales representatives monitor competitors. On the other hand, companies that receive notice of a competitor's patent should exercise appropriate care to avoid potential claims for wilful infringement. Companies should ensure that their businesspersons are reasonably educated about the importance of patent rights and the need to report potential patent issues to appropriate management personnel.

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> *Mike Connor, Alston & Bird LLP*

CD: What are your predictions for patent dispute activity over the coming months? What types of disputes do you expect to dominate this space?

Sheridan: Given the decline in IPR petitions and patent challenger success rates at the PTAB, it is possible that we will see an increase in district court cases filed over the coming months. These trends may cause plaintiffs to be more confident

and therefore more willing to file patent lawsuits. Additionally, given the fact that the litigation finance industry has experienced substantial growth in recent years, it is possible that this may also help contribute to a further increase in patent litigation in district courts and other venues. And although it falls outside the scope of purely patent disputes, it is possible that we will also see an increase in trade secret litigation given the substantial trade secret damages amounts that have been awarded in recent cases.

Connor: As a general proposition, the value of IP rights, including patents, has continued to grow in value and now represents a significant portion of the enterprise value of many companies. NPEs continue to assert patents in a wide variety of industries, which is a practice that shows no sign of slowing down. We expect to see more NPE cases in coming months. Disputes in the telecommunications field will continue. Disputes about patents in the financial services and automotive sectors also seem to be increasing.

Fyfield: Disputes in the life sciences and tech sectors are likely to continue to dominate patent dispute activity over the coming months. The UK's Supreme Court is due to hand down its judgment in relation to *Unwired Planet v Hauwai*, which was heard in 2019. If it upholds the judgment of the High Court, the UK will become an ever more popular destination for SEP owners to litigate FRAND disputes. The Supreme Court has also recently heard the appeal in *Regeneron v Kymab*, which concerns patents relating to the production of human antibodies using transgenic mice. The Supreme Court's view on the scope of protection that a patentee is entitled to in view of the inventive contribution disclosed in the patent specification, may have a significant impact on businesses' decisions as to how broadly they should draft their patent claims. CD