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INTELLECTUAL PROPERTY LAW

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A. Patentability, Validity, and Procurement of Patents

1. Statutory Subject Matter – Computer Software and Genetic Testing

Bascom Global Internet Services, Inc. v. AT&T Mobility LLC, 827 F.3d 1341 (Fed. Cir. 2016). Bascom sued AT&T for infringing a patent relating to filtering content on the Internet. The district court granted AT&T’s motion to dismiss the lawsuit on the pleadings, finding that the patent claims were directed to a non-statutory abstract idea – namely, “filtering content.” Although the claims were directed to filtering content based on a particular architecture that located customized filters on remote servers where they could not be tampered with by end users, the district court concluded that the content provided on the Internet was not fundamentally different from content contained in books or magazines, which could be censored by parents.

The Federal Circuit vacated and remanded the case. Applying the two-step test announced by the Supreme Court in *Alice Corp. Pty Ltd v. CLS Bank*, the Federal Circuit agreed that the claims failed the first step of the *Alice* test because they were directed to an abstract idea – the notion of filtering content on the Internet. However, in applying the second “inventive concept” step of the *Alice* test, the Federal Circuit concluded that “the inventive concept described and claimed in the ‘606 patent is the installation of a filtering tool at a specific location, remote from the end-users, with customizable filtering features specific to each end user.” According to the Federal Circuit, the invention provided a “technical improvement” over prior art ways of filtering content, and provided a “technology-based solution . . . that overcomes existing problems with other Internet filtering systems.” The court concluded that “By taking a prior art filter solution (one-size-fits-all filter at the ISP server) and making it more dynamic and efficient (providing individualized filtering at the ISP server), the claimed invention represents a software-based invention that improves the performance of the computer system itself.”

Enfish, LLC v. Microsoft Corp., 822 F.3d 1327 (Fed. Cir. 2016). Enfish sued Microsoft for infringing patents relating to a “self-referential” database. The district court granted summary judgment to Microsoft that the patents were invalid because they were directed to an abstract idea. The Federal Circuit vacated the invalidity ruling, concluding that the patent claims were directed to “an innovative logical model for a computer database.” Unlike conventional logical models, the patented logical model stores all data entities in a single table, with column definitions provided by rows in that same table. The Federal Circuit relied in part on the fact that the patent specification disclosed that the indexing technique claimed in the patent allowed for faster searching of data than would be possible with a relational database model, and that it also resulted in more effective storage of data. Applying the first step of the two-part *Alice* test, the court concluded that the claims were not directed to an abstract idea, and hence they were not patent-ineligible. According to the court, “that the improvement is not defined by reference to ‘physical’ components

does not doom the claims, since to hold otherwise risks resurrecting a bright-line machine-or-transformation test . . . or creating a categorical ban on software patents.”

The court also cautioned that in determining whether claims are “directed to” an abstract idea, courts should consider the claims in light of the specification to determine whether “their character as a whole is directed to excluded subject matter.”

According to the court, “In this case . . . the plain focus of the claims is on an improvement to computer functionality itself, not on economic or other tasks for which a computer is used in its ordinary capacity.”

Genetic Technologies Ltd v. Merial L.L.C., 818 F.3d 1369 (Fed. Cir. 2016). Genetic Technologies Limited (GTL) owns a patent directed to analyzing sequences of DNA, which spell out the instructions for synthesizing proteins in the human body. The inventor of GTL’s patent discovered that certain genetic characteristics of a person could be determined by amplifying certain parts of a DNA sequence and analyzing the amplified sequence to detect a particular mutation. Claim 1 of the patent recites a two-step method of detecting a mutation by amplifying a particular part of a DNA sequence and analyzing the amplified sequence. The patent explains that the method can be used to detect a propensity for certain types of inherited diseases, such as cystic fibrosis and muscular dystrophy.

After GTL sued Merial for infringing its patent, the district court granted Merial’s motion to dismiss the lawsuit under Rule 12(b)(6) on the grounds that the patent claimed ineligible subject matter – namely, a law of nature. On appeal, the Federal Circuit applied the Supreme Court’s two-part eligibility test in *Alice Corp. v. CLS Bank*, 134 S.Ct. 2347 (2014). The court concluded that: First, the only asserted claim is directed to a law of nature – a method of detecting a coding region of a person’s genome by amplifying and analyzing a linked non-coding region of that person’s genome. According to the court, “The claim is directed to a natural law – the principle that certain non-coding and coding sequences are in linkage disequilibrium with one another. Applying the second step of the *Alice* test – determining whether the claim contains an “inventive concept” sufficient to transform it into a patent-eligible application -- the court concluded that the claims did not do significantly more than simply describe a natural relationship. Because both steps of the method claim – the “amplifying” step and the “analyzing” step – were well known, there was nothing “inventive” about the claim.

In re TLI Communications LLC Patent Litigation, 823 F.3d 607 (Fed. Cir. 2016). TLI Communications sued various defendants for infringing a patent relating to taking, transmitting, and organizing digital images. The cases were consolidated in the Eastern District of Virginia for pre-trial purposes. The defendants filed a motion to dismiss on the basis that the patent is not directed to eligible subject matter, and the district court granted the motion. The Federal Circuit affirmed. Representative method claim 17 recites steps of recording images in a telephone unit; storing the images in digital form; transmitting the images and classification information to a server; receiving the data at the server; and storing the images in the server based on

the classification. Applying the first step of the *Alice Corp. v. CLS Bank* case, the court concluded that this claim was “drawn to the concept of classifying an image and storing the image based on its classification,” which it agreed was an abstract idea. It noted that, unlike the patent in the *Enfish* decision, this patent was not directed to an improvement to computer functionality. As stated in the patent, the problem solved by the invention was to archive digital images “in such a way that the information therefore may be easily tracked.” The court noted that the patent described the system components in “purely functional terms,” such as “standard features of a telephone” and “a digital photo camera of the type which is known.” The server was described “in vague terms without any meaningful limitations.” The court also explained that the claims were not directed to a solution to a “technological problem” of the type that arose in the U.S. Supreme Court’s 1981 *Diamond v. Diehr* decision. Turning to the second step of *Alice*, the court concluded that nothing in the claims transformed the abstract idea into a patent-eligible application of that idea. Instead, as admitted in the patent specification, the various components of the claims were all known in the art and performed their conventional functions.

Mortgage Grader, Inc. v. First Choice Loan Services Inc., 811 F.3d 1314 (Fed. Cir. 2016). Mortgage Grader owns two patents relating to financial transactions including a method for a borrower to evaluate and obtain financing. It sued two companies for patent infringement, but the district court granted a motion for summary judgment that the patents were invalid because they recited patent-ineligible subject matter. The Federal Circuit affirmed. Applying the first step of the *Alice* test, the court concluded that the claims were directed to the abstract idea of “anonymous loan shopping.” The claim limitations, when considered individually and as a whole, “recite nothing more than the collection of information to generate a ‘credit grading’ and to facilitate anonymous loan shopping.” According to the court, the series of steps covered by the asserted claims – borrower applies for a loan, a third party calculates the borrower’s credit grading, lenders provide loan pricing information to the third party based on the borrower’s credit grading, and only thereafter (at the election of the borrower) the borrower discloses its identity to a lender – could all be performed by humans without a computer. Applying the second step of the *Alice* test, the court agreed that the claims added only generic computer components such as an “interface,” “network,” and “database.” It also concluded that the invention did not result in any improvement in the functioning of the computer or effect any improvement in any other technology or technical field.

In re Smith, 815 F.3d 816 (Fed. Cir. 2016). In this appeal from the PTO, a patent applicant whose application for a method of conducting a wagering game was rejected under 35 U.S.C. § 101 as being directed to non-statutory subject matter appealed to the Federal Circuit. The claims recited a method of conducting a wagering game comprising various steps of a dealer dealing cards, accepting wagers from the players, examining hands and resolving wagers based on certain rules. The patent examiner rejected the claims as being not directed to a patent-eligible category of invention. The PTAB affirmed, concluding under the two-part *Alice* test that the

claims were directed to a wagering game, which was an abstract idea, and that the other various steps such as shuffling the cards were conventional and did not add enough to render them patent-eligible. The Federal Circuit affirmed, concluding under the first step of *Alice* that the claims were directed to a wagering game, which was similar in nature to other “fundamental economic practices” that had been held in prior decisions to be nothing more than abstract ideas. Applying the second step of *Alice*, the court agreed with the PTO that the steps of shuffling and dealing the cards were conventional and lacked an “inventive concept” sufficient to transform the abstract idea into a patent-eligible one.

McRO, Inc. v. Bandai Namco Games America Inc., ___ F.3d ___, 2016 WL 4896481 (Fed. Cir. Sept. 13, 2016). McRO (doing business as Planet Blue) owns 2 patents relating to a method for automatically animating lip synchronization and facial expressions for animated characters, used in applications such as video games. McRO sued various defendants for infringing the patents, but the district court ruled on the pleadings that the patents were invalid under 35 U.S.C. § 101 because they were directed to ineligible subject matter. The Federal Circuit reversed.

Independent claim 1 of one of the patents was deemed to be dispositive for purposes of the appeal:

1. A method for automatically animating lip synchronization and facial expression of three-dimensional characters comprising:

obtaining a first set of rules that define output morph weight set stream as a function of phoneme sequence and time of said phoneme sequence;

obtaining a timed data file of phonemes having a plurality of sub-sequences;

generating an intermediate stream of output morph weight sets and a plurality of transition parameters between two adjacent morph weight sets by evaluating said plurality of sub-sequences against said first set of rules;

generating a final stream of output morph weight sets at a desired frame rate from said intermediate stream of output morph weight sets and said plurality of transition parameters; and

applying said final stream of output morph weight sets to a sequence of animated characters to produce lip synchronization and facial expression control of said animated characters.

The prior art performed animation and lip synchronization using a human animator with the assistance of a computer. Animators would manually determine the appropriate morph weights to apply based on what was in a timed transcript, using subjective judgment to cause the animation to be realistic. The patents criticized this

prior art process as tedious, time consuming, and sometimes inaccurate due to the large number of frames needed to depict speech. The patents aimed to automate the process by applying rules applied to the timed transcript to determine the morph weight outputs taking into account differences in mouth positions for similar phonemes based on context. The automatic rules also produced more realistic speech without the need for human intervention.

The district court, applying the two-step *Alice* framework, found that the claims failed the first *Alice* step because they were “drawn to the abstract idea of automated rules-based use of morph targets and delta sets for lip-synchronized three-dimensional animation.” According to the district court, the claims allegedly covered every set of rules that could have been written to carry out the claimed invention. The district court stated that “while the patents do not preempt the field of automatic lip synchronization for computer-generated 3D animation, they do preempt the field of such lip synchronization using a rules-based morph target approach.”

The Federal Circuit disagreed, noting that “We have previously cautioned that courts must be careful to avoid oversimplifying the claims by looking at them generally and failing to account for the specific requirements of the claims.” The court stated that “a court must look to the claims as an ordered combination, without ignoring the requirements of the individual steps.” The court also rejected the defendants’ arguments that the claims allegedly cover all rules – “The claimed rules here, however, are limited to rules with certain common characteristics – i.e., a genus.” The Federal Circuit explained that “We therefore look to whether the claims in these patents focus on a specific means or method that improves the relevant technology or are instead directed to a result or effect that itself is the abstract idea and merely invoke generic processes and machinery.” Although the claimed invention was performed on a generic computer, there was “no evidence that the process previously used by the animators is the same as the process required by the claims.” According to the court, “It is the incorporation of the claimed rules, not the use of the computer, that ‘improved [the] existing technological process’ by allowing the automation of further tasks. It distinguished *Alice* on the basis that in *Alice*, both the computer-automated process and the prior method were carried out in the same way. The court found that the claimed process used a combined order of specific rules used to create a sequence of synchronized, animated characters.

Electric Power Group, LLC v. Alstom S.A., ___ F.3d ___, 2016 WL 4073318 (Fed. Cir. Aug. 1, 2016). Electric Power Group owns three patents relating to performing real-time performance monitoring of an electric power grid by collecting data from multiple sources, analyzing the data, and displaying the results. The Federal Circuit concluded that “Though lengthy and numerous, the claims do not go beyond requiring the collection, analysis, and display of available information in a particular field, stating those functions in general terms, without limiting them to technical means for performing the functions that are arguably an advance over conventional computer and network technology.” After concluding that the claims failed the first

step of the *Alice* inquiry, the court moved to the second step of *Alice*, concluding that “limiting the claims to the particular technological environment of power-grid monitoring is, without more, insufficient to transform them into patent-eligible applications of the abstract idea.” According to the court, when the claims are “so result-focused, so functional, as to effectively cover any solution to an identified problem,” they inhibit innovation by prohibiting others from developing their own solutions to the problem.

Key take-aways: To the extent possible, patent drafters should describe software-related inventions in such a way that they provide improvements in computer-related functionality, speed, or other measures of performance. Self-serving statements in the patent might come in handy to defend the patent-eligibility of the claims. Also, courts are being encouraged to dismiss lawsuits at the pleading stage for patents that cover ineligible inventions.

2. Written Description – Negative Claim Limitations

Inphi Corp. v. Netlist, Inc., 805 F.3d 1350 (Fed. Cir. 2015). Inphi Corp. filed a request for *inter partes* reexamination of Netlist’s patent relating to a memory module. During reexamination, Netlist amended the claims to recite a negative claim limitation – namely, “DDR chip selects that are not CAS, RAS, or bank address signals.” The Board then confirmed the validity of the claims as amended, and Inphi appealed. On appeal, Inphi argued that the negative claim limitation was not supported by the patent specification. Relying in part on an earlier decision, the Federal Circuit affirmed, concluding that properly describing alternative features, even if particular advantages or disadvantages of such features are mentioned, is sufficient to exclude one of those features as a negative claim limitation. Inphi had argued that the prior case law required that features described as alternatives could not be explicitly excluded in the claims unless there was an explicit reason – e.g., a disadvantage identified for such a feature. The Federal Circuit rejected that argument, relying in part on the MPEP, which states that “If alternative elements are positively recited in the specification, they may be explicitly excluded in the claims.”.

3. Filing a Continuation Application on the Same Day a Parent Patent Issues

Immersion Corp. v. HTC Corp., 826 F.3d 1357 (Fed. Cir. 2016). The patent statute, 35 U.S.C. § 120, permits the filing of a continuation application that obtains the benefit of an earlier-filed patent application, if the continuation application is “filed before the patenting” of the earlier-filed application. In this case, Immersion Corp filed a continuation patent application on August 6, 2002, the same day that the parent application to which it was directed issued. After Immersion sued HTC Corporation for patent infringement, HTC moved for summary judgment that the continuation patent application that ultimately led to the patent in suit was invalid due to an intervening publication of one of Immersion’s earlier-filed patent

applications. The district court agreed, concluding that because the continuation application was filed the same day that the parent patent issued, it was not entitled to the earlier filing date of the parent application – i.e., it was not filed “before the patenting” of the parent application.

The Federal Circuit reversed. Looking first at an 1864 U.S. Supreme Court decision giving rise to so-called continuation applications, the court concluded that the very origins of the later-enacted statutory language were based on a same-day filing. Later court decisions also followed the same-day filing rule. The court next concluded that the 1952 Patent Act merely codified in section 120 the then-prevalent practice of filing continuation applications. None of the legislative history provided evidence of an intent to change from same-day filings to earlier-day filings. The court also acknowledged the U.S. PTO’s longstanding regulations and practice (expressed via the Manual of Patent Examining Procedure) affording an earlier filing date to continuation applications even if they were filed on the same day as the parent patent issued. Finally, the court noted that adopting HTC’s position would disturb over 50 years of public reliance on same-day continuation applications, affecting the priority dates (and potential validity) of more than 10,000 issued patents. “In short, the repeated, consistent pre-1952 and post-1952 judicial and agency interpretations, in this area of evident public reliance, provide a powerful reason to read section 120 to preserve, not upset, the established position.”

4. Obviousness

Apple Inc. v. Samsung Electronics Co., 816 F.3d 788 (Fed. Cir. 2016). Apple sued Samsung for infringing various patents relating to smartphones, including a patent relating to a so-called “swipe to unlock” feature. A California jury found the patents valid and infringed, and awarded Apple \$120 million in infringement damages. The Federal Circuit reversed the validity finding, concluding that two prior art references rendered obvious the “swipe to unlock” feature. The claim required that the phone “continuously move the unlock image on the touch-sensitive display in accordance with the movement of the detected contact.” A first prior art reference showed an unlocking mechanism for a touchscreen allowing a user to unlock a phone by continuously touching the screen of the device in a left-to-right motion. A second prior art reference showed a touchscreen-based toggle switch that shows an image of a moving switch as the user swipes a finger across the screen. The Federal Circuit rejected Apple’s first argument – that the secondary reference “taught away” from the claimed combination because it mentioned that in testing, users seemed to prefer switches that are pushed instead of switches that slide. The Federal Circuit also rejected Apple’s second argument – that the secondary reference was not in the same field of endeavor as the claimed invention, pointing to language in Apple’s own patent specification that the invention broadly related to “transitioning touch screen devices between interface states.” Finally, after considering Apple’s extensive evidence of secondary factors of nonobviousness, including commercial success, long-felt need, copying by others, and industry praise, the court found that the

evidence was not closely tied to the merits of the claimed invention and could not overcome the strong prima facie case of obviousness.

Key take-away: This case again illustrates how even extensive evidence of secondary factors of non-obviousness, such as commercial success, cannot overcome a strong prima facie case of obviousness. Moreover, certain judges on the Federal Circuit seem to give very little weight to such evidence.

Arendi S.A.R.L v. Apple Inc., ___ F.3d ___, 2016 WL 4205964 (Fed. Cir. Aug. 10, 2016). In a rare reversal of a case from PTO’s Patent Trial and Appeal Board (PTAB), the Federal Circuit concluded that the PTAB had improperly relied on “common sense” to find that claims were obvious. Apple filed an Inter Partes Review (IPR) petition against an Arendi patent relating to a computerized method for finding data relating to contents of a document. The PTAB concluded that the claims would have been obvious over a single prior art reference, noting that “We find it reasonable to presume, as a matter of common sense at the time of the invention, that the subroutine in Pandit would search for duplicate telephone numbers and, upon locating a duplicate entry, both the first information and [second] information . . . would be displayed to the user. The Federal Circuit reversed, concluding that “there are at least three caveats to note in applying ‘common sense’ in an obviousness analysis.”

First, common sense is typically invoked to provide a known motivation to combine, not to supply a missing claim limitation, as in *DyStar Textilfarben GmbH v. C.H. Patrick Co.*, 464 F.3d 1356 (Fed. Cir. 2006), where all claim limitations were found in the prior art, and a person of ordinary skill in the art would have combined the references to achieve a cheaper, faster, and more convenient process. Second, in *Perfect Web Techs. v. InfoUSA, Inc.* 587 F.3d 1324 (Fed. Cir. 2009), where common sense was invoked to supply a limitation that was admittedly missing from the prior art, “the limitation in question was unusually simple and the technology particularly straightforward,” merely involving the repetition of a step until the desired number of delivered messages had been received. Finally, the court warned that common sense “cannot be used as a wholesale substitute for reasoned analysis and evidentiary support, especially when dealing with a limitation missing from the prior art.” In this case, the court found the Board’s “utter failure to explain the ‘common knowledge and common sense’ on which it relied is problematic.”

In re Magnum Oil Tools Int’l, Ltd., ___ F.3d ___, 2016 WL 3974202 (Fed. Cir. July 25, 2016). The Federal Circuit reversed the PTAB’s conclusion that a patent was rendered obvious over certain prior art asserted by a challenger in an Inter Partes Review (IPR). According the PTAB, once the PTAB has instituted a trial, showing a “reasonable likelihood of success,” such a finding operates to shift the burden of producing evidence of non-obviousness to the patent holder. The Federal Circuit disagreed, explaining that “it is inappropriate to shift the burden to the patentee after institution to prove that the patent is patentable.” The Federal Circuit also rejected

the PTAB's assertion that the patentee was required to raise its objections in a request for rehearing before the PTAB. "Nowhere does the statute granting parties the right to appeal a final written decision in an IPR require that the party first file a request for rehearing before the Board." Finally, the Federal Circuit admonished the PTAB for adopting an argument that was not actually raised in the IPR petition: "we find no support for the PTO's position that the Board is free to adopt arguments on behalf of petitioners that could have been, but were not, raised by the petitioner during an IPR."

5. On-Sale Bar Not Triggered by Contract for Services

The Medicines Co. v. Hospira, Inc., 827 F.3d 1363 (Fed. Cir. 2016) (en banc), reversing 791 F.3d 1368 (Fed. Cir. 2015). The Medicines Co. owns a patent relating to a drug used as an anti-coagulant. More than one year before filing the patent, the company hired an outside consultant to produce three batches of the drug with a certain level of impurity. After it sued Hospira for patent infringement, Hospira asserted that the contract with the outside consultant constituted an invalidating on-sale bar to the patent. The district court disagreed, concluding that there was not a "commercial offer for sale" of the later-patented drug, but instead only a manufacturing services contract. The Federal Circuit initially reversed, concluding that the commercial sale of services resulted in the patented product-by-process. The court found it significant that the batches were large, each batch having a commercial value of over \$10 million. According to the court, "To find otherwise would allow The Medicines Company to circumvent the on-sale bar simply because its contracts happened to only cover the processes that produced the patented product-by-process. This would be inconsistent with our principle that "no supplier exception exists for the on-sale bar."

After rehearing the case en banc, however, the full Federal Circuit reversed itself and determined that the on-sale bar was not triggered. The court first clarified that "the mere sale of manufacturing services by a contract manufacturer to an inventor to create embodiments of a patented product for the inventor does not constitute a 'commercial sale' of the invention." Next, the court clarified that "stockpiling" by the purchaser of manufacturing services is not improper commercialization under the patent statute. The court stated that commercial benefit – even to both parties in a transaction – is not enough to trigger the on-sale bar; the transaction must be one in which the product is "on sale" in the sense that it is "commercially marketed." The court also found it persuasive that the inventor maintained control over the invention, as shown by retention of title to the produced products.

6. PTAB Proceedings

Cuozzo Speed Technologies, LLC v. Lee, 136 S.Ct. 2131 (2016). Cuozzo owns a patent relating to a speed limit indicator for vehicles. Garmin petitioned the U.S. PTO to institute inter partes review (IPR) regarding certain claims of the patent. The PTO granted the petition and instituted an IPR, resulting in a final written decision finding certain claims obvious and thus invalid. Cuozzo appealed, arguing that (1) the PTO improperly instituted an IPR based on prior art that was not identified in Garmin’s petition; and (2) the PTO should not have applied the “broadest reasonable interpretation” to the patent claims when evaluating their validity. The Federal Circuit affirmed, concluding that (1) the statutory scheme of the AIA prohibits review of a decision whether to institute an IPR, even on direct review of a final written decision; and (2) precedent spanning more than 100 years provided for review under the “broadest reasonable interpretation” before the PTO, in the absence of any statutory authority.

The U.S. Supreme Court affirmed. As to the first issue – i.e., whether a court is barred from considering whether the PTO wrongly determined to institute an IPR, the Supreme Court started with the statutory language, which states that “the determination by the [Patent Office] whether to institute an inter partes review under this section shall be *final and nonappealable*.” It also relied in part on the legislative history of the AIA, which intended to give the PTO broad legal authority to “screen out bad patents.” The Court expressly declined to rule, however, that such statutory language could bar reviews raising constitutional questions such as “where a petition fails to give ‘sufficient notice’ such that there is a due process problem with the entire proceeding,” or a challenge to the PTO acting outside its statutory limits “by, for example, canceling a patent claim for ‘indefiniteness under § 112’ in inter partes review.” As to the PTO’s power to enact its regulation stating that it would give the “broadest reasonable interpretation” to claims during IPR proceedings, the Court agreed that the AIA statute expressly empowered the PTO to issue regulations “establishing and governing inter partes review,” which includes the power to determine how patent claims should be interpreted. The Court also found it instructive that, for more than 100 years, the PTO has applied the “broadest reasonable interpretation” standard for interpreting patent claims during prosecution, and also concluded that the patent owner has the power to amend the claims during an IPR, which gives the patent owner an opportunity to clarify any claim language that is interpreted overly broadly by the PTO.

Blue Calypso, LLC v. Groupon, Inc., 815 F.3d 1331 (Fed. Cir. 2016). Blue Calypso owns 5 patents relating to a peer-to-peer advertising system that uses mobile communication devices. Groupon filed Covered Business Method (CBM) petitions attacking the patents in the U.S. PTO. The Patent Trial and Appeal Board (PTAB) instituted trial on the patents, concluding that they were “covered business methods” and not “technological inventions.” The PTAB then canceled various claims of the patents on the grounds that they were anticipated by prior art.

On appeal, Blue Calypso argued that the PTAB incorrectly classified the patents as “covered business methods.” The statute provides that CBM proceedings are limited to patents “that claim a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.” The Federal Circuit affirmed the PTAB’s determination, noting that the claims referred to “subsidies” provided to users, where “subsidy” was interpreted to mean “financial assistance given by one to another.” The Federal Circuit also rejected Blue Calypso’s argument that the claims were directed to a “technological invention,” pointing to the generic computing elements in the patents. According to the Federal Circuit, “These elements are nothing more than general computer system components used to carry out the claimed process of incentivizing consumers to forward advertisement campaigns to their peers’ destination communication devices.”

Note: Although the statute provides that the PTAB’s determination whether to institute a CBM shall be “final and nonappealable,” the Federal Circuit relied on its 2015 *Versata* decision to conclude that it had the power to decide whether the CBM proceeding was properly instituted.

Ethicon Endo-Surgery, Inc. v. Covidien LP, 812 F.3d 1023 (Fed. Cir. 2016), *reh’g en banc denied*. Ethicon Endo-Surgery owns a patent relating to surgical staplers. Covidien filed a petition for an Inter Partes Review (IPR) against the patent, and the PTAB granted the petition. Thereafter, the PTAB found all the challenged claims invalid as obvious over certain prior art. On appeal, Ethicon alleged that the PTAB’s final decision was invalid because the same Board panel made both the decision to institute the IPR and the final decision, which in its view constituted a due process violation and a process contrary to the intent of the America Invents Act (AIA), which created the IPR procedure. The Federal Circuit rejected the argument, concluding that other adjudicatory proceedings at other agencies had not resulted in due process violations. As to the intent of the AIA, the court held that although the statute gave the power to institute to the Director of the PTO and the final written decision to the PTAB, the Director had the power under the statute to delegate the institution decision-making to the PTAB. The court also found nothing in the statute or legislative history evidencing an intent to separate the institution decision-making from the final written decision.

Genzyme Therapeutic Prods. Ltd v. Biomarin Pharm. Inc., 825 F.3d 1360 (Fed. Cir. 2016). Biomarin filed petitions for Inter Partes Review of two patents owned by Genzyme Therapeutic, and the PTO held various claims of the patents to be unpatentable. On appeal, Genzyme argued that the PTAB improperly relied on prior art references that were not identified in Biomarin’s petitions, thus depriving it of the required notice and opportunity to be heard mandated by the Administrative Procedure Act (APA). The Federal Circuit affirmed. First, the court agreed that the

PTO must provide patent owners with timely notice of the matters of fact and law asserted, such that “an agency may not change theories midstream without giving respondents reasonable notice of the change” and “the opportunity to present argument under the new theory.” Second, the court noted that “the introduction of new evidence in the course of the trial is to be expected in inter partes review trial proceedings and, as long as the opposing party is given notice of the evidence and an opportunity to respond to it, the introduction of such evidence is perfectly permissible under the APA. Third, the court found that Genzyme was provided with adequate notice at the hearings to respond to the new references, allowing it to respond. Finally, the court noted that Genzyme had failed to file a motion to exclude the new references, and it also failed to ask for leave to file a sur-reply allowing it to further respond to the arguments.

Harmonic Inc. v. Avid Technology, Inc., 815 F.3d 1356 (Fed. Cir. 2016). Harmonic filed an inter partes review petition with the PTO challenging various claims of Avid’s patent. The PTO instituted an IPR proceeding on a subset of the grounds raised by Harmonic, finding that other grounds were redundant. Ultimately, the PTO concluded that the instituted grounds did not render the claims unpatentable. Harmonic appealed, challenging both the PTAB’s decision that the instituted ground did not render the claims unpatentable, and also the PTAB’s decision not to institute on alternative “redundant” grounds. The Federal Circuit affirmed, concluding that there was substantial evidence to support the PTAB’s decision that the prior art failed to show one aspect of the claimed invention. As to the PTAB’s decision not to institute trial on alternative “redundant” grounds, the Federal Circuit concluded that such a decision was unreviewable by the Federal Circuit, due to the statutory mandate that a “determination by the Director whether to institute an inter partes review under this second shall be final and nonappealable.”

SAS Institute, Inc. v. ComplementSoft, LLC, 825 F.3d 1341 (Fed. Cir. 2016). SAS filed an IPR against ComplementSoft’s patent. The PTAB instituted trial and found most of the challenged claims unpatentable, but concluded that one of the claims was not proven unpatentable. On appeal, SAS argued that the PTAB improperly changed its claim interpretation for a key claim limitation between the institution decision and the final written description without giving it an opportunity to be heard. The Federal Circuit agreed, based on the requirements of the Administrative Procedure Act (APA). “What concerns us is not that the Board adopted a construction in its final written description, as the Board is free to do, but that the Board ‘changed theories in midstream.’ . . . SAS focused its argument on the Board’s institution decision claim interpretation, a reasonable approach considering ComplementSoft agreed with this interpretation in its patent owner’s response and never suggested that the Board adopt the construction that eventually materialized in the final written decision. It is difficult to imagine either party anticipating that already-interpreted terms were actually moving targets, and it is thus unreasonable to expect that they would have briefed or argued, in the alternative, hypothetical constructions not asserted by their opponent.”

Shaw Industries Group, Inc. v. Automated Creel Systems, Inc., 817 F.3d 1293 (Fed. Cir. 2016). Shaw Industries filed an IPR petition against a patent owned by Automated Creel Systems. The PTAB instituted trial against the claims based on only some of the combinations of references submitted by Shaw. The PTAB stated, without any explanation, that the other grounds submitted by Shaw were “redundant” and declined to institute on those grounds. On appeal, Shaw argued that it would unfairly estopped from raising those non-instituted grounds in litigation because of the estoppel provisions of 35 U.S.C. § 315(e), which provides that a petitioner may not rely on any ground that the petitioner raised or could have raised during the IPR. The Federal Circuit disagreed, pointing out that because the non-instituted grounds did not become part of the IPR, those grounds would not have been raised *during the IPR*.

Synopsys, Inc. v. Mentor Graphics Corp., 814 F.3d 1309 (Fed. Cir. 2016). Synopsys filed an IPR petition against a patent owned by Mentor Graphics. The PTAB instituted an IPR against some, but not all, of the claims requested by Synopsys. On appeal, Synopsys argued that the statute requires the PTAB to issue a final written decision, and thus it was error to render a decision that did not address every claim that Synopsys had included in its petition. Despite the statutory language that 35 U.S.C. § 318(a) directs the PTAB to issue a final written decision with respect to “any patent claim challenged by the petitioner,” that section of the statute could not be read in isolation. The Federal Circuit noted that the statute would make very little sense if it required the PTAB to issue final decisions addressing patent claims for which the IPR had not been instituted. [Disclaimer: Banner & Witcoff represented Mentor Graphics in this case.]

In re Aqua Products, Inc., ___ F.3d ___, 2016 WL 4375651 (Fed. Cir. Aug. 12, 2016). The Federal Circuit granted a rare petition for rehearing en banc and asked for briefing on the following two questions:

- (a) When the patent owner moves to amend its claims under 35 U.S.C. § 316(d), may the PTO require the patent owner to bear the burden of persuasion, or a burden of production, regarding patentability of the amended claims as a condition of allowing them? Which burdens are permitted under 35 U.S.C. § 316(e)?
- (b) When the petitioner does not challenge the patentability of a proposed amended claim, or the Board thinks the challenge is inadequate, may the Board sua sponte raise patentability challenges to such a claim? If so, where would the burden of persuasion, or a burden of production, lie?

Key Take-Away: Validity battles over patents are shifting to the U.S. PTO, which has increased power and authority to invalidate patents under the AIA. If a defendant can get patent litigation stayed pending outcome of proceedings at the PTO, it is

likely that a patent invalidated by the PTO will result in nullification of the infringement litigation.

7. Coined Terminology Can Render Patent Invalid

Advanced Ground Information Systems, Inc. v. Life360, Inc., ___ F.3d ___, 2016 WL 4039771 (Fed. Cir. July 28, 2016). Advanced Ground Information Systems (GIS) sued Life360 for infringing patents relating to establishing a communication network for users of mobile devices. Among other things, the patent claims refers to “a symbol generator connected to a CPU and a database for generating symbols on a touch screen display screen.” The district court interpreted the term “symbol generator . . . for generating symbols” to be a means-plus-function limitation, but concluded that the patent specification did not disclose any particular corresponding structure for performing the recited function. Because there was no such corresponding structure, it ruled that the claims were invalid as indefinite. The Federal Circuit affirmed, noting that even though the claim did not use the word “means,” the phrase “symbol generator . . . for generating” uses an abstract element (“symbol generator”) “for” causing an action. The court also concluded that an expert for the patent owner testified that “symbol generator” was a term “coined for the purposes of the patents-in-suit.” The term was not used in “common parlance or by persons of skill in the pertinent art to designate structure.” The court noted that the term was “simply an abstraction that describes the function being performed (i.e., the generation of symbols.)” Next, because the patent specification did not disclose any particular algorithm for generating symbols, the claim term was indefinite. “In the case of computer-implemented functions, we require that the specification ‘disclose an algorithm for performing the claimed function.’” According to the court, “A patentee cannot claim a means for performing a specific function and subsequently disclose a ‘general purpose computer as the structure designed to perform that function’ because this ‘amounts to pure functional claiming.’”

8. Does the Constitution Preclude PTO Review of Issued Patents?

MCM Portfolio LLC v. Hewlett-Packard Co., 812 F.3d 1284 (Fed. Cir. 2015). In a bold constitutional attack against the PTO’s ability to review the validity of issued patents, the Federal Circuit upheld the right of the PTO to review and revoke issued patents as being not in violation of Article III and the Seventh Amendment to the U.S. Constitution, which guarantees a trial by jury. MCM Portfolio owns a U.S. patent relating to a computer system. Hewlett-Packard (HP) filed a petition with the U.S. PTO seeking *inter partes* review of certain claims of the patent. The PTO granted the petition and canceled the challenged patent claims. On appeal, MCM Portfolio argued that *inter partes* review by the PTO violates the U.S. Constitution because a prior U.S. Supreme Court case had suggested as much. That 1878 decision contained language suggesting that an action by the U.S. PTO to deprive a patent owner of his patent (property) without due process would be “an invasion of the judicial branch of the government by the executive.” The Federal Circuit concluded

that the case “did not address Article III and certainly did not forbid Congress from granting the PTO the authority to correct or cancel an issued patent. The court also concluded that Congress has the power to delegate disputes over public rights to non-Article III courts, such as the PTO. It pointed to more recent decisions of the U.S. Supreme Court upholding the constitutionality of a statute authorizing an administrative agency to determine “fair” rents for tenants.

9. Inventors Have Reputational Standing to Sue to Correct Inventorship

Shukh v. Seagate Technology, LLC, 803 F.3d 659 (Fed. Cir. 2015). Shukh was employed by Seagate and named as an inventor on several Seagate patents. He had a reputation as an extremely successful innovator in the disk drive community. He signed an invention employment agreement that automatically assigned any patent rights in his inventions to Seagate. After Seagate terminated his employment, he sued Seagate under 35 U.S.C. § 256 for correction of inventorship, alleging that he was improperly omitted as an inventor on several other Seagate patents. The district court dismissed the action on the basis that he lacked standing to sue, because his employment agreement with Seagate meant that he had no financial interest in the patents. On appeal, Shukh argued that (1) the Federal Circuit should overturn its case law allowing for automatic assignments of invention rights; and (2) he had standing to sue on the basis of reputational harm, even if he could not show financial harm. The Federal Circuit vacated and remanded, concluding that there was a disputed question of fact as to whether Shukh would have suffered reputational harm, which was sufficient to confer standing to sue due to economic consequences that could flow from lack of being named on more patents. The court noted that it could not overturn its prior case law regarding automatic patent assignments absent action by an *en banc* court.

B. Interpretation and Infringement of Patents

1. Claim Construction

UltimatePointer, LLC v. Nintendo Co., Ltd., 816 F.3d 816 (Fed. Cir. 2016). UltimatePointer sued Nintendo for patent infringement, alleging that Nintendo’s Wii remote control devices infringed its patent for controlling a feature on a computer-generated image. The district court granted summary judgment in favor of Nintendo, concluding that the term “handheld device” in the patent claims should be limited to a “direct-pointing” device and not to indirect-pointing devices such as the Wii. On appeal, UltimatePointer argued that the district court improperly imported statements from the specification into the claims. The Federal Circuit affirmed, noting that “the title of the invention explicitly states that the invention is an ‘Easily-Deployable Interactive *Direct Pointing System*.’” The court also found it significant that the specification repeated emphasizes that the system is for interacting with a presentation in a “direct-pointing” manner, and noted that the patent specification

disparages indirect pointing.

Ruckus Wireless, Inc. v. Innovative Wireless Solutions, LLC, 824 F.3d 999 (Fed. Cir. 2016). After Innovative Wireless sued several hotels and coffee shops for infringing patents allegedly relating to WiFi services, Ruckus Wireless filed a declaratory judgment action against Innovative Wireless, alleging that it did not infringe the patents. The district court interpreted the patents as being limited to wired – not wireless -- systems. Innovative Wireless stipulated that under that construction, no infringement could be found. Although the patents described the system as being connected over physical wires, such as a telephone line, the claims more broadly recited a “communications path,” which Innovative argued could cover wireless systems. The Federal Circuit affirmed the district court’s claim construction. “First, the title of the Terry patents indicates that they are directed to ‘Communicating Information Packets *Via Telephone Lines*.’ Second, the specification describes ‘this invention’ as one ‘particularly concerned’ with ‘two wire lines such as telephone subscriber lines.’ Third, every embodiment described in the specification utilizes a telephone wires.” One judge dissented, discounting the heavy reliance placed by the majority opinion on the title and patent specification.

Trustees of Columbia University v. Symantec Corp., 811 F.3d 1359 (Fed. Cir. 2016). Columbia University sued Symantec for infringing patents relating to computer security. The district court interpreted the claim term “byte sequence feature” to be limited to machine code instructions, instead of more broadly covering other information arranged as a sequence of bytes as Columbia requested. On appeal, the Federal Circuit affirmed, noting that the patent specification stated that the “byte sequence feature” is useful and informative “because it represents the machine code in an executable.” The court also pointed to language in the earlier-filed provisional application, which stated that it represents “machine code in an executable *instead of resource information*,” which the court noted would not include an executable.

Liberty Ammunition, Inc. v. United States, ___ F.3d ___, 2016 WL 4488151 (Fed. Cir. Aug. 26, 2016). Liberty sued the United States for infringing a patent relating to a firearm projectile. At issue in the case was the meaning of the phrase “*reduced area of contact* of said body with the rifling of the firearm,” which the lower court interpreted to mean “less than that of a traditional jacketed lead bullet of calibers 0.17 to 0.50 BMG.” The lower court noted that the Background of the Invention explains that the patent’s proposed projectile has “a reduced contact area as compared to conventional projectiles.” The Federal Circuit noted, “The question then becomes: What constitutes a conventional projectile?” The specification mentioned only a single specific projectile – the M855 round. The court also noted that the specification mentioned the M855 round in conjunction with NATO, so the court held that a person of skill in the art would have looked to a standard NATO-issued round of caliber at the time of the patent. Based on these statements, the Federal Circuit ruled that the claim should be interpreted to be require a reduced area of contact with reference to the M855 round for 5.56 mm projectiles and the M80 round

for 7.62 mm projectiles. The court also noted that the lower court’s interpretation – comparing the area to “conventional projectiles” – would not be definite because it would not provide an objective boundary around the term of degree “reduced area of contact.” Because there was no evidence that the patent owner tested the accused projectiles against the predecessor M855 projectiles or the predecessor M80 projectiles, it ruled that the government did not infringe the claims of the patent.

In re CSB-System International, Inc., ___ F.3d ___, 2016 WL 4191525 (Fed. Cir. Aug. 9, 2016). CSB is the owner of a patent directed to a circuit arrangement for integrating an electronic data processing system with telephone systems. A third party requested ex parte reexamination of the patent, which was granted. During examination, consistent with existing case law, the examiner applied the “broadest reasonable interpretation” to the patent claims, and rejected the claims based on prior art. The patent owner appealed, and while the proceeding was on appeal, the patent expired. The PTAB nevertheless continued to apply the “broadest reasonable interpretation” to the claims, instead of relying on the *Phillips* standard applied by district courts. The Federal Circuit held that it was erroneous for the PTAB to continue applying the “broadest reasonable interpretation” to the claims after the patent had expired, even though this would mean that the PTAB would be applying a different standard than the patent examiner had applied. Nevertheless, even under the *Phillips* standard, the Federal Circuit affirmed the decision.

2. Disclaimer of Claim Scope

Openwave Sys., Inc. v. Apple Inc., 808 F.3d 509 (Fed. Cir. 2015). Openwave sued Apple for infringing patents relating to mobile devices. The only issue on appeal was whether the claims should be given their ordinary meaning, or whether – as the district court found – the patents, through repeated disparagement in the specification, disclaimed mobile devices that contain “computer modules.” The Federal Circuit affirmed, noting that the patents stated in one place that “cellular telephone 100 is not a combination of a computer module and a wireless communication module as in prior art attempts to create an intelligent telephone,” and that in another place, the patents stated that “The combination of a wireless communication module with a computing module leads to a device that is too bulky, too expensive, and too inflexible to address the market requirements.”

C. Enforcement of Patents

1. Permanent Injunctions – No Need to Show Infringing Features Are “Predominant Reason” for Purchasing Competitor’s Products

Apple Inc. v. Samsung Electronics Co., 809 F.3d 633 (Fed. Cir. 2015). In a case that ping-ponged back and forth three times between the district court and the Federal Circuit, in this case the Federal Circuit concluded that the district court erred in denying Apple a permanent injunction. Apple had sued Samsung for infringing

various patents, including a patent on a “slide-to-unlock” feature on its phone. After a jury found the patents valid and infringed, the district court denied Apple’s motion for a permanent injunction against Samsung on the basis that there was no evidence that the infringing slide-to-unlock feature was the “predominant reason” that consumers purchased Samsung’s phones. Although the Federal Circuit agreed that there must be a “causal nexus” between the infringement and the alleged harm, “it was legal error for the district court to effectively require Apple to prove that the infringement was the sole cause of the lost downstream sales. The district court should have determined whether the record established that a smartphone feature impacts customer’s purchasing decisions.” According to the Federal Circuit, “The district court erred when it required Apple to prove that the infringing features were the exclusive or predominant reason why consumers bought Samsung’s products to find irreparable harm.”

2. Attorney-Client Privilege Extended to Patent Agents

In re Queen’s University at Kingston, 820 F.3d 1287 (Fed. Cir. 2016). In a matter of first impression, The Federal Circuit held that the attorney-client privilege should be extended to patent agents. Queen’s University is the owner of various patents relating to user interfaces. Queen’s University sued Samsung in the Eastern District of Texas for infringing the patents. During fact discovery, Queen’s university refused to produce certain documents with its patent agents (not attorneys) that it alleged were covered by the attorney-client privilege. Samsung moved the district court to compel production of the documents, which the district court granted, concluding that because the patent agents were not attorneys, no such attorney-client privilege applied. Queen’s University filed a petition for a writ of mandamus with the Federal Circuit, and the Federal Circuit reversed.

First, the Federal Circuit concluded that although regional circuit law would normally apply to procedural issues on appeal, it would apply its own law in this case, because the question of attorney-client privilege in the patent context involved a substantive patent law issue. Next, the court found that mandamus was appropriate, because the confidentiality of the communications would be forever lost if review of the decision was denied until after final judgment. The court then acknowledged that it had the power, under Rule 501 of the Federal Rules of Evidence, to define new privileges by interpreting common law principles. Finally, the court held that communication with patent agents should be protected for the same reason that communication with attorneys should be protected – to encourage full and frank communication between counselors and clients, to thereby promote broader public interests in the observance of law and administration of justice. It recognized that courts had refused to extend privileged communications to other non-attorney counselors, such as accountants, but pointed to a 1963 U.S. Supreme Court decision declaring that “the preparation and prosecution of patent applications for others constitutes the practice of law.” The court cautioned, however, that the scope of the privilege was limited to the scope of activities authorized by the patent statute and the patent office -- namely, the

preparation and prosecution of patent applications and advice regarding such applications. For example, a patent agent's opinion regarding the validity of another person's patent, or infringement of a patent, would not be protected by the privilege. Judge Reyna dissented, rejecting the creation of a new type of privilege.

In re Silver, No. 05-16-00744-CV, ___ S.W.3d ___, 2016 WL 4386004 (Tex. Ct. App. Aug. 17, 2016). The Texas Court of Appeals rejected the Federal Circuit's decision in *Queen's University* and ordered a lower court to resume compelling Silver to produce more than 300 emails between him and his patent agent. The Texas court concluded that *Queen's University* was not binding on Texas courts, since the action was a state court civil suit seeking ownership over the patents at issue, not a federal case involving substantive patent issues. According to the court, it was powerless under Texas law to declare new privileges such as the patent-agent privilege.

3. Infringement Damages for Design Patents – No “Apportionment”

Apple Inc. v. Samsung Electronics Co., 786 F.3d 983 (Fed. Cir. 2015), *cert granted*, 136 S.Ct. 1453. [Note: this case was covered last year, but now the U.S. Supreme Court has granted certiorari.] In this long-running dispute between Apple and Samsung involving patented smartphone technology, a jury awarded Apple damages against Samsung based on Samsung's "entire profit" for infringement of Apple's design patents. Samsung appealed, arguing that the jury should have been instructed that Apple could only recover damages for "profit attributable to the infringement." The Federal Circuit rejected this argument, concluding that the wording of the design patent infringement statute – 35 U.S.C. § 289 -- permits an award of the "total profit" made by the infringer, without any apportionment. In a footnote, the court dismissed the concerns of a group of law professors who had filed an amicus brief urging that such a rule "makes no sense in the modern world." According to the Federal Circuit, "Those are policy arguments that should be directed to Congress."

4. What Constitutes “Actual Notice” for Pre-Issuance Damages

Rosebud LMS Inc. v. Adobe Systems Inc., 812 F.3d 1070 (Fed. Cir. 2016). In a case of first impression, the Federal Circuit held that the patent statute's provision in 35 U.S.C. § 154(d) allowing damages for infringement occurring after a patent application is published but before the patent issues – which requires that the infringer had "actual notice of the published patent application" – does not require that the patent owner affirmatively notify the accused infringer of the publication. Instead, as long as the accused infringer had actual (not constructive) knowledge of the publication, the notice requirement would be met. The court also rejected the patent owner's argument that mere knowledge of a related patent application sufficed to show actual notice of the patent itself.

5. Enhanced Damages for Willful Infringement

Halo Electronics, Inc. v. Pulse Electronics, Inc., and *Stryker Corp. v. Zimmer, Inc.*, ___ U.S. ___, 136 S.Ct. 1923 (2016) (two cases). The patent statute allows a court to increase patent infringement damages up to three times actual damages, which has been interpreted by the courts to be limited to cases involving “willful” patent infringement. In 2007, the Court of Appeals for the Federal Circuit in its *Seagate* decision announced a two-part test for establishing “willful” infringement: First, the patent owner must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. This first part of the test could be defeated by an infringer showing that the infringer raised a “substantial question” as to the validity or infringement of the patent. Second, the patent owner must also show by clear and convincing evidence that the risk of infringement was either “known or so obvious that it should have been known to the accused infringer.”

In the first of these two cases, Halo Electronics sued Pulse Electronics for patent infringement, and a jury found that Pulse willfully infringed its patents. Applying the Federal Circuit’s *Seagate* framework for determining whether to increase the damage award, however, the district court determined that at trial, Pulse had presented a defense that was not “objectively baseless.” The Federal Circuit affirmed. In the second of these two cases, Stryker sued Zimmer for patent infringement, and a jury found that Zimmer had willfully infringed the patents. After hearing evidence that Zimmer had instructed its employees to copy Stryker’s products, the court tripled the damages awarded by the jury. The Federal Circuit, however, vacated the trebled damages because it concluded that Zimmer had asserted “reasonable defenses” at trial.

The U.S. Supreme Court granted certiorari in both cases (*Halo* and *Stryker*), and vacated and remanded both cases. First, the Supreme Court affirmed that enhanced damages are only available in cases of “willful” patent infringement, and noted that “such punishment should generally be reserved for egregious cases typified by willful misconduct.” The Court, however, concluded that the Federal Circuit’s two-part *Seagate* test was “unduly rigid, and it impermissibly encumbers the statutory grant of discretion to district courts.” As to the first part of the test, which requires “objective recklessness” in every case, the Court concluded that the *Seagate* test exculpates those who intentionally infringe a patent, as long as “objective recklessness” cannot be proved by the patent owner by clear and convincing evidence. According to the Court, “someone who plunders a patent – infringing it without any reason to suppose his conduct is arguably defensible – can nevertheless escape any comeuppance . . . solely on the strength of his attorney’s ingenuity.” The Court concluded that culpability is generally measured against the knowledge of the actor *at the time of the challenged conduct*, not later.

The Court also rejected the Federal Circuit’s clear and convincing evidentiary burden for establishing willfulness. Citing to its recent *Octane Fitness* case, in which the Supreme Court had rejected the Federal Circuit’s same heightened evidentiary burden to establish entitlement to attorney’s fees, and also pointing to lack of support in the patent statute for a higher evidentiary burden (contrasted with a heightened statutory burden of clear and convincing evidence to prove patent invalidity), the Court concluded that the ordinary preponderance of the evidence standard should apply.

Finally, the Supreme Court also rejected the Federal Circuit’s tripartite framework for appellate review, and instead reaffirmed the discretion of district courts to apply their discretion, which decisions will now be reviewed under the abuse of discretion standard of review.

Note: On September 12, 2016, the Federal Circuit remanded the *Stryker Corp. v. Zimmer, Inc.* case back to the district court to reconsider the award of enhanced damages and attorneys fees in light of the new standard established by the Supreme Court. 2016 WL 4729504 (Sept. 12, 2016).

6. Patent Exhaustion

Lexmark International, Inc. v. Impression Products, Inc., 816 F.3d 721 (Fed. Cir. 2016) (en banc). After an initial hearing before a panel, the Federal Circuit sua sponte issued an order in this case that the case be heard *en banc*. At issue was whether the sale of articles abroad that are patented in the United States exhausts the patent rights in the United States. It also ordered hearing as to whether the sales of patented articles to end users under a restriction that they use the articles (toner cartridges) and return them gives rise to patent exhaustion.

Lexmark is a printer manufacturer that has patents covering its printer cartridges. Lexmark sold some of its cartridges in the U.S. and others overseas. Some of the cartridges were sold, at a discount, subject to an express “single-use/no resale” restriction. Lexmark also sells “regular cartridges” at full price that are not subject to the single-use restrictions. Impression Products bought some of the used Lexmark cartridges, refurbished them, and re-sold them in the United States. It also imported others sold by Lexmark overseas. Lexmark sued Impression for patent infringement, alleging that: (1) Impression’s sale of the re-used discounted single-use cartridges in the United States violated its patents; and (2) Impression’s importation of all of its cartridges that were first sold overseas violated its patents. Impression argued that Lexmark’s sale of its cartridges “exhausted” its patent rights, such that Lexmark could no longer control the further sale or importation of them.

Upon rehearing en banc, the full Federal Circuit first decided to re-affirm its 1992 *Mallinckrodt, Inc. v. Medipart, Inc.* decision, which held that a patentee that sells a patented article subject to a single-use/no-resale restriction that is communicated to a purchaser does not exhaust its patent rights as to that patented article. It rejected the

district court's conclusion that the U.S. Supreme Court's 2008 decision in *Quanta Computer, Inc. v. LG Electronics* had silently overruled the *Mallinckrodt* decision. According to the court, "A sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the 'authority' to engage in the user or resale that the restriction precludes."

As to the second issue, whether the imported cartridges that were first sold by Lexmark overseas could be blocked by Lexmark's U.S. patent rights, the Federal Circuit agreed that, following its 2001 *Jazz Photo* decision, a patent owner's overseas sales did not "exhaust" U.S. patent rights that would allow importation of such patented articles. It rejected Impression's argument that the U.S. Supreme Court's 2013 *Kirtsaeng* decision reaching a different result in the case of copyrights should also be applied to patent rights. According to the court, the Supreme Court's contrary result under copyright law was based in part on the wording of the copyright statute, whereas the patent statute was worded differently. [Disclosure notice: Banner & Witcoff represented the patent owner -- Lexmark -- in this case.]

7. International Trade Commission (ITC) Proceedings

ClearCorrect Operating, LLC v. Int'l Trade Comm'n, 810 F.3d 1283 (Fed. Cir. 2015). ClearCorrect sells orthodontic aligners that are placed over a patient's teeth to gradually re-align them. Align Technology Inc. filed an ITC complaint alleging that ClearCorrect's alleged "importation" of digital data used for creating the orthodontic aligners constituted a violation of the ITC statute. ClearCorrect makes its aligners as follows: First, its U.S. entity scans physical models of the patient's teeth and creates a digital recreation of the initial tooth arrangement. Second, it transmits the digital models to Pakistan, where the position of each tooth is manipulated to create a final tooth position. Third, ClearCorrect Pakistan transmits the manipulated digital models to ClearCorrect U.S., which uses 3-D printing to turn the digital models into physical models. Finally, an aligner is manufactured in the U.S. using thermoplastic molding.

The ITC concluded that ClearCorrect's digital data transmitted into the United States constituted an "article" that was imported in violation of the ITC statute constituting infringement of Align Technology's patents, which covered a method for making orthodontic appliances. The Federal Circuit reversed in a split decision, concluding that the term "articles" in the ITC statute (19 U.S.C. § 1337(a)) could only refer to material things, not intangible data, and therefore the ITC had no jurisdiction to bar importation of such data.

The majority began by noting that the Tariff Statute granted the ITC jurisdiction to bar importation of "articles" into the United States. Unless there is an importation of an "article," the ITC has no jurisdiction. Although "article" is not defined in the ITC statute, the Federal Circuit turned to contemporary dictionaries from when the statute

was enacted (1922), which defined “article” as “a material thing or class of things.” The majority rejected the ITC’s reliance on a more ambiguous definition of “article” from the 1924 edition of Webster’s dictionary. It also pointed to the 1924 Dictionary of Tariff Information, which defined “article” as a commodity, and the 1933 edition of Black’s Law dictionary, which defined “article” as “a material thing or class of things.” The majority also noted that if “article” were defined so broadly as to include electronic data, then the statute’s references to “forfeiting” and “seizing” such “articles” would make no sense. Because in its view the statute was clear, no *Chevron* deference to the ITC’s statutory interpretation was appropriate.

The majority next addressed whether, even under *Chevron*’s second step, the ITC’s interpretation of “article” would be a permissible one. It concluded that it would not, finding that such an interpretation was “irrational.” According to the majority, the ITC adopted an even broader meaning of “article” than was supported by the old dictionary definition that it relied upon.

Judge O’Malley filed a concurring opinion, agreeing with the decision but pointing out that it was not necessary to resort to *Chevron* deference at all. According to Judge O’Malley, Congress never delegated authority to the ITC to regulate the transmission of digital data, and thus *Chevron* deference was not appropriate.

Judge Newman dissented, concluding that “today’s economy” involves various computer-implemented methods and systems that were not contemplated when the 1930s Tariff Act was enacted. Pointing to various snippets of legislative history and case law, she concluded that the statute should be interpreted in light of modern technologies to encompass the transmission of digital data.

8. Personal Jurisdiction in ANDA Cases

Accorda Therapeutics Inc. v. Mylan Pharm. Inc., 817 F.3d 755 (Fed. Cir. 2016). Accorda Therapeutics owns various patents for a drug relating to multiple sclerosis, and it listed those patents in the FDA’s so-called “Orange Book.” Mylan Pharmaceuticals sought to produce a generic version of the drug, and it filed an ANDA certification with the FDA, asserting that its manufacture and sale of the generic version would not infringe the patents or that the patents are invalid. Accorda sued Mylan for patent infringement as provided under 35 U.S.C. § 271(e)(a)(A) for the FDA filing. The suit was filed in the District of Delaware. Mylan moved to dismiss the lawsuit on the ground that Delaware had no personal jurisdiction over it. The district court denied the motion, and the Federal Circuit affirmed.

A two-member majority of the Federal Circuit concluded that Mylan’s ANDA certification, which was not made in Delaware, in combination with its planned marketing efforts in Delaware to sell the generic version of the drug, met the “minimum contacts” required under the Fourteenth Amendment to establish specific jurisdiction under Delaware’s long-arm statute, which reaches to the full extent of the

Fourteenth Amendment. The court stated that, “it suffices for Delaware to meet the minimum-contacts requirement in the present cases that Mylan’s ANDA filings and its distribution channels establish that Mylan plans to market its proposed drugs in Delaware and the lawsuit is about patent constraints on such in-State marketing.” Judge O’Malley wrote a concurring opinion, arguing that the court should have instead decided the issue under the question of general jurisdiction, noting that because Mylan had registered to do business in Delaware, it had (under Delaware law) consented to general personal jurisdiction over it.

9. Standing of Successor Company to Maintain Appeal at Federal Circuit

Agilent Tech., Inc. v. Waters Tech. Corp., 811 F.3d 1326 (Fed. Cir. 2016). Waters Technologies sued Aurora SFC Systems for patent infringement. In response, Aurora filed a request for inter partes reexamination of the patent -- now replaced by Inter Partes Review (IPR) proceedings -- at the PTO. While the reexamination was being conducted, Agilent acquired “substantially all” of Aurora’s assets, and Agilent agreed to be bound by the outcome of the reexamination proceeding. After the patent examiner rejected various patent claims, Waters filed a notice of appeal to the Board, and Aurora cross-appealed the decision to the Board. Aurora also filed a request to change the real party in interest from Aurora to Agilent, and Agilent’s counsel began participating with counsel for Aurora. The Board reversed the examiner’s rejections, and Agilent filed a notice of appeal to the Federal Circuit. In a case of first impression, the Federal Circuit dismissed the appeal, concluding that the patent statute only conferred the right to appeal on the third-party requester, not a successor-in-interest to the third-party requester. The key statutory language contained in 35 U.S.C. § 134 is “A patent owner, or a third-party requester in an inter partes reexamination proceeding . . . may appeal the decision.” The Federal Circuit concluded that although Agilent had argued that it was the sole successor-in-interest to Aurora, Aurora was still listed as a separate party at the PTO and in the district court litigation, and it noted that Agilent had never supplied a copy of the asset transfer agreement to the court. “We decline to decide whether a successor-in-interest becomes the third party requester . . . because Agilent has not established that it is, in fact, Aurora’s successor-in-interest.” Note: Although this decision applies to the now-replaced inter partes reexamination provisions, it appears that it could be applicable to the new inter partes review provisions. See 35 U.S.C. § 134(c) (“A party to an inter partes review or a post-grant review who is dissatisfied with the final written decision . . . may appeal”).

10. Damages for Standards-Essential Patents

Commonwealth Scientific and Industrial Research Organisation v. Cisco Systems, Inc., 809 F.3d 1295 (Fed. Cir. 2015). The Federal Circuit held that damages awarded for infringement of a standards-essential patent must take into account the standards-essential nature of the patent, which might otherwise inappropriately lead to higher damages awards relating to the standards-essential nature instead of the true value of

the patent. In this case, CSIRO sued Cisco for infringement of a patent that was deemed essential to the IEEE 802.11 wireless specification, which covers the Wi-Fi standard. Although CSIRO agreed with the IEEE to license its patent on reasonable and non-discriminatory (“RAND”) terms for an early version of the Wi-Fi standard, it refused to do so for later versions of the Wi-Fi standard. Cisco stipulated to validity and infringement, and agreed to a bench trial on damages. An Eastern District of Texas judge awarded CSIRO \$16 million in damages.

On appeal, the Federal Circuit first considered Cisco’s argument that the district court failed to calculate royalties based on the “smallest salable patent-practicing unit” – i.e., a chip that incorporated the Wi-Fi technology. The Federal Circuit rejected Cisco’s argument, concluding that its argument – that all damages models must begin with the smallest salable patent-practicing unit – “is untenable.” Instead, it was permissible for the district court to rely primarily on the parties’ initial negotiations over royalty rates per end unit, not based on chips. However, the Federal Circuit faulted the district court’s failure to discount the value of the patent based on the fact that it was incorporated into a standard that must be practiced by companies in the particular field of technology – Wi-Fi. Quoting an earlier case, the Federal Circuit held that “First, the patented feature must be apportioned from all of the unpatented features reflected in the standard. Second, the patentee’s royalty must be premised on the value of the patented feature, not any value added by the standard’s adoption of the patented technology.” “Once incorporated and wisely adopted, that technology is not always used because it is the best or the only option; it is used because its use is necessary to comply with the standard.” In the context of the *Georgia-Pacific* factors, the commercial success and popularity of products that practice the invention might be due more to the standard itself than the patent’s value to the standard. The district court thus failed to take into account other patents that might also be essential to the standard.

Note: In 2015 the IEEE changed its patent policy, stating that compensation for using a patented invention that is part of an IEEE standard must be based on a percentage price of the component to which the standard is directed, instead of the whole device, as had previously been the case. The U.S. Department of Justice decided that the decision raised no antitrust concerns.