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Asset Tracing in the UK: Impact of Public Registers of Ownership and New Unexplained Wealth Orders

Background

The UK government has made a number of recent moves that have major implications for individuals and entities that hold assets in the UK. In March 2018, the government announced plans to establish the world's first public register of beneficial ownership of non-UK companies that own or buy property in the UK. The government then confirmed, in May 2018, that it also intends to require British Overseas Territories to make their company ownership information currently private public. These upcoming

public registers indicate a clear move toward the public outing of beneficial owners, first promised by former Prime Minister, David Cameron, at his anti-corruption summit in 2016, and will undoubtedly bolster the Unexplained Wealth Order ("UWO") regime introduced in January 2018. Under this regime, law enforcement agencies can apply to the High Court for UWOs to force respondents, located anywhere in the world, to explain how they paid for the asset in question, including property they own in the UK or elsewhere.

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Quinn Emanuel Urquhart & Sullivan Hires Trial Star for Houston Office

Christopher D. Porter has joined the firm's Houston office as a partner. Mr. Porter is an experienced trial lawyer representing both plaintiffs and defendants. He litigates a broad spectrum of business disputes, ranging from breach of contract and trade secret claims to business torts and antitrust disputes. Mr. Porter received his J.D. from the University of Michigan Law School, *cum laude*. He earned his B.A. in Business Administration from University of Texas at El Paso, where he belonged to Alpha Lambda Delta Honor Society. After law school, he clerked for the Honorable Philip R. Martinez in the United States District Court for the Western District of Texas. [Q](#)

Quinn Emanuel Receives Top Rankings in *The Legal 500 USA 2018*

The Legal 500 USA 2018 has recommended the firm as a Top-Tier Firm in seven practice areas, and is recommended in a further 16 practice areas. In addition, the following attorneys have been listed as elite "Leading Lawyers:" Todd Anten, Dan Brockett, William Burck, Jane Byrne, Susheel Kirpalani, Stephen Neuwirth, Steig Olson, William Price, John B. Quinn, Robert Raskopf, Karl Stern, Kathleen Sullivan, and Charles Verhoeven have been recognized as "Next Generation Lawyers," and a total of 65 other QE attorneys have been recommended in their practice areas. [Q](#)

Evette Pennypacker Appointed to Santa Clara Superior Court Bench

Silicon Valley partner Evette Pennypacker has been appointed by California Governor Jerry Brown to the Santa Clara County Superior Court Bench. Ms. Pennypacker joined the firm as an associate in 2003, and was promoted to partner in 2007. She is a multi-talented lawyer, having been ranked among the "Top 250 Women in Intellectual Property" by *Managing Intellectual Property*. Ms. Pennypacker received her J.D. from Hastings College of Law, *magna cum laude* and earned her B.A. at the University of California, Santa Cruz. [Q](#)

These developments will be welcome news to the new Director of the Serious Fraud Office (“SFO”), the UK’s principal investigator and prosecutor of serious corruption, fraud and money laundering. Lisa Osofsky, a former FBI Deputy General Counsel, will take up the post in September 2018 and will be responsible for setting the focus and direction of the SFO. Because of her experience in anti-money laundering and compliance, it is anticipated that she will be keen to use the new tools to target what the government sees as illicit foreign wealth invested in the UK.

Entities and individuals that hold assets in the UK will undoubtedly need to assess the impact of the measures on their portfolios and businesses, including understanding the scope of their obligations and what immediate steps to take to limit any disruptive impact of these new measures.

Public Register of Ultimate Beneficial Ownership for Companies That Own or Buy Property in the UK

The UK government has announced plans for a public register of ultimate beneficial ownership of foreign companies that own or buy property in the UK. The UK government is developing legislation for the register, and intends to publish for scrutiny a draft Bill this summer, aiming for the register to go into effect in 2021. The register will be available on the Companies House website for anyone to view at no charge (*see* <https://www.gov.uk/government/organisations/companies-house>).

According to the proposal published in April 2017, the UK government intends to prevent overseas entities from buying or selling property in the UK unless they have provided beneficial ownership information for the register. *See* Department for Business, Energy & Industrial Strategy, *A Register of Beneficial Owners of Overseas Companies and Other Legal Entities*, (April 2017). It intends to enforce this prohibition through a system of statutory restrictions and notes on the registered titles of applicable properties, as well through criminal penalties.

Entities intending to buy property must apply for a registration number by providing their beneficial ownership information. This registration number will be required to register title to the property. Entities that already own property will be given a one-year compliance or transitional period. They can choose to provide the required information and apply for a registration number, or dispose of the property within the year. Failure to do either will result in a note on the title register of the property, reflecting that the entity is prohibited from transferring title or registering a long lease or a charge over the property unless the entity

is fully compliant. For current owners who do not intend to sell, lease, or mortgage their property, such that a note on the registered title would have limited, if any, impact, the UK government has suggested that criminal offenses would be appropriate. Entities that already own property will still need a registration number to register title to any newly purchased property.

The register will also require entities to update their beneficial ownership information. The UK government initially proposed requiring an update every two years, but is considering increasing the frequency of the update in its published draft legislation. Additionally, entities bidding for government contracts will similarly have to provide their beneficial ownership information for the register.

Because this register will be the first of its kind, it is not yet clear how enforcement of the register’s requirements and penalties for noncompliance will operate. But the UK government has made clear in its plans that noncompliance will lead to restricted transactions and perhaps criminal liability. It will also be a criminal offense to make false or misleading statements on the register. Thus, planning ahead is critical, as full compliance requires several steps and familiarity with the nuances of the register’s requirements. At the very least, entities should understand the following obligations:

Information required. The register requires, among other things, certain information about the ultimate beneficial owner, such as details about his or her identity and the nature of his or her control over the company.

Beneficial Owner. The UK government intends to adopt the same definition of “beneficial owner” that is currently used in the UK’s People with Significant Control register. A beneficial owner would be any person that (1) directly or indirectly holds more than 25% of the shares in the company, (2) directly or indirectly holds more than 25% of the voting rights in the company, (3) directly or indirectly holds the power to appoint or remove a majority of the board of directors of the company, (4) has the right to exercise or actually exercises significant influence or control over the company, or (5) has the right to exercise or actually exercises significant influence or control over a trust or firm that is not a legal entity, which meets one or more of conditions (1) to (4).

Ascertaining Beneficial Ownership. The UK government intends to require overseas entities to take reasonable steps to find out who their beneficial owners are, such as by looking at relevant documents like member or shareholder registers and governing

documents. To ensure the accuracy of reported information, the UK government will also require that overseas entities actually confirm the information with their beneficial owners before reporting it. To the extent that overseas entities are (1) “unable to get full confirmed information from their beneficial owners despite taking reasonable steps to contact them,” (2) “unable to establish if they have any beneficial owners,” or (3) “have carried out investigations and concluded that they do not have any beneficial owners as no person meets a condition for control,” the entities may record such a statement for the register. *Id.* But when entities provide these statements instead of beneficial ownership information, they must also provide information about their managing officers.

Public Register of Company Ownership in British Overseas Territories

On May 1, 2018, the UK government confirmed plans to require the British Overseas Territories, including the British Virgin Islands and the Cayman Islands, to make company ownership information available on public registers, under an amendment to the Sanctions and Anti-Money Laundering Bill. This information is currently private and only accessible by UK law enforcement. The territories have until the end of 2020 to set up the public registers.

These measures have raised concerns to some of the territories. Some individuals and companies who set up entities in the UK overseas territories want their financial information to remain private for legitimate reasons, such as business confidentiality. As a result, public registers may discourage individuals and companies from setting up entities in the UK overseas territories, adversely impacting the territories’ financial sectors. These concerns are compounded by potential issues of constitutional overreaching.

Again, affected individuals and companies will want to take steps to understand precisely what information they will be required to report for the register well in advance of the date it becomes operational. Additionally, care should be taken to ensure that reported information is accurate, as providing false information for public registers constitutes a criminal offense. It is important for affected individuals and companies to plan ahead and consider whether they would be comfortable disclosing the information that will be required, or whether it would be worthwhile considering moving assets to an alternative jurisdiction.

Unexplained Wealth Orders

Since January 31, 2018, certain UK law enforcement authorities can apply to the court for a UWO. To

issue a UWO, a court must be satisfied that (1) there is reasonable cause to believe that the respondent holds the property, (2) there is reasonable cause to believe that the value of the property is greater than £50,000, and (3) there are reasonable grounds for suspecting that the known sources of the respondent’s lawfully obtained income would have been insufficient for the purposes of enabling the respondent to obtain the property. This power was introduced by the Criminal Finances Act 2017, which amends the Proceeds of Crime Act 2002.

A UWO can be used to target a wide range of people. They may be issued against (1) “Politically Exposed Persons,” defined widely to include a person who is, or has been, entrusted with prominent public functions by an international organization or by a non-EEA State as well as their family members, close associates and others connected; or (2) anyone for whom there are reasonable grounds for suspecting their involvement in a serious crime, or those “connected” with someone who is so suspected. *See id.* Both the person being served and property may be outside the UK. Moreover, law enforcement may apply for a UWO without notice, so the respondent may not even be informed that the court is hearing the application. *See* Proceeds of Crime Act 2002, § 362I.

Once issued and served, the respondent must explain, among other things, his or her interest in the property and how he or she paid for it (Proceeds of Crime Act 2002, § 362A). A UWO may also require the respondent to produce documents “in connection with” those disclosures. *Id.* The enforcement authorities may make copies of these produced documents, and may retain them for as long as necessary in connection with an investigation under Proceeds of Crime Act 2002, § 341. Knowingly or recklessly giving false or misleading information in response to a UWO can expose a person to up to two years imprisonment (Proceeds of Crime Act 2002, § 362E).

Failure to comply with the UWO without reasonable excuse results in a presumption that the property is criminal property subject to confiscation. *See* Proceeds of Crime Act 2002, § 362C. The burden then shifts to the respondent to prove it is not criminal property. *See id.* This burden-shifting mechanism makes it easier for the government to confiscate property. Before the UWO regime, the government had the burden of proving that an asset was criminal property before it could be the subject of confiscation proceedings. At the same time that law enforcement applies for a UWO, it may also apply for an interim freezing order over the property at issue. A court may make an interim freezing order if the court considers

the order necessary to avoid the risk that a later recovery order may be frustrated (e.g., the respondent disposes of the property before an order can issue for its recovery). Proceeds of Crime Act 2002, § 362J. If an application for a UWO is made without notice, an application for an interim freezing order must also be made without notice. *Id.*

UK law enforcement agencies have already secured two UWOs against £22 million of property, reportedly linked to a politician from central Asia. The UK Department of Business says that over £135 million of UK property owned by overseas companies is currently under criminal investigation, and the Serious Fraud Office has said that it is considering the use of UWOs in a number of their cases.


As law enforcement authorities and courts apply this newly enacted UWO regime, disputes are likely to arise throughout various stages. For example, disputes could relate to (1) the validity of a UWO and any associated freezing order, (2) allegations of non-compliance or inadequate compliance with the order, (3) the use prosecutors or others can make of the information that the respondent has been forced to hand over, and (4) battles regarding the impact of the freezing orders and prosecutors' attempts to confiscate the property under proceeds of crime legislation. To the extent these disputes may be on the horizon, quickly seeking legal advice may be critical.

Failure to respond within the allocated time-frame detailed in the UWO will result in the property being presumed to be recoverable for the purposes of confiscation proceedings under the Proceeds Of Crime Act 2002. If a respondent provides false or misleading information in response to a UWO, that will constitute a criminal offense carrying a maximum sentence of two years imprisonment. Given these serious repercussions of not responding or responding with false or misleading information, respondents should carefully consider any response to a UWO,

after seeking appropriate legal advice.

Any person who believes their assets may come under scrutiny from UK law enforcement should begin considering how they might respond to a UWO. The response period for a UWO is likely to be short, and therefore leaves the respondent with little time to arrange for the collection and review of any potentially relevant materials, make contact with beneficial owners, mortgagors and so on. Given that the preparation of a response may be time consuming, individuals who may face a UWO should begin gathering information on relevant assets so they are readily able (1) to explain their interest in the property and how they obtained it, and (2) to provide adequate documentation of such explanations if they are so required. Individuals will also want to make sure that they have accurate and reliable records regarding sources of their income and how their income is connected to their assets.

Conclusion

These recent developments in the UK raise understandable concerns for entities and individuals who have assets in the UK and legitimate reasons for preserving the privacy of their asset ownership information. It is critical for these entities and individuals to understand how the new regimes will impact them, and to take preparatory steps, which may include undertaking a review of assets that could potentially fall within the scope of the upcoming requirements or could be targeted by a UWO, to ensure that they can comply swiftly with the obligations imposed upon them. These steps are all the more important if, as is expected, the new Director of the SFO instructs her investigators and prosecutors to focus on tackling what the UK government sees as illicit foreign money in the UK, by making use of a combination of the public registers, UWOs and the various other powers contained within the Proceeds of Crime Act 2002. 

NOTED WITH INTEREST

Strategic Considerations in USPTO *Inter Partes* Review Proceedings in Light of Supreme Court's *SAS* Decision

On April 28, 2018, the Supreme Court issued its opinion in *SAS Institute, Inc. v. Iancu*, 585 U.S. ___ (2018). While not as closely followed as the Supreme Court's decision in *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, 584 U.S. ___ (2018), the *SAS* opinion is likely to have far reaching implications

on the way that Patent Office *inter partes* review proceedings are conducted before the Patent Trial and Appeal Board moving forward.

Before the Supreme Court's *SAS* decision, parties filing *inter partes* review petitions often addressed all claims asserted in district court litigation, regardless

of the strength of the arguments concerning individual claims. The PTAB would evaluate all grounds presented and determine whether there was a reasonable likelihood that the petition would prevail with respect to at least one of the claims challenged in the petition, pursuant to 35 U.S.C. § 314. This evaluation was generally performed on a per claim and per ground basis, and the PTAB would often grant institution on certain presented claims and deny institution on others.

This practice of “partial institution” was the focus of the Supreme Court’s *SAS* opinion. In that case, SAS Institute, Inc. challenged the validity of all 16 patent claims of ComplementSoft’s software patent. The PTAB chose to institute *inter partes* review on 9 claims, denying institution on the remaining 7, and ultimately finding that 8 of the 9 reviewed claims were invalid. SAS appealed the ruling on the ground that the PTAB should determine the validity on all challenged claims in the event the PTAB institutes review on any of the claims.

Addressing the plain text of 35 U.S.C. § 318, which states that the PTAB “shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner...,” the Court held that the PTAB has no discretion to institute on only some of the claims challenged in a petition for *inter partes* review. *SAS Institute Inc.*, 585 U.S. at *4 (quoting § 318(a)). While acknowledging that the PTAB possesses discretion on whether to institute an *inter partes* review at all, the Court found that the statute afforded no discretion as to which challenged claims could be addressed upon a decision to institute a review. *Id.* at *8. As a result, the PTAB must now institute on all claims raised in a petition once a decision to institute regarding any one claim is made, no matter how weak the arguments are for the remaining claims. Correspondingly, a final written decision must be issued on all claims addressed in the petition (pursuant to § 318(a)), increasing the chances for a finding that certain claims addressed in a petition for review are found not invalid and triggering the estoppel provision of 35 U.S.C. § 315(e). Between September 2012 and May 2018, 65% of instituted petitions resulted in all claims upon which review was instituted being found unpatentable, while 16% of instituted petitions resulted in only some claims being found unpatentable (see https://www.uspto.gov/sites/default/files/documents/trial_statistics_20180531.pdf). These percentages are now likely to change, with the number of occurrences in which only some claims are found unpatentable increasing.

Parties wishing to challenge the validity of a

patent through IPR proceedings must now be more cognizant of the claims that they choose to include in their petitions. While previously parties could rely on the PTAB acting as a gatekeeper, using partial institution to deny institution on claims that the PTAB did not find likely unpatentable (and thereby foregoing a final written decision on those claims), petitioners cannot rely on the PTAB to weed out perceived weaker challenges in their petitions prior to institution. While the potential does exist, and the Court did contemplate, that a party may withdraw claims after the initial institution decision, in practice, this may be easier said than done.

Patent validity is often addressed before the district courts and PTAB. While district court proceedings may encompass any argument against the validity of a patent, *inter partes* review is limited to challenges based on novelty and obviousness. See 35 U.S.C. § 311 ¶ 2 (limiting *inter partes* review to §§ 102 and 103 invalidity challenges). As a result, invalidity challenges pursuant to 35 U.S.C. §§ 101 or 112 must be brought in district court. While the PTAB and district courts utilize different rules, PTAB decisions can potentially impact district court proceedings. For example, claim construction decisions at the PTAB can impact claim construction before the district courts, and the issuance of a final written decision by the PTAB results in estoppel of an invalidity ground that was raised or could reasonably have been raised before the PTAB. See 35 U.S.C. § 315(e)(2).

An indefiniteness challenge pursuant to 35 U.S.C. § 112, ¶ 2 is one example of an invalidity argument that cannot be raised in IPR proceedings before the PTAB. Section 112, paragraph 2 requires that the specification of a patent “shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.” Pursuant to the Supreme Court’s decision in *Nautilus, Inc. v. Biosig Instrum., Inc.*, this requirement is met when “a patent’s claims, viewed in light of the specification and prosecution history, inform those skilled in the art about the scope of the invention with reasonable certainty.” 134 S. Ct. 2120, 2129 (2014). Because indefiniteness challenges are not grounded in §§ 102 or 103, the PTAB lacks statutory authority to find a patent invalid as indefinite during an IPR proceeding. In the past, the PTAB has often denied institution on claims that the PTAB could not construe (*i.e.*, were indefinite), but such a denial would now run afoul of the Supreme Court’s holding in *SAS*. Thus, the question now exists as to how the PTAB will treat claims in an IPR

Antitrust & Competition Update

Algorithms and Collusive Agreements. When computer algorithms rather than humans fix the price of goods or services, do the antitrust laws apply? This question is currently vexing antitrust agencies across the globe. Naturally, agencies say yes. However, it is difficult to see legally how algorithmic price fixing without human intervention could facilitate culpable collusion between competitors. The answer, we believe, is not a definitive yes, but rather is determined by the nature of the algorithm and the circumstances in which it is employed. It is a trite but nonetheless relevant observation that if the algorithm facilitates:

(a) explicit collusion, in which an agreement between competitors can be identified, then the antitrust laws will apply;

(b) tacit collusion or conscious parallelism, in which competitors coordinating their behavior without explicit agreement, the antitrust laws would not apply; and

(c) intermediate collusion, in other words collusion that is less than explicit collusion but more than tacit collusion, the antitrust laws may apply. In these circumstances, an antitrust infringement is found where there is evidence of tacit collusion accompanied by other plus factors, such as correspondence or information exchanges between competitors exposing collusive intent. In the European Union, this practice is known as a “concerted practice.”

Broadly, there are three forms of algorithms that are relevant.

The Tactic Collusion Algorithm. This algorithm replaces human pricing decisions with a computer algorithm. It dynamically changes prices according to market demand and without the need for firms to engage in communications with their rivals, thereby replicating tacit collusion. Under current antitrust laws, this type of algorithm is not inherently unlawful and is in fact ubiquitous in the hotel and transportation sectors; it adjusts prices according to demand to minimize the likelihood of empty rooms/seats. However, antitrust violations could arise where firms share their respective tacit collusion algorithms with one another or agree to use a single algorithm. At worst, this would result in unlawful explicit collusion; at best unlawful intermediate collusion. An example of the former is the 2015 U.S. Department of Justice (DOJ) matter of David Topkins. Topkins, a seller of posters, agreed with other firms engaged in the sale of posters to fix prices of posters sold through Amazon Marketplace in the United States. To implement the

agreement, Topkins and his co-conspirators agreed to adopt a specific pricing algorithm for the sale of the posters with the goal of coordinating changes to their respective prices based on market conditions. Of course, it was the existence of the explicit agreement between Topkins and his rivals to jointly implement the tacit collusion algorithm that allowed the DOJ secure a conviction.

Less clear is the situation where rival firms employ the same IT vendor to create a tacit collusion algorithm and the IT vendor uses the same algorithms for everyone. In these circumstances, absent an explicit agreement, the only possible current antitrust violation would be intermediate collusion, and the agency would have to identify relevant plus factors revealing an intention to collude.

The Monitoring Algorithm. This algorithm is created by firms in order to monitor rivals’ market behavior in furtherance to an existing collusive agreement. The monitoring algorithm dispenses with the need for regular meetings, communications and reporting between competitors to ensure compliance with the collusive agreement. Not only may it automatically gather information regarding pricing and other agreed to market terms but also search for deviations and, at its most sophisticated, retaliate against cheats. Of course, explicit collusion such as this is an unambiguous violation of the antitrust rules and the monitoring algorithm is merely a tool created to efficiently invigilate the unlawful agreement. This behavior is clearly caught by existing antitrust laws.

The Machine Learning Algorithm. The machine learning algorithm employs big data, including rivals’ data and decisions, to not only instantly react to price and/or market adjustments, but also to constantly learn and improve. Without human intervention, this algorithm is capable of computing an infinite number of scenarios with the singular aim of maximizing the profits of the firm employing it. This may include learning that interdependency with competitors means that joint profit maximization is in fact the optimal outcome i.e. tacit collusion. It is hard to see this algorithmic collusion falling within the ambit of current antitrust laws.

We anticipate antitrust interest in this area to increase exponentially across all major jurisdictions. Antitrust enforcement against firms that use algorithms to implement their collusive agreement is relatively straightforward. However, it is doubtful that without amending the current antitrust rules, algorithms that facilitate tacit collusion could be prosecuted. If, as

is expected, the frequency of tacit collusive outcomes increases because of the ease with which algorithms facilitate collusion without the need for contact with rivals, governments and antitrust agencies are likely to become more willing to adopt expansive, controversial interpretations of the antitrust rules to bring clearly within their ambit collusive algorithms. They may also seek to amend their antitrust laws to achieve the same aim.

We are already seeing a growing propensity of the antitrust agencies to examine these issues. On June 19, 2018, the French and German antitrust agencies launched a joint project to analyse the above antitrust issues raised by algorithms and identify approaches to address them. At the end of the project, the authorities intend to publish a joint working paper. On July 24, 2018, the European Commission fined, in four separate decisions, consumer electronics manufacturers Asus, Denon & Marantz, Philips, and Pioneer for imposing fixed or minimum resale prices on their online retailers in breach of EU competition rules. The fines were in excess of €111 million. Of interest, each manufacturer appears – the decision has yet to be published – to have deployed algorithmic monitoring tools that not only allowed them to track resale price setting in the distribution network but also to intervene rapidly in case of price decreases. The Commission did not in these cases target the algorithms or their programmers but rather the manufacturers that employed them. Additionally, each manufacturer individually deployed its own algorithm and there was no suggestion that the algorithms facilitated collusion. However, these cases exemplify the growing trend of antitrust agencies to examine the employment of these pricing algorithms and their readiness to challenge companies who use them.

Life Sciences Litigation Update

Federal Circuit Clarifies the Patentability of Method of Use Claims in the Pharmaceutical Field.

Under 35 U.S.C. §101 of the U.S. Patent Act, laws of nature, natural phenomena, and abstract ideas are not patentable subject matter. In the landmark case, *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 566 U.S. 66 (2012), the Supreme Court struck down method claims to optimizing therapeutic efficacy of a drug, leading to concerns surrounding the patentability of pharmaceutical method of use claims. There, the Supreme Court analyzed the claims under a two-step framework to determine patentability under § 101. In step one, the court must determine whether

the claims at issue are directed to a patent-ineligible concept. In step two, the court must consider whether the elements of each claim transform the nature of the claim into a patentable application. Under step two, the claims must contain an “inventive concept” that is sufficient to ensure that the patent claims significantly more than the ineligible concept itself. The claims in *Mayo* required correlating blood levels of certain metabolites with a need to increase or decrease the amount of the drug administered. Under step one, the Court found that the correlation of metabolite levels with the safe and effective use of the drug relied upon a law of nature. Under step two, the Court further found that the remaining claims elements—“administering” the drug and “determining” the metabolite levels—consisted of routine and conventional activity practiced by those of ordinary skill in the art that were insufficient to transform the unpatentable natural law into a patentable application of the newly-discovered correlation. While the *Mayo* Court distinguished the unpatentable claims in that case from “a typical patent on a new drug or a new way of using an existing drug,” the case left some doubt as to what steps were necessary for a claim to a method of using a drug to be considered patentable.

In *Vanda Pharms., Inc. v. West-Ward Pharms. Int'l, Ltd.*, No. 16-2707, – F.3d – (Fed. Cir. Apr. 13, 2018), the Federal Circuit provided some clarification concerning what types of method of use claims pass muster after *Mayo*. In *Vanda*, the Federal Circuit found that method of use claims to an “application” of a natural law were patentable and distinguishable from the “diagnostic” claims in *Mayo*. The claims in *Vanda* were to treating a schizophrenia patient with the drug FANAPT® (iloperidone). Certain patients with lower than normal activity for the gene cytochrome P450 2D6 (“CYP2D6”) do not properly metabolize iloperidone, leading to increased blood levels. The dosage of iloperidone must be reduced in these poor metabolizers to prevent potentially severe adverse events. The claims required determining a patient’s metabolic genotype. If the patient has a CYP2D6 poor metabolizer genotype, then the dose of iloperidone administered to the patient is 12 mg per day or less, rather than the normal dose of up to 24 mg per day. Under step one of the *Mayo* framework, the Federal Circuit found that while the ability of a patient to metabolize the drug depending on their genotype relied upon a law of nature, the claims were not “directed to” a law of nature because the claims included a particular application—specifically, a dosing regimen—based upon the natural relationship. The court did not reach step two of the *Mayo* analysis because it found that

the application of the relationship between iloperidone and CYP2D6 metabolism to treat schizophrenia with specific dosages was a patentably distinct “new way of using an existing drug” that is safer for patients because it reduces the risk” of potentially severe adverse events.

The Federal Circuit distinguished the *Vanda* claims from *Mayo*, because the claims in *Mayo* were essentially diagnostic claims. In other words, the claims in *Mayo* went to determining whether certain metabolites were present following administration of a drug. The presence of the metabolite above or below a certain level would then “indicate” a need to increase or decrease the dose of the drug administered. The Federal Circuit found that the “indicate” step in *Mayo* was critical to a finding of unpatentability. Because the claims in *Mayo* did not actually require adjusting the dose of the drug, they could be infringed if the treating physician determined the metabolite level and merely considered a dose adjustment. In *Vanda*, however, the claims required a specific dose adjustment that was dependent upon the patient’s metabolic genotype. This requirement of a specific dosing regimen in *Vanda* moved the claims out of the realm of “diagnostic” claims and into the realm of “a specific method of treatment for specific patients using a specific compound at specific doses to achieve a specific outcome.” Thus, the Federal Circuit found the *Vanda* claims to be patentably distinct from *Mayo*.

Because the Federal Circuit found that the claims in *Vanda* were not directed to a natural law, it did not reach the question of whether the steps of the claims beyond the naturally occurring metabolic relationship would have been routine and conventional to a person of ordinary skill in the art. This approach was sharply criticized by Chief Judge Prost in her dissent. Judge Prost would have found under step one of the *Mayo* framework that the claims were directed to the natural phenomena of the patient’s ability to metabolize the drug based on their metabolic genotype. She then went on to argue that under step two of the patentability analysis, the “recitation of the specific dosages adds no more than a conventional application of that natural law.” Based on this reasoning, Judge Prost would have found that the claims are directed to a natural law, lack an inventive concept, and, thus, are unpatentable under *Mayo*.

The key difference between the majority and dissenting opinions in *Vanda* is whether the dosing regimen steps provide a basis to find that the claims are directed to a practical application and not to a natural law. The majority found that they did and in doing so answered at least one of the lingering questions left unaddressed by *Mayo*. Going forward, method of use claims in the pharmaceutical field should be held

to clear the patentability hurdle if they include such concrete elements as using specific doses of a specific drug to treat a specific disease. Based on *Vanda*, there should be clarity that these types of claims are safely outside the bounds of an unpatentability finding based on *Mayo*. It is less clear, however, whether claims to treating a disease with a drug but without reciting a specific dosing regimen go beyond claiming a natural law. West-Ward has requested a rehearing *en banc*.

For now, the *Vanda* decision should provide some comfort to innovator pharmaceutical companies that method of use patents to treating a disease with specific doses of a drug are not directed to patent-ineligible subject matter. However, while the *Vanda* decision is precedential, it is always possible that a different Federal Circuit panel more partial to Judge Prost’s reasoning could reach a different conclusion.

Class Action Litigation Update

Justice Gorsuch’s Opinion in Epic Systems Suggests Justice Scalia-Like Hostility to Class Actions.

A professor at Vanderbilt Law School, Brian T. Fitzpatrick, a former law clerk for Justice Antonin Scalia, wrote in a law review article in 2017 that “No Act of Congress, no amendment to the Rules, and no administrative regulation has undercut the class action more than [Justice Scalia’s] FAA [Federal Arbitration Act] opinions.” Brian T. Fitzpatrick, *Justice Scalia and Class Actions: A Loving Critique*, 92 NOTRE DAME L. REV. 1977, 1983 (2017). In light of Justice Scalia’s death, the Senate Democrats’ inability to force a vote on Judge Merrick Garland, President Obama’s nominee to replace Justice Scalia, and the nomination and Senate confirmation of Justice Neil Gorsuch, there is widespread interest in whether Justice Gorsuch will continue Justice Scalia’s hostile treatment of class actions. A May 2018 five-to-four decision written by Justice Gorsuch, *Epic Systems Corporation v. Lewis*, – S. Ct. – (2018), 2018 WL 2292444 (May 21, 2018), provides a rather strong indication that he will.

The Supreme Court’s decision in *Epic Systems* arose from three different lawsuits. Justice Gorsuch, writing for the five member majority of Chief Justice Roberts and Justices Kennedy, Thomas and Alito, phrased the issues the three cases presented as: “Should employees and employers be allowed to agree that any disputes between them will be resolved through one-on-one arbitration? Or should employees always be permitted to bring their claims in class or collective actions, no matter what they agreed with their employers?” *Id.* at *3. In light of how Justice Gorsuch phrased the issues, it is not surprising the five member majority held that


employers can insist as a condition to employment that the employee agrees to resolve any labor dispute in individual, one-on-one arbitration.

Justice Ginsburg in a dissent joined by Justices Breyer, Sotomayor and Kagan, viewed the issue presented rather differently: “Does the Federal Arbitration Act . . . permit employers to insist that their employees, whenever seeking redress for commonly experienced wage loss, go it alone, never mind the right secured to employees by the National Labor Relations Act (NLRA) . . . ‘to engage in . . . concerted activities’ for their ‘mutual aid or protection?’” *Id.* at *18 (quoting NLRA, 29 U.S.C. § 157) (emphasis added). As Justice Ginsburg’s phrasing suggests, at least one hurdle Justice Gorsuch faced in answering that question in the positive (*viz.*, the FLRA does not prohibit employers insisting on one-on-one arbitration of labor disputes) was the quotation emphasized above that Justice Ginsburg included in her question.

Justice Gorsuch solved the issue of why the NLRB’s statutory protection for “concerted actions” for their “mutual aid or protection” did not protect the right to bring class or collective action in arbitration by resort to the interpretative canon of *ejusdem generis*, Latin for “of the same kind.” The canon instructs that when a statute lists certain rights of a similar type, and then includes more general language which could reasonably imply rights of a different type, the only additional rights that should be found are rights of the same type as those specifically enumerated. *See Circuit City Stores, Inc. v. Adams*, 532 U.S. 105, 115 (2001). The language that the NLRA guarantees workers “to engage in other concerted activities for the purpose of collective bargaining *or other mutual aid and protection*” follows protections relating to union organization and collective bargaining, hence Justice Gorsuch limited the emphasized language to *other* union organization or collective bargaining activities, not to banding together in class or collective actions seeking wage claims common to each of them. *See Epic Systems*, WL 2292444, at * 9. In her dissent, Justice Ginsburg characterized Justice Gorsuch’s *ejusdem generis* analysis as “conspicuously flawed.” *Id.* at *23.

Justice Gorsuch had hurdles to mount beyond the broad language of the NLRB, including over 75 years of decisions by the NLRB Board, affirmed by the federal courts, that the NLRB protects employees from employers’ demand they give up rights of class or collective action, *see id.* at *22 (Justice Ginsburg cites

NLRB and federal decisions so holding from 1942, 1943, 1964, 1973, 1980, 1982, 2005 and 2011), as well as language from a Supreme Court decision that the “mutual aid” language reached employees seeking “to improve working conditions through resort to administrative and judicial forums,” which Justice Gorsuch dismissed as “dicta,” *id.* at *13 (quoting *Eastex, Inc. v. NLRB*, 437 U.S. 556, 565-566 (1978)).

Justice Gorsuch’s decision in *Epic Systems* follows the path of Justice Scalia’s class action jurisprudence not only in reaching a result limiting the scope of class actions, but also in his confident, fluent and combative tone. Like Justice Scalia, Justice Gorsuch obviously enjoys a good turn of phrase (“the savings clause still can’t save their cause,” *id.* at *6) and pugilistic jabs at the plaintiffs’ argument (“This argument faces a stout uphill climb,” *id.* at *8) and the dissenting opinion (“like most apocalyptic warnings, this one proves a false alarm” *id.* at *15). The decision in *Epic Systems* indicates that Justice Scalia’s class action jurisprudence is alive and well with Justice Gorsuch as his replacement on the court. 

VICTORIES

Federal Circuit Affirms Invalidity Ruling, Ending Six Years of Litigation

The firm recently achieved an appellate victory at the Federal Circuit for long-time client EIZO Inc. On April 3, 2018, a panel of Judges Timothy Dyk, Raymond Clevenger, and Raymond Chen affirmed District Court Judge Timothy C. Batten, Sr.'s ruling that certain claims of U.S. Patent Reissue No. 43,707 were invalid.

EIZO is a Japanese manufacturer of high-end liquid crystal displays (LCDs) for medical applications (e.g., viewing mammogram images for cancer diagnoses). In 2011, EIZO's chief competitor – Barco N.V. – sued EIZO for infringement U.S. Patent No. 7,639,849 in the Northern District of Georgia. The asserted patent related to image correction in LCDs and the infringement allegations posed a significant risk to EIZO's business in the United States. Two months after Barco filed the infringement action, it successfully sought a reissue of the '849 patent at the U.S. Patent Office to broaden the scope of its original patent and – presumably – to strengthen its infringement positions. The '849 patent subsequently reissued as U.S. Patent No. RE43,707, and removed certain limitations related to measuring light output.

Between 2011 and 2016, the district court case was stayed while the reissue and various post-grant proceedings (*ex parte* reexaminations, *inter partes* reexaminations, and *inter partes* review) were underway. When the smoke cleared, Quinn Emanuel had successfully invalidated a majority of claims that Barco had asserted against EIZO. Undeterred, Barco began litigating the remaining claims aggressively once the stay was lifted in the district court case. Within a few weeks, Quinn Emanuel quickly moved for summary judgment on the grounds that the remaining claims violated the Rule Against Recapture, which precludes a patentee from recapturing scope on reissue that it had previously disclaimed to obtain issuance of the original patent in the first instance. The District Court agreed and invalidated all but three claims *without* the need for oral argument.

In response, Barco dismissed the remaining three claims with prejudice and appealed to the Federal Circuit. Following briefing, the Federal Circuit heard oral argument on April 2, 2018 and issued a summary affirmance of the district court's ruling a mere 24 hours later, resulting in a complete victory for EIZO and Quinn Emanuel.

International Trade Practice Victory

In an age of heightened scrutiny of illegal and unfair trade practices, one of the means by which companies have sought to evade tariffs (such as antidumping and countervailing duty orders) is by “finishing” subject merchandise in a third country. When the Commerce Department issued triple digit antidumping and countervailing duty orders on finished and unfinished OCTG from the People's Republic of China (“PRC”) in 2010, some enterprising economic actors routed unfinished OCTG from the PRC through Indonesia where it was subsequently heat-treated or “finished”. American OCTG producers including Quinn Emanuel's client, U.S. Steel, were directly harmed by this tactic.

The Department of Commerce disagreed with the arguments of the enterprising importers and—applying its substantial transformation test—found that because the OCTG was not substantially transformed in Indonesia, the PRC was still the country of origin and therefore the orders on OCTG from the PRC applied. The Court of International Trade, however, held that Commerce had erred when it applied its substantial transformation test and that instead Commerce should have used the more limited circumvention analysis (under which the OCTG at issue would not be subject to the duties). The Court of International Trade then remanded the case back to Commerce until it conducted a circumvention analysis and determined that the OCTG at issue was not subject to duties. On behalf of U.S. Steel, Quinn Emanuel appealed to the Federal Circuit.

The Federal Circuit vacated the Court of International Trade's relevant orders and held decisively that “Commerce is entitled to use the substantial transformation analysis to determine whether an imported article is covered by antidumping or countervailing duty orders in the first instance.” The immediate consequence of this ruling is that importers will no longer be able to evade tariffs on OCTG from China by finishing the OCTG in a third country and a direct harm to U.S. Steel is foreclosed. A long-term outcome is that Commerce's ability to determine the country of origin in complex cases of globalized manufacture has been recognized and protected. Q

(Noted With Interest continued from page 5)


petition that the challenging party may believe are indefinite, especially if not all challenged claims have this prospective indefiniteness issue.

A popular target for indefiniteness arguments are patent claims written in “means-plus-function” format. Under 35 U.S.C. § 112, ¶ 6 patent claims may “be expressed as a means or step for performing a specified function.” The trade off for reciting a claim using this “means-plus-function” format is that a patent specification must expressly disclose corresponding structure and link that structure to performance of the function recited in the claim. If the specification fails to sufficiently define the corresponding structure for performing the recited function, the claim is invalid as indefinite. When challenging a means-plus-function claim in an IPR, the challenger is required to set forth the purported structure identified by the patent. 37 C.F.R. § 42.104(b)(3). Failure to identify the corresponding structure will often result in a denial to the challenge.

Post-*SAS* decisions rendered by the PTAB on challenges to claims that are likely invalid for indefiniteness may be detrimental to the success of indefiniteness arguments presented in parallel district court proceedings. It is unclear exactly how the PTAB will address a claim raised in a petition that is not amenable to construction, either because the language cannot reasonably inform a person of ordinary skill of the claim’s scope or it recites a means that lacks a disclosed discernible structure. As the PTAB is required by statute to issue a final written decision on any claim for which institution is granted, there is a chance that the Board will be forced to ascribe some meaning or structure to the claim in order to render an opinion on its validity under §§ 102, 103. Alternatively, the PTAB may find a claim limitation not subject to § 112, ¶ 6 in order to avoid the question of indefiniteness, particularly under the “broadest reasonable interpretation” standard. Either of these approaches may make it more difficult to argue before a district court that a claim should be construed as means-plus-function (and therefore found indefinite for a lack of disclosed structure). As a result, the inclusion in an IPR petition of claims that may be best attacked on indefiniteness grounds risks burdening an otherwise successful IPR challenge with a potential adverse holding on a claim that may potentially be better addressed in a district court.

The changes in IPR institution and the possibility of detrimental effects of IPR decisions on claims of indefiniteness have strategic implications for claim selection and jurisdictional decisions. While arguments are often presented in the alternative, and

this is generally considered an acceptable litigation strategy, the PTAB’s need to issue a final written decision on every claim raised in an instituted IPR petition is likely to complicate this strategy in the future, particularly when there are potential district court challenges under 35 U.S.C. § 112 for a claim. This will especially be the case if the PTAB abandons its “broadest reasonable interpretation” claim construction analysis in favor of one consistent in scope with that applied by the district courts, as has been proposed. (*see* <https://www.federalregister.gov/documents/2018/05/09/2018-09821/changes-to-the-claim-construction-standard-for-interpreting-claims-in-trial-proceedings-before-the>).

Those preparing to file IPR petitions must now be more careful in analyzing the strength of their respective arguments at the outset, paying careful attention to the strength of 102 and 103 grounds relative to prospective indefiniteness defenses that may be raised before the district court. While a petitioner may have previously relied upon the PTAB as the gatekeeper to deny institution on claims that were more amenable to an indefiniteness defense, the Supreme Court’s mandate in *SAS* may ultimately result in such reliance becoming a thing of the past. 

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