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A COLLECTION OF COMMENTARIES ON THE CRITICAL LEGAL ISSUES IN THE YEAR AHEAD

Intellectual Property and Technology: Patent Issues to Watch in 2014

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With key provisions of the America Invents Act (AIA) taking effect and a host of controversial U.S. Supreme Court decisions, 2013 was another active year for intellectual property law. Big cases and big changes will continue to be the trend in 2014, with eight intellectual property cases pending before the Supreme Court and a number of patent reform measures under consideration by Congress.

US Supreme Court

2013 Decisions

AMP v. Myriad Genetics. On June 13, 2013, the Supreme Court ruled that human DNA is not patentable, even when isolated, but “complementary” DNA (cDNA) is patentable because it is synthesized in a laboratory and does not occur naturally. The nuanced ruling followed a flood of amicus briefs from industry groups, human rights organizations and an unsolicited brief from the Department of Justice. As the U.S. Court of Appeals for the Federal Circuit had noted in its decision upholding gene patenting, the U.S. Patent and Trademark Office (PTO) has issued patents related to DNA for nearly 30 years. Not only does the Supreme Court’s decision call for a change in the approach to patenting employed by participants in the life sciences industry, it also continues the Court’s trend toward curtailing patent rights. Yet while the immediate industry reaction to the decision was sharp, a more reasoned view is emerging that sophisticated market participants had sought protection in various forms that remain patentable, including diagnostic tools and applications for DNA discoveries.

FTC v. Actavis. Just days after the *AMP* decision, the Supreme Court ruled on a common practice used in resolving pharmaceutical patent litigation, colloquially known as “reverse-payment” settlements. These settlements often are utilized by brand-name drug manufacturers to forestall a judgment that may result in negating their market exclusivity, in return for granting a generic patent challenger a license to enter the market prior to the scheduled patent expiration date. The practical result is an extended monopoly for the brand-name drug manufacturer and a delayed duopoly with the generic challenger. Whether such settlements have an anti-competitive effect has long been the subject of debate, with some advocating that the settlements allow an unfair extension of monopoly profits, while others maintain that the settlements ensure entry of a generic at an earlier date than might result if the cases were tried to judgment. In its decision on June 17, 2013, the Supreme Court held these settlements are subject to antitrust scrutiny but are not presumptively illegal (see [“Antitrust and Competition: Nonmerger Enforcement Activity Heats Up on Both Sides of the Atlantic”](#)).

Pending Cases

More intellectual property decisions are anticipated in 2014. On November 5, 2013, the Supreme Court heard oral arguments in *Medtronic, Inc. v. Boston Scientific Corp.*, and a ruling is expected on the burden of proof in declaratory judgment actions filed by patent licensees. *Certiorari* also was granted in eight additional intellectual property cases.

Patent. The Supreme Court will hear an extraordinary five patent cases in 2014. Two of these cases will be heard together and are related to the “exceptional case” standard for awarding attorneys’ fees in patent litigation (*Octane v. ICON*; *Highmark v. Allcare*). Currently, the Federal Circuit’s test for exceptional circumstances sufficient to give rise to attorneys’ fees results in only 1 percent of all prevailing parties receiving fees. The Supreme Court’s interest in the fee-shifting issue is no doubt related to the concerns over patent litigation costs and frivolous claims that have prompted the legislative initiatives discussed below. Fee-shifting is meant to curtail spurious patent claims and eliminate weak patents by giving parties the incentive to fight patent suits and collaterally prevent parties from reasserting weak patents. Additionally, the Court will once again tackle the issue of what kinds of inventions are patentable, this time in relation to computer-implemented inventions (*CLS Bank v. Alice Corp.*). The Court also will decide the limits of induced patent infringement where no one entity has committed all the acts necessary to prove infringement (*Limelight v. Akamai*) and the requirement of “particular and distinct” patent claiming (*Nautilus v. Biosig*).

Copyright. The Supreme Court will address two copyright cases. The first involves the application of the defense of laches in copyright cases (*Petrella v. MGM*) (see “[US Supreme Court Cases to Watch in 2014](#)”). The second will decide what constitutes “public performance” of copyrighted material (*ABC v. Aereo*). Aereo is accused of copyright infringement for retransmitting copyrighted material over the internet via remote antennas assigned to paid subscribers. In an unusual move, Aereo urged the Court to hear the case despite prevailing at the lower court.

Trademark. The Supreme Court will decide whether a private party may challenge a food or beverage label as misleading or false under the Lanham Act where that label is already regulated by the FDA (*POM Wonderful v. Coca-Cola*).

Electronic and Computer Patents

The viability of electronic and computer patents is rapidly evolving, with the Supreme Court granting *certiorari* to review the patentability of computer patents in *CLS* and both the Federal Circuit and the Patent Trial and Appeals Board (PTAB) taking steps toward decreasing patent protection for these patents. In its *en banc* decision in *CLS*, the Federal Circuit held a computerized method not patentable because it was merely an abstract idea. The decision may have ramifications for many computer patents, but the test in *CLS* is far from clear, with the 10-judge panel issuing seven different opinions. Indeed, the fractured *CLS* decision and subsequent grant of *certiorari* symbolizes the need for more objective standards to assess patentability of computer-implemented inventions and stands as proof that the Supreme Court’s prior decisions in cases like *In re Bilski* fall short of providing lower courts and industry participants with the necessary guidance on patentability standards.

The AIA created new routes for post-issuance review of patents, aimed at curbing litigation of weak patents by expanding the scope of review outside of litigation proceedings. In 2013 the PTAB began its evaluation of post-issuance review petitions and issued its first set of final decisions in Covered Business Method (CBM) and Inter Partes Review (IPR) proceedings. These review methods, along with Post Grant Review (PGR), may result in canceled patent claims, thereby preventing assertion of those patents. As of November 2013, the vast majority (roughly 70 percent) of AIA petitions related to

electrical/computer patents. Post-issuance review procedures are proving attractive to petitioners because the standard of review is significantly lower than at the district courts, and the PTAB has expressed a willingness to continue review even after petitioners withdraw or settle.

On June 11, 2013, the first and only CBM decision resulted in the cancellation of previously issued claims (*SAP v. Versata*). The PTAB in *SAP*, like the Federal Circuit in *CLS*, applied a broad definition of an unpatentable abstract idea that resulted in the cancellation of Versata's computer claims. The decision and subsequent denial of a rehearing demonstrate PTAB's willingness to cancel previously granted claims even after a final decision of infringement at the district court, affirmation from the Federal Circuit, and a \$300 million damages award. The PTAB decision also led to an influx of CBM petitions, with only 36 applications in the 10 months before the decision and 50 in the four months since *SAP*. However, without further legislation, CBM reviews will end when the AIA's eight-year sunset provision comes into effect in September 2020.

We expect the upward trend in post-grant filings to continue steadily through 2014.

IPR proceedings also have gained traction with 652 petitions and 239 decisions on whether to institute a trial, only 33 of which resulted in denied review. With more decisions likely to be issued in the coming months striking down patent claims, and growing familiarity with the PTAB procedures among practitioners, we expect the upward trend in post-grant filings to continue steadily through 2014.

Potential Patent Legislation

Efforts to revamp patent law and patent litigation are not limited to the Supreme Court or the PTO. In June, the White House Task Force on High-Tech Patent Issues recommended seven legislative measures, and, having just implemented the most extensive revision to the patent laws in decades, Congress continues to initiate patent reforms. While numerous bills have been introduced, the emphasis of most proposed amendments is on nonpracticing entities and the protection of end users. Of the many bills outstanding, the two most comprehensive are the Innovation Act in the House and the Patent Transparency and Improvements Act of 2013 in the Senate. Rep. Bob Goodlatte's (R-Va.) Innovation Act has gained the most traction, with the House passing an amended version, H.R. 3309. The most notable amendment came from Rep. Goodlatte himself, who removed the controversial provision calling for the expansion and permanence of the CBM program. Both bills are aimed at reducing abusive patent litigation by increasing transparency and eliminating hurdles to patent challenges, including heightening pleading standards and instituting mandatory attorney fee-shifting. A pending FTC study of nonpracticing entity litigation likely will embolden these reforms (see "[Antitrust and Competition: Nonmerger Enforcement Activity Heats Up on Both Sides of the Atlantic](#)").