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RECENT DEVELOPMENTS
IN PATENT LAW – CASE LAW

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INTELLECTUAL PROPERTY LAW

OUTLINE OF WRITTEN MATERIALS

- A. Patentability, Validity, and Procurement of Patents
 - 1. Statutory Subject Matter – Computer Software and Genetic Testing
 - 2. Filing a Continuation Application on the Same Day a Parent Patent Issues
 - 3. Obviousness
 - 4. On-Sale Bar Not Triggered by Contract for Services
 - 5. PTAB Proceedings
 - 6. Coined Terminology Can Render Patent Invalid

- B. Interpretation and Infringement of Patents
 - 1. Claim Construction
 - 2. Disclaimer of Claim Scope

- C. Enforcement of Patents
 - 1. Permanent Injunctions
 - 2. Attorney-Client Privilege Extended to Patent Agents
 - 3. Infringement Damages for Design Patents – What is the “Article?”
 - 4. What Constitutes “Actual Notice” for Pre-Issuance Damages
 - 5. Enhanced Damages for Willful Infringement
 - 6. Patent Exhaustion
 - 7. Personal Jurisdiction in ANDA Cases
 - 8. Standing of Successor Company to Maintain Appeal at Federal Circuit
 - 9. Specificity Required to Assert Infringement in Litigation

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., 837 F.3d 1299 (Fed. Cir. 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., 830 F.3d 1350 (Fed. Cir. 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.

Amdocs (Israel) Ltd v. Openet Telecom, Inc., ___ F.3d ___, 2016 WL 6440387 (Fed. Cir. Nov. 1, 2016). Amdocs sued Openet Telecom for infringing four patents relating to a system designed to solve an accounting and billing problem faced by network service providers. The system allows network service providers to bill for IP network usage with a distributed architecture that minimizes the impact on network and system resources by collecting data close to its source, thus reducing congestion in network bottlenecks. The patents explain that the invention provides an advantage over prior art systems that stored information in a single location, which made it difficult to keep up with massive record flows from the network devices, which required large databases.

The district court granted Openet’s motion for judgment on the pleadings, ruling that the claimed inventions were invalid as patent-ineligible under 35 U.S.C. § 101. On appeal, applying the two-step framework of *Alice*, the Federal Circuit reversed. The majority first explained that there is no generally-accepted definition of an “abstract idea.” It then compared the claimed invention to inventions in prior-decided cases and found the claimed invention to be most closely aligned with the one in *BASCOM Global Internet Services, Inc. v. AT&T Mobility LLC*, 827 F.3d 1341 (Fed. Cir. 2016). In that case, the Federal Circuit concluded that a content-filtering system employing a distributed architecture was patent-eligible because the design was not conventional or generic, and the claims did not preempt all ways of filtering content on the internet. The majority in this case found that the claims were directed to an “inventive concept” – namely, a “distributed fashion” and “close to the source of network information.” According to the majority, “this claim entails an unconventional technological solution (enhancing data in a distributed fashion) to a technological problem (massing record flows which previously required massive databases).” Judge Reyna dissented, concluding that the majority merely compared the claims to some, but not all, of the prior decisions involving patent eligibility determinations. Among other things, the dissent criticized the majority’s reliance on the patent specification, as compared to the claims, in reaching its decision.

Intellectual Ventures I LLC v. Symantec Corp., 838 F.3d 1307 (Fed. Cir. 2016). Intellectual Ventures sued Symantec for infringing three patents: The ‘050 patent is directed to methods of screening emails for unwanted content; the ‘142 patent is directed to methods of routing email messages based on rules; and the ‘610 patent is directed to using computer virus screening in the telephone network. The district court ruled that the claims of the ‘050 and ‘142 patent were invalid under 35 U.S.C. § 101 as being directed to an abstract idea, but found the claims of the ‘610 to be not invalid. The Federal Circuit affirmed the invalidity rulings on the ‘050 and ‘142 patent, but reversed on the ‘610 patent, making all three patents invalid.

As to the ‘050 patent, which claimed a three-step method for filtering emails for

spam, the Federal Circuit agreed with the district court’s conclusion that receiving email identifiers, characterizing the emails based on the identifiers, and communicating the characterization – in other words, filtering emails – is an abstract idea. According to the court, “it was long-prevalent practice for people receiving paper mail to look at an envelope and discard certain letters, without opening them, from sources from which they did not wish to receive mail based on characteristics of the mail.” The court thus concluded that the claims did not add any “inventive concept” to the abstract idea. Importantly, the court also rejected the plaintiff’s argument that because the jury determined that none of the prior art rendered the claims invalid, the claims could not be found to be “routine and conventional.” Citing the Supreme Court’s 1981 *Diamond v. Diehr* case, the court stated that “the novelty of any element or steps in a process, or even of the process itself, is of *no relevance* in determining whether the subject matter of a claim falls within the 101 categories of possibly patentable subject matter.”

As to the ‘142 patent, which claimed a four-component “post office” for receiving and redistributing email messages on a computer network, the Federal Circuit agreed with the district court’s comparison of the claims to a corporate mailroom, pointing to the background section of the patent, which referred to human actions in controlling the flow of printed information in companies. Because the claimed components were implemented on a generic computer, the court concluded that “each step does no more than require a generic computer to perform generic computer functions.” Thus, the invalidity holding was affirmed.

As to the ‘610 patent, which the district court found not invalid, the Federal Circuit reversed. The ‘610 patent claims a virus screening method. But the Federal Circuit noted that “performing virus screening was a long prevalent practice in the field of computers, and, as the patent admits, performed by many computer users.” Therefore, “virus screening is well-known and constitutes an abstract idea.” Applying the second step of the *Mayo/Alice* test, the court concluded that the claimed invention was directed to using well-known virus screening software in the telephone network. The mere recitation of generic computers and the telephone network did not impart an “inventive concept” to the claims.

Judge Mayer filed a concurring opinion, arguing that patents “constricting the essential channels of online communication run afoul of the First Amendment,” and “claims directed to software implemented on a generic computer are categorically not eligible for patent.”

Judge Stoll filed a dissenting opinion, arguing that the ‘610 patent represented an “architectural shift” from prior virus screening methods, which occurred locally on a user’s computer, rather than in a telephone network as claimed.

Note: Individual Federal Circuit judges appear to be split amongst themselves regarding the patent-eligibility of inventions. This case provides merely one example of that split.

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. Filing a Continuation Application on the Same Day a 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.”

3. Obviousness

Apple Inc. v. Samsung Electronics Co., 816 F.3d 788 (Fed. Cir. 2016), *vacated on rehearing en banc*, 839 F.3d 1034 (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.

Upon rehearing en banc, the full Federal Circuit vacated the panel’s decision and reinstated the jury’s verdict. As to what a prior art reference teaches and whether a skilled artisan would have been motivated to combine the prior art, the en banc court noted that both were questions of fact that were properly for the jury to decide. According to the full court, the district court properly ruled that the second prior art reference had statements suggesting that a sliding-switch feature was disadvantageous. The jury was entitled to accept Apple’s version of this evidence, which was that the second prior art reference would not have motivated a person to modify the primary reference to arrive at the claimed invention. “Our job is not to review whether Samsung’s losing position was also supported by substantial evidence or to weigh the relative strength of Samsung’s evidence against Apple’s evidence. We are limited to determining whether there was substantial evidence for the jury’s findings, on the entirety of the record.” According to the full court, “A reasonably jury could infer from this testimony that an ordinary artisan would not be motivated to combine elements from a wall-mounted touchscreen for home appliances and a smartphone, particularly in view of the ‘pocket dialing’ problem specific to mobile devices that Apple’s invention sought to address.” The full court also rejected the panel’s view that the evidence of industry praise, copying, commercial success, and long-felt need was insufficient to support the verdict that the invention was not obvious, pointing out that Samsung’s own internal documents showed that Samsung had praised the slide-to-unlock feature as “a creative way of solving UI [user interface] complexity.” As to commercial success, the full court pointed to evidence introduced by Apple showing that customers would be less likely to purchase a portable device without the slide-to-unlock feature, and showing that the feature was the first feature shown in Apple’s original iPhone TV commercial.

Key take-away: This case again illustrates how even extensive evidence of secondary factors of non-obviousness, such as commercial success, might not 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., 832 F.3d 1355 (Fed. Cir. 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., 829 F.3d 1364 (Fed. Cir. 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 to 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.”

4. 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.

5. 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 NuVasive, Inc., 841 F.3d 966 (Fed. Cir. 2016). Medtronic filed two IPR petitions against NuVasive’s patents relating to spinal fusion implants. The PTO instituted trials against both patents, concluding that most of the claims were unpatentable. In one of the IPRs, Medtronic’s petition did not include any reference to Figure 18 of a prior art reference. When NuVasive filed its patent owner response, it argued that no single reference taught an implant that was both longer than 40 mm and had a length at least 2.5 times its width. In response, Medtronic for the first time pointed to Figure 18 of the primary reference and argued that it disclosed an implant whose length was greater than 40 mm and at least 2.5 times its width as claimed. NuVasive objected on the basis that this was a new argument raised for the first time in Medtronic’s reply. NuVasive also attempted to address the matter at oral argument, but the Board refused to allow NuVasive to make substantive arguments in response. In its final written decision, the Board relied on Medtronic’s reply regarding the primary reference.

The Federal Circuit held that NuVasive’s procedural rights under the Administrative Procedure Act were violated. The court explained that a patent owner is “undoubtedly entitled to notice of and a fair opportunity to meet the grounds of rejection” based on due process and APA guarantees. In this case, NuVasive was entitled to an adequate opportunity to respond to the facts about the primary reference, and it was not provided with sufficient opportunity to respond. Because Medtronic did not provide notice about the Figure 18 disclosure in its petition, NuVasive’s response did not provide the required opportunity to address the factual assertion about Figure 18 on which the Board ultimately relied. Not until after Medtronic’s reply, after NuVasive’s patent owner response, was NuVasive given fair notice of the Figure 18 factual assertions. At no point after the reply did the Board give NuVasive an opportunity to respond to that point. The Board refused to permit NuVasive to file a surreply or to even to address the matter during oral argument. The Federal Circuit also rejected the argument that NuVasive’s opportunity to file “observations” on Medtronic’s expert testimony provided it with an adequate opportunity to respond. Accordingly, the Federal Circuit vacated and remanded the

decision to the PTO.

In re Aqua Products, Inc., 833 F.3d 1335 (Fed. Cir. 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.

6. Coined Terminology Can Render Patent Invalid

Advanced Ground Information Systems, Inc. v. Life360, Inc., 830 F.3d 1341 (Fed. Cir. 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 refer 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.’”

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, 835 F.3d 1388 (Fed. Cir. 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., 832 F.3d 1335 (Fed. Cir. 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.

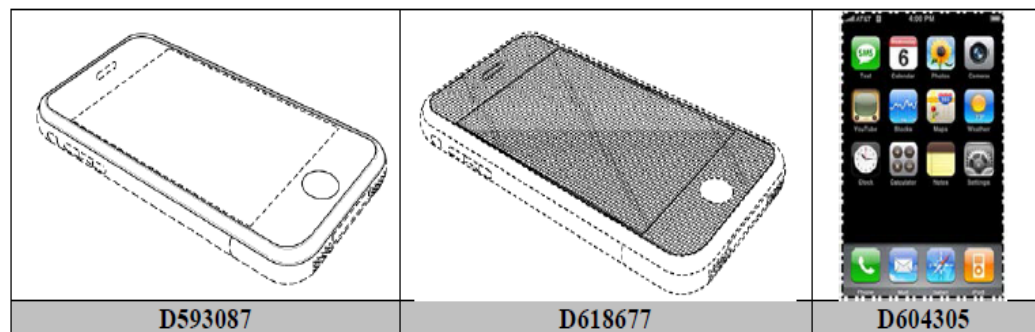
3. Infringement Damages for Design Patents – What is the “Article?”

Apple Inc. v. Samsung Electronics Co., 786 F.3d 983 (Fed. Cir. 2015), *reversed and remanded*, 2016 WL 7078449 (Sup. Ct. December 6, 2016). In this long-running dispute between Apple and Samsung involving patented smartphone technology, a jury awarded Apple \$399 million in 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 patent 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.”

On December 6, 2016, a unanimous U.S. Supreme Court vacated the decision and remanded for further proceedings. The Court started by noting that the statute, 35 U.S.C. § 289, states that a person who manufactures or sells “any article of manufacture to which [a patented] design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit.” Where there is a single component, such as a dinner plate, the entire product is the “article of manufacture” for purposes of damages. However, for a multi-component product, such as a kitchen oven, “identifying the ‘article of manufacture’ to which the design has been applied is a more difficult task.” The Court rejected the Federal Circuit’s holding that the entire Samsung smartphone was the only permissible “article of manufacture” under the statute.

In this case, Apple obtained three design patents, covering a black rectangular front face with rounded corners; a rectangular front face with rounded corners and a raised rim; and a patent covering a grid of 16 colorful icons on a black screen:



The jury’s \$399 million damages award was based on Samsung’s entire profit for its infringing smartphones. But the Supreme Court held that an “article of manufacture” is not limited to the end product (i.e., the smartphone), but could instead cover a component of the end product. Beginning with vintage dictionaries, the Court explained that an “article of manufacture” is “simply a thing made by hand or machine.” A component of a product, then, also meets the definition of an “article of manufacture.” The fact that a component may be integrated into a larger product does not put it outside the category of articles of manufacture. The Court also noted that the U.S. PTO permits design patents for components of multi-component products. The Court also rejected the Federal Circuit’s reasoning that the components of the smartphones could be “articles of manufacture” because consumers could not purchase those components separately from the smartphones. Because the parties did not brief the issue regarding what test or standard should be used for determining what the relevant “article of manufacture” was in this case, the Court remanded for the Federal Circuit to make this determination in the first instance.

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. 837 F.3d 1268 (Fed. Cir. 2016).

6. Patent Exhaustion

Lexmark International, Inc. v. Impression Products, Inc., 816 F.3d 721 (Fed. Cir. 2016) (en banc), *cert granted*, 84 USLW 3563 (Dec. 2, 2016). 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. 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.

8. 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”).

9. Specificity Required to Assert Infringement in Litigation

Lyda v. CBS Corp., 838 F.3d 1331 (Fed. Cir. 2016). Lyda sued CBS Corp. for infringing two patents relating to using devices to electronically vote on game shows or reality shows. Lyda asserted that CBS’s show “Big Brother” infringed the patents

by allowing TV audience members to vote using text messages on their cell phones that allegedly contained codes identifying the sender and a vote selection. The complaint alleged “the participation of people under the control or direction of an independent contractor engaged by the Defendant CBS Interactive to send votes using text messages.” The defendants moved to dismiss the complaint under Rule 12(b)(6) for failure to state a claim. The district court granted the motion, ruling that the plaintiff had not sufficiently alleged which of the defendants’ alleged practices constituted infringement, making it “impossible to discern what actions, activities, services, or products are infringing Plaintiff’s patents.” The Federal Circuit agreed that the minimal pleading requirements of Form 18 [now repealed for cases filed after December 1, 2015, making them subject to the Supreme Court’s *Twombly/Iqbal* pleading standard] did not apply to cases of indirect infringement, which was effectively what the plaintiff was pleading by pointing to the joint activities of multiple parties. In order to sufficiently plead a case of indirect infringement, a plaintiff must plead “facts sufficient to allow a reasonable inference that all steps of the claimed method are performed and either (1) one party exercises the requisite ‘direction or control’ over the others’ performance or (2) the actors form a joint enterprise such that performance of every step is attributable to the controlling party.” In this case, the plaintiff did not allege any facts that CBS controlled the independent contractors or unnamed third parties, and thus could not provide a reasonable inference that each step was performed by or should be attributable to the defendants. [Note: although the “control” test for method claims does not apply to system claims, in this case, the system claims were drafted like method claims and the plaintiff effectively treated them like method claims, so all the claims fell together.]