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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Patent Litigation Trends To Watch In 2017

By **Ryan Davis**

Law360, New York (January 2, 2017, 1:03 PM EST) -- A pending U.S. Supreme Court case on venue could mark a sea change in patent law and may shift litigation strategies even before it is decided, and patent owners are expected to have better luck defending against eligibility challenges because of recent rulings. Here are trends in patent litigation that attorneys will be tracking in 2017.

Jockeying for Position as Justices Weigh Venue

The Supreme Court's December decision to hear a challenge by TC Heartland LLC to venue rules for patent cases has the potential to upend patent litigation as we know it, and the impact of the case will be felt in the months leading up to the ruling.

The high court agreed to consider the Federal Circuit's longstanding rule that effectively allows patent suits to be filed in any district where the defendant makes sales, which has attracted a vast number of suits to the reputedly plaintiff-friendly Eastern District of Texas. If the justices discard the rule, patent suits would likely shift to other districts.

"The big thing looming over everything is: What is the Supreme Court going to do with the TC Heartland case?" said Jonathan James of Perkins Coie LLP. "Obviously, that could have a massive impact on patent litigation. It may not end, but it will significantly curtail patent litigation in the Eastern District of Texas."

A decision that patent suits must be filed where a company is incorporated or has a place of business, as TC Heartland is calling for, would likely drive patent suits out of Texas and into districts like Delaware, where many companies are incorporated. Since the Texas court's days could be numbered, plaintiffs may rethink their filing strategies in anticipation of the decision.

The possibility of losing out on the perceived advantages of litigating in the Eastern District of Texas could spur nonpracticing entities interested in quick settlements to file even more suits there in the months leading up to the Supreme Court's decision, expected by June.

"It's possible we might see a spike in the short term as people try to get a foot in the door now before the

law changes," said Boris Zelkind of Knobbe Martens Olson & Bear LLP.

However, litigants who expect to see a case through to trial may be more cautious and seek to file in a place where venue challenges won't be an issue even if the law changes in a few months, Zelkind said.

"If companies are in it for the long haul and are not trying to score quick points, they will want to pick a venue that they're going to be able to keep and not torpedo themselves," he said.

Defendants now facing suits in the Eastern District of Texas or another venue they don't want to be in will also do their best in the coming months to use the pending Supreme Court case to their advantage.

For instance, courts may get more motions to dismiss suits for improper venue under Rule 12(b)(3). That argument may be waived if it is not filed before or with the answer to a complaint, and even if the motions are initially denied, defendants will want to preserve the issue and be able to raise it if the Supreme Court changes the venue law.

"We're going to see a lot more 12(b)(3) motions in the next few months, after the bombshell of TC Heartland," said Richard S.J. Hung of Morrison & Foerster LLP. "There's going to be a lot more motion practice on venue while that case is pending."

Defendants may also try to find other ways to ensure that they can take advantage of whatever the high court ultimately says on venue in TC Heartland.

"You might use your lawyering skills to stall a little bit and try to get discovery stayed pending the outcome in TC Heartland," said Nitin Gambhir of McDermott Will and Emery LLP, who noted that "depending on where it goes, the case might be a major shift in where plaintiffs can file their lawsuits."

Hope for Patent Owners Facing Alice Challenges

After the Supreme Court's Alice decision that abstract ideas implemented using a computer are not patent-eligible under Section 101 of the Patent Act, courts invalidated many computer-related patents. However, a series of 2016 Federal Circuit rulings in which patents were found to pass muster under Alice will likely help more patents survive in the coming months, attorneys say.

For nearly two years after Alice was decided in 2014, only one Federal Circuit decision, known as DDR, had found a patent eligible under Alice. That all changed in 2016, when the appeals court handed down several decisions reversing lower court rulings finding computer-related patents ineligible, beginning with a May decision known as Enfish.

Patent owners will cite those decisions extensively when defending against eligibility challenges to their patents, and the precedent will likely persuade more judges to uphold patents under Alice, attorneys say.

"Given the scarcity of cases, there was very little supportive authority for district courts finding a patent

valid under 101," Hung said. "What we're really seeing now is the Federal Circuit tilting back and saying that many computer and internet patents are patentable."

Defendants will still frequently seek to invalidate patents under Alice, but Enfish and the other decisions give courts more precedent to support arguments by patent owners that the claims are valid, he added, so "we're going to see a lot more losses on Section 101 motions than we did previously."

"The Federal Circuit has started to define the outer bounds for 101 motions, so one expects more motions will be denied," he said.

While "the pendulum is swinging back toward patentability of some computer-based inventions," Alice is still a risk for computer-related inventions, said Douglas Nemec of Skadden Arps Slate Meagher & Flom LLP. The attention given to the Federal Circuit rulings upholding patents under Alice obscures the fact that the court also affirmed many ineligibility rulings over the past year, often in summary orders with no opinion, he said.

"It strikes me as incremental movement toward a greater range of patentability of computer-based inventions but definitely not a major change in the law," he said. "None of the decisions speak to a reinterpretation of Alice or a total reset."

More Willfulness Fights to Follow High Court Ruling

Since the Supreme Court's **June decision** known as Halo relaxing the previously strict standard for awarding enhanced damages in patent cases, few cases have progressed far enough for courts to apply the new rules in practice. That could change in the coming months, and attorneys will be closely watching to see how the decision will change litigation.

Under the previous standard, findings of willful infringement and enhanced damages were rare and difficult to obtain. Under Halo, which gave judges broader discretion to decide when enhanced damages are warranted, patent owners are expected to pursue willfulness more aggressively, and enhanced damages could become more common.

So far, "we have not seen cases where people have been hammered with big willfulness rulings," James said, but upcoming litigation will flesh out the high court's standard and clarify the new landscape.

The high court left it to juries to decide if infringement is willful while judges are tasked with deciding whether to enhance damages if willfulness is found. The Supreme Court cautioned that enhanced damages are appropriate only in "egregious cases," and attorneys will be closely watching to see if judges keep that in mind or generally enhance damages when juries find willfulness.

Halo could also lead to a revival of the practice of accused infringers getting letters from attorneys at the outset of a case stating that they don't infringe or the patent is invalid as a defense against arguments later on that they willfully infringed. That was once a common practice but fell away after the Federal Circuit

made willfulness more difficult to prove.

It may now be poised for a comeback, and attorneys will be watching to see how such letters are used in post-Halo cases, said Andrew Thomases of Ropes & Gray LLP.

"I've heard from a lot from a lot of clients about whether they should have opinions of counsel," he said. "Some companies are being more risk-averse and getting opinions, but cases have not progressed enough to know how that will play out in litigation."

The Supreme Court's relaxation of the willfulness standard could give an advantage to patent owners and lead to bigger damages awards, so attorneys will be closely following litigation applying the new standard to see how it works in practice.

"Willfulness is back in play, and it's going to be part of many patent trials going forward," James said. "We haven’t see the full impact of Halo yet."

--Editing by Christine Chun.