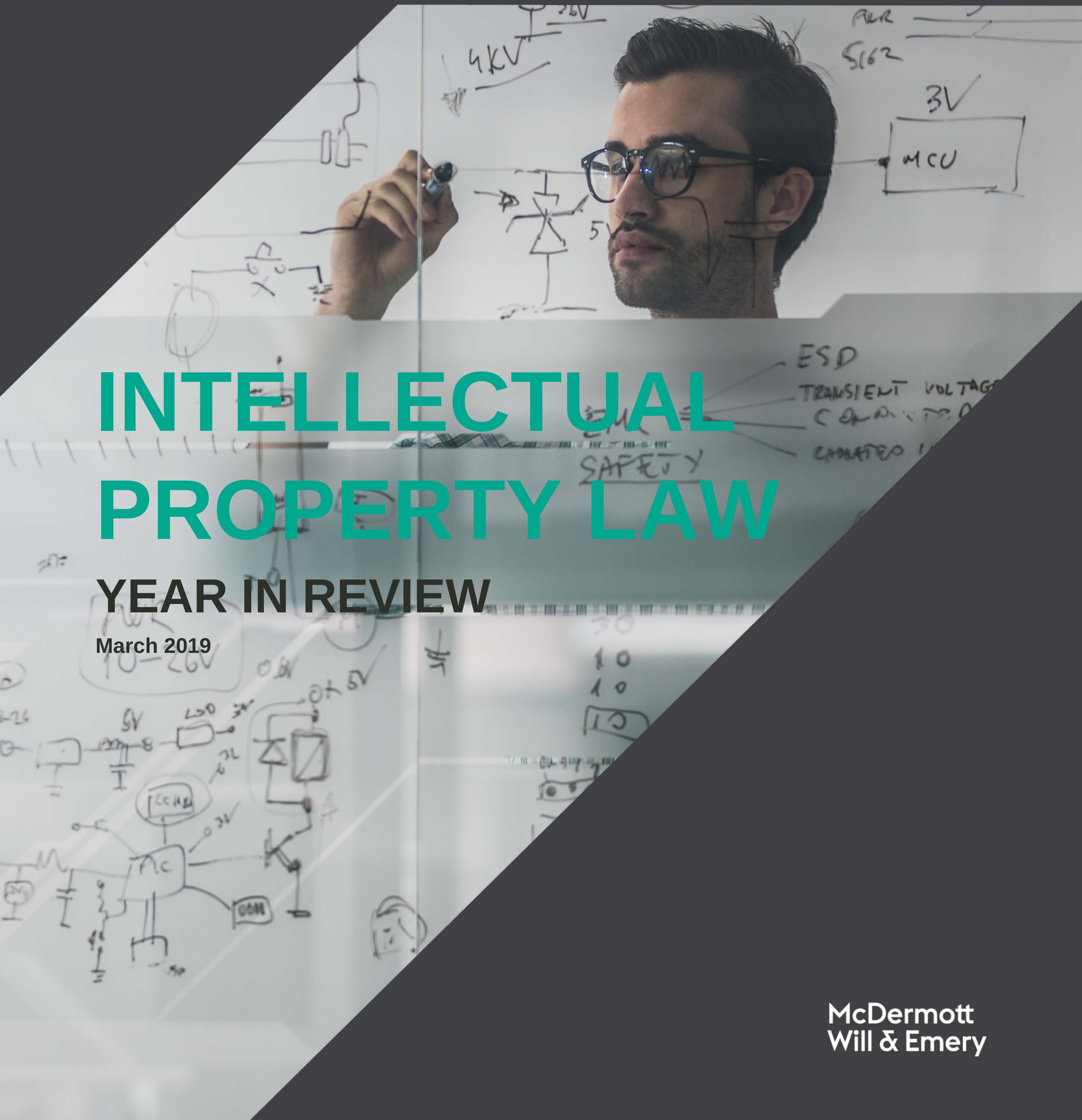

INTELLECTUAL PROPERTY LAW

YEAR IN REVIEW

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McDermott
Will & Emery

TABLE OF CONTENTS

Table of Contents **2**

Introduction **7**

PATENTS **10**

35 USC 101 – SUBJECT MATTER ELIGIBILITY 10

Specific Functions Improving Computer Technology Are 101-Eligible, Unconventionality Not Required 10
Personalized Medicine Claims Make It Past § 101 Invalidity Challenge 11
An "Unremarkable Proposition": *En Banc* Denials Reaffirm that § 101 Analysis May Contain Underlying Factual Issues 13
Concrete Solution to Computer Problem Is Patent Eligible 14
The Results Are In: Voter Verified's Claims Are Patent Ineligible 15

35 USC 102 – ANTICIPATION & BARS TO PATENTABILITY 16

Distribution Agreement Qualifies as Commercial Offer for Sale 16
Reference Buried in Indexing Blizzard Is Not a Printed Publication 17
Information Distributed Without Disclosure Restrictions May Qualify as Prior Art Printed Publications 18
Printed Publication Status Based on Public Accessibility 19

35 USC 103 – OBVIOUSNESS 20

Subjective Preference Is No Excuse for Ignoring Teaching Away 20
Mental Steps May Be Disregarded as Printed Matter in Obviousness Analysis 21
Creating Abuse-Resistant Treatments for Opioid Dependence Is Not So Obvious After All 21
Reasonable PTAB Determinations Supported by Substantial Evidence Will Be Sustained 22
Post-Priority References Can Be Used in Context of Obviousness Analysis 23
Prima Facie Obviousness: Much Ado "Abut" Ranges 24
Secondary Considerations 25

No Amount of Prior Art Obviates Inquiry of Secondary Considerations of Non-Obviousness 25
Exploring the Waters of Motivation to Combine and Secondary Considerations 26
"Blocking Patent" Deterrence Effect May Discount Secondary Considerations for Follow-On Patents 26

Obviousness-Type Double Patenting 27

Self-Help CIP Doesn't Give Rise to § 121 Safe Harbor 27
Terminal Disclaimer Does Not Establish Claim Preclusion 28

Inherency 29

Obviousness Cannot Be Predicated on What Is Unknown 29

35 USC 112 – WRITTEN DESCRIPTION 31

Incorporation by Reference: Context May Affect Written Description Support for Later-Added Claims 31
PTO Clarifies Written Description Guidance for Claims Drawn to Antibodies 32
Earlier Disclosure Conveys Possession of Invention, Is Not Invalidating Reference 33

Inadequate Written Description Means Claim of Priority Is All Washed Up....33
Indefiniteness....35
Don't Have "Means?" Things Might Get GUI.... 35
INVENTORSHIP....36
Inventorship Challenge Survives Another Day Because of Unclear Contract....36
ASSIGNMENT....37
Don't Count on Employment Agreement Promise of Assignment for Standing....37
PRIORITY CLAIMS....38
Benefit of Earlier Filing Date or Gaining Patent Term? Patentee Can't Have Its Cake and Eat It Too....38
RE-EXAMINATION....39
Re-Examination Findings Not Dispositive in District Court Proceeding....39
PATENT TERM ADJUSTMENT....40
Counting the Days: PTA Calculated from Date National Stage Commences....40
AIA....40
Constitutionality....40
Supreme Court Rules Inter Partes Review is Constitutional, for Now.... 40
Adverse Judgment....42
Disclaiming Yourself into an Adverse Judgment.... 42
Estoppel....43
Overruling Achates: PTAB Time-Bar Decisions Are Reviewable.... 43
PTAB Designates § 315(b) Opinions as Informative IPR Precedent.... 44
The Cases that Never Were: Nullified Litigation and the One-Year Bar.... 45
Dismissal "Without Prejudice" Does Not Nullify Service of Complaint.... 46
Immunity....47
Tribal Immunity Does Not Apply to IPR Proceedings.... 47
Petition / Institution....48
Supreme Court to PTAB: All or Nothing at All.... 48
No Sua Sponte Remand for Erroneously Limited Post-SAS Final Written Decisions.... 50
No Waiver on Non-Instituted Claims when Request Made Shortly After SAS.... 51
One Is the Loneliest Number to Institute . . . Two Is Just as Odd as One, but Under SAS It's Simply All or None.... 52
PTAB Procedure....52
New Arguments May Be Struck from Reply, but Expanded Arguments Are Not New.... 52
Real Parties-in-Interest / Standing....53
Control Is Key to Identifying Real Parties-in-Interest.... 54
Petitioner Has Standing When Injury Is Imminent.... 54
RPI, I Presume? Petitioner Has Evidentiary Burden that RPIs Are Correct.... 55

Sale of Invention 56

Secret Sales Still Qualify As Prior Art.................... 56

CLAIM CONSTRUCTION / CLAIM SCOPE 57

Discord as to When District Courts Must Resolve Claim Scope Disputes 57
Got the Message: PTAB Doesn't Have to Construe Claim Term....................58
Examiner's Reason for Allowance May Be Sufficient to Show Prosecution Disclaimer 59
Mic Drop: PTAB Not Bound by Prior Federal Circuit Decisions....................60
Claim Differentiation Cannot Be Used to Broaden Narrowly Described Invention....................60
Extrinsic Evidence Not Required to Overcome Means-Plus-Function Interpretation....................61
Prediction: "Plain and Ordinary Meaning" Is Not Particularly Plain or Ordinary....................62
Similarity in Revised PTAB Claim Construction Avoids APA Misstep 63
Injecting Claim Construction into Motion to Dismiss Analysis Is Improper....................64

VENUE....................65

Federal Circuit Continues Trend of Strict Adherence to Language of Patent Venue Statute....................65
Mind Your Own Place of Business 65
Federal Circuit Law Governs Waiver or Forfeiture of Patent Venue Rights 66

TRIAL PRACTICE GUIDE RULES UPDATE....................67

Updated Trial Practice Guide: What You Need to Know....................67

DIVIDED INFRINGEMENT 69

TSA Headaches: Luggage Lock Licensor May Be Liable for Divided Infringement 69

CRISPR INTERFERENCE 70

The Gene Editing Is Out of the Bottle: No Interference-in-Fact Between Claimed Inventions....................70

BIOSIMILARS....................71

No State Law Remedies for Failure to Comply with BPCIA Notice 71

DESIGN PATENTS 72

From the Depths of My Sole, the Claim Is Definite and Enabled....................72
In the Doghouse: Prosecution History Estoppel, Design Claim Scope Are Different Inquiries 73

IP & TAX....................74

When Patent Royalties Are Not Capital Gains 74
Waiver Leads to Double Tax Liability on Patent Royalties 75
When Patent Royalties Go to Tax Havens 76

INEQUITABLE CONDUCT / ENFORCEABILITY 77

No Rehearing on Inequitable Conduct 77
Balm for Gilead: Unclean Hands Render Patents Unenforceable....................78

ATTORNEYS' FEES 79

En Banc Federal Circuit: § 145 Appellants Do Not Have to Pay (Attorneys' Fees) to Play....................79
A High Bar for Fee Awards Against the Bar 80

DAMAGES/ROYALTIES/LICENSING 81

Foreign Lost Profits for U.S. Manufactured Components Stay Afloat. 81
Walk Carefully at This Intersection: Willful Infringement ≠ Enhanced Damages....................82

Entire Market Value Rule & Apportionment 83
Entire Market Value Rule: Patented Feature Must Be Sole Driver for Consumer Demand 83
Apportionment Must Reflect No More than Invention's Incremental Value 85
Standard Essential Patent License 85
SEP Rights Holder Must License All Comers 85
Failure to Disclose Patent Application to Standards Body May Create Implied Waiver Defense 87
Non-Accused Products Are Not a Measure of Patent Damages 88
COPYRIGHTS 89
DMCA 89
Innocent Until Proven Knowledgeable 89
Pornography Dispute Sheds Light on DMCA Safe Harbor Defense 91
INFRINGEMENT 92
IP Address Subscriber Not Liable for Copyright Infringement 92
Blurred Lines Songwriters Have Got to Give It Up for the Gaye Family 93
Foreign Broadcaster Infringed US Copyright Through Online Streaming 94
VALIDITY / DEFECTIVE REGISTRATION 95
"Everyday I'm Hustlin'" to Ensure Valid Registrations 95
Supreme Court to Clarify Meaning of Registration under Copyright Act 96
LICENSE SCOPE & AGENCY 97
Great Minds Don't Always Think Alike: License Limitations Must Be Explicit 97
DERIVATION AND ORIGINALITY 98
No New Copyright for Digital Remasters 98
INJUNCTIVE RELIEF 99
Declaratory Judgment Action for Copyright Infringement Can Proceed Even If Defendant Doesn't Own Registration 99
STANDING 100
Ninth Circuit to PETA: Stop Monkeying Around with Copyright Claims 100
FAIR USE 101
Next Up, Damages – Federal Circuit Finds Google's Use of Java Was Not Fair 101
ATTORNEYS' FEES 103
Plaintiffs Walk Out in Shame After Attorneys' Fees Award Affirmed 103
ROYALTY RATES 104
Copyright Board's Royalty Rates for Streaming Services Can Play On 104
EXCLUSIVE RIGHTS / STANDING TO SUE 105
A Picture Is Worth a Thousand Words, but Owning a Piece of the Bundle Is Priceless. 105
RENEWAL TERM 106

Sly Slick & Wicked Revived 106
TRADEMARKS 107
GENERICNESS & ACQUIRED DISTINCTIVENESS 107
Federal Circuit Zeros in on Genericness and Acquired Distinctiveness 107
DESCRIPTIVE AND GENERIC MARKS 109
THINS – Not All They're Crackered Up to Be....................109
INHERENT DISTINCTIVENESS 110
Perchville Trademark: Fishy or Fanciful? 110
SECONDARY MEANING 111
An All Star Trademark Opinion 111
FAIR USE 113
When Your Business Address Is a Trademark: Description of Historical Location Is Fair Use....................113
COMMON LAW TRADEMARKS....................114
Keep Your Claws Off the Krusty Krab 114
PRIMARILY MERELY A SURNAME....................115
Surname or Suds? SCHLAFLY Mark Has Acquired Distinctiveness 115
SCANDALOUS AND IMMORAL MARKS....................117
Federal Circuit Bleeps Lanham Act Ban on Immoral or Scandalous Marks 117
REVERSE PASSING OFF....................118
Tread Lightly: Tire Company's Use of Competitor's Mold Is Reverse Passing Off....................118
PERMANENT INJUNCTIONS 119
Former Band Member Must Sail On Down the Line....................119
PRELIMINARY INJUNCTION (IRREPARABLE HARM)....................121
The Other Shoe Drops in Sneaker Trademark Case 121
ATTORNEYS' FEES 122
Second Circuit Joins Majority in Applying *Octane Fitness* to Lanham Act....................122
BANKRUPTCY 123
Rejecting Trademarks and Exclusive Distribution Rights in Bankruptcy....................123
TRADE DRESS....................124
Boat Company's Trade Dress, Trade Secrets Claims Spring a Leak 124
Guiding Light in Copyright and Trademark Dispute....................125
RIGHT OF PUBLICITY 126
NO PENALTY: FANTASY FOOTBALL DOES NOT VIOLATE PLAYERS' RIGHT OF PUBLICITY ..127
TRADE SECRETS / NEVADA UTSA 127
SLOT MACHINE HOLDS ARE NOT TRADE SECRETS 127

INTRODUCTION

In the continuously evolving world of intellectual property law, 2018 was another milestone year.

On April 24, 2018, the Supreme Court of the United States issued two significant decisions with far-reaching implications for the administrative law provisions of the America Invents Act (AIA). The Court held in *Oil States Energy Srvs., LLC v. Greene's Energy Group, LLC*, that *inter partes* review (IPR) proceedings are constitutional. The Court went further in *SAS Institute Inc. v. Iancu*, stating that once instituted, an IPR proceeding must review every claim challenged in the petition for institution.

The Supreme Court addressed the on-sale bar in *Helsinn Healthcare S.A. v. Teva Pharmaceuticals, USA, Inc*., holding that the on-sale bar of AIA, 35 USC §102(a)(1), applies to confidential or "secret" sales where specific details were not made public. The US Court of Appeals for the Federal Circuit found that asserted claims of the patents-in-suit were subject to an invalidating contract for sale prior to the critical date of January 30, 2002, and that the AIA did not change the statutory meaning of "on sale" in the circumstances involved. The Supreme Court agreed, ruling that the post-AIA "on-sale" bar provision operates the same as it did pre-AIA—namely, the sale or details of the sale do not need to be publicly available in order to create a bar to patentability. The addition of the catchall phrase "or otherwise available to the public" to AIA 35 USC § 102 is insufficient to conclude that Congress intended to alter the meaning of "on sale." Companies should be careful not to enter licensing, royalty, or supply and purchase agreements prior to filing any patent applications.

Addressing lost profits, the Supreme Court reversed the Federal Circuit's decision in *WesternGeco LLC v. ION Geophysical Corp.* and determined that WesternGeco's award for lost profits was a permissible domestic application of § 284 of the Patent Act for infringement under 35 USC § 271(f). This ruling established that patent owners are entitled to foreign lost profits when an infringer manufactures components in the United States and ships them overseas for sale.

The Federal Circuit issued two precedential *per curiam* decisions in *Berkheimer* and *Aatrix Software*, holding that the question of whether certain claim limitations represent "well-understood, routine, conventional activity" under *Alice* is a factual dispute that precludes Defendants' Rule 12(b)(6) motion. In February 2018, the Federal Circuit vacated a grant of summary judgment for patent ineligibility in *Berkheimer* and vacated a district court's grant of a motion to dismiss in *Aatrix* for patent ineligibility (*IP Update*, Vol. 21, No. 3). In both cases, the Federal Circuit reversed and remanded the district court's Rule 12(b)(6) dismissal on § 101 grounds, explaining that "factual allegations that, taken as true, prevent resolving the eligibility question as a matter of law." On January 7, 2019, the Solicitor General was invited to file a brief in *Berkheimer* to express the views of the United States before the Supreme Court (*cert.* pending).

The Federal Circuit also weighed in on IPR proceedings in its *en banc* decision *Wi-Fi One, LLC v. Broadcom Corp.*, which held that the bar on judicial review of institution decisions does not apply to whether an IPR proceeding is time-barred under 35 USC § 315(b).

For trademarks, the Federal Circuit issued two notable opinions. First, the Federal Circuit decided that the Lanham Act's bar on registering immoral or scandalous marks is an unconstitutional restriction on free speech. The Federal Circuit reversed the Trademark Trial and Appeal Board's (TTAB's) holding that the appellant's application for the mark FUCT, as used in connection with various apparel items, was unregistrable. The Court decided that denying such registrations created a bar on expressive messages and did not survive strict scrutiny. *In re: Erik Brunetti*.

Second, the Federal Circuit affirmed a TTAB decision that the SCHLAFLY mark could be registered in connection with the Saint Louis Brewery despite objections from the estate of Phyllis Schlafly and her son, Bruce Schlafly. The Federal Circuit decided that the SCHLAFLY mark had acquired secondary meaning in trademark use and such marks can be registered, even if they are primarily merely a surname. *Bruce S. Schlafly and Phyllis Schlafly Revocable Trust, Successor-in-Interest to Phyllis Schlafly v. Saint Louis Brewery, LLC*.

For copyright, the Supreme Court granted Fourth Estate Public Benefit Corporation's petition for *certiorari*. The question presented was whether the "registration of [a] copyright claim has been made" within the meaning of 17 USC § 411(a) when the copyright holder *delivers* the required application, deposit and fee to the Copyright Office, as the US Courts of Appeals for the Fifth and Ninth Circuits have held, or only once the Copyright Office *acts* on that application, as the US Courts of Appeals for the 10th and (in the decision below) 11th Circuits have held. In March 2019, the Supreme Court ruled that a registration of a copyright claim occurs, and a copyright claimant may commence an infringement suit, when the Copyright Office *registers* a copyright, not when a copyright owner submits the application, materials and registration fee to the Copyright Office. *Fourth Estate Public Benefit Corporation v. Wall-Street.com*.

Furthermore, Andrei Iancu, the new Director of the US Patent and Trademark Office (PTO), highlighted policy initiatives under his leadership, including (1) providing a more reliable and predictable legal framework to incentivize and protect innovation; (2) broadening the innovation ecosphere geographically, demographically and economically; and (3) inspiring more people to innovate. In 2018, the PTO provided new guidance related to how examiners should determine § 101 patent eligibility, and changed the claim construction standard in post-grant proceedings from the "broadest reasonable interpretation" to the *Philips* standard in order to align PTO practice with the district courts and the International Trade Commission. For example, the PTO memorandum from April 19, 2018, dictates that an examiner should conclude that an element represents well-understood, routine, conventional activity only when the examiner can readily provide factual support to show that the element is widely prevalent or in common use in the relevant industry. The PTO is also evaluating new rulemaking to allow for claim amendments to ensure that the post grant proceedings are not "all or nothing."

Looking Ahead to the Rest of 2019

In addition to the *Helsinn* and *Fourth Estate* decisions, there are several important IP cases on the Supreme Court's docket in 2019.

For patents, 2019 will clarify the boundaries of IPR review proceedings. *Saint Regis Mohawk Tribe v. Mylan Pharms., Inc.*, is seeking grant of *certiorari* for the question of whether tribal sovereign immunity may be asserted in an IPR proceeding. *Dex Media, Inc. v. Click-To-Call Techs., LP*, also pending *certiorari*, seeks to further clarify (1) whether 35 USC § 314(d) permits appeal of a Patent Trial and Appeal Board (PTAB) decision to institute IPR upon finding that § 315(b)'s time bar did not apply, and (2) whether § 315(b) bars institution of IPR when the previously served patent infringement complaint, filed more than one year before the IPR petition, had been dismissed without prejudice.

Also on the high court's docket is *Iancu v. NantKwest* (*certiorari* granted March 4, 2019), which will determine if the PTO can recover attorneys' fees regardless of the outcome of a case. Sitting *en banc*, the Federal Circuit held that a dissatisfied patent applicant that chooses to appeal from a PTAB decision rejecting claims of a patent application, *can appeal* to the US District Court of the Eastern District of Virginia without fear of being required to pay the prorated salaries of PTO employees who work on the appeal, regardless of the outcome. This case is heading to the Supreme Court because the decision in *NantKwest* creates a split between the Fourth Circuit and the Federal Circuit in the interpretation of similar statutes (15 USC § 1071 (b) and 35 USC § 145) as to whether the American Rule applies and what is included in "all the expenses of the proceeding(s)" for appeals to a district court.

For trademarks, the Supreme Court heard arguments on February 20, 2019, for *In re Tempnology, LLC*. The Supreme Court granted writ of *certiorari* to decide whether the license to use a trademark truly can be terminated by the licensor during bankruptcy, despite the exception of 11 USC § 365(n). The First Circuit decided that a licensor-debtor in bankruptcy is entitled to reject its grant of a trademark license and exclusive distribution rights to a licensee. While 11 USC § 365(n) of the Bankruptcy Code contains an exception that allows a licensee to retain its rights in intellectual property when a licensor declares bankruptcy, it does not specifically cover these two areas. A decision is currently pending.

Under Iancu's leadership, we can also expect the PTO to be active in issuing additional guidance and rulemaking in an effort to harmonize PTO examining practices with recent Federal Circuit opinions related to subject matter eligibility and patent grant reliability. We may also see Congress weigh in and pass further legislation on patent subject matter eligibility and open legal questions related to artificial intelligence.

PATENTS

35 USC 101 – SUBJECT MATTER ELIGIBILITY

Specific Functions Improving Computer Technology Are 101-Eligible, Unconventionality Not Required

Ancora Techs. v. HTC Am., Inc., 908 F.3d 1343 (Fed. Cir., 2018) (Taranto, J); *CyWee Grp. Ltd. v. Samsung Elecs. Co.*, 2:17-CV-140-WCB (E.D. Tex. Nov. 7, 2018) (Bryson, J, sitting by designation).

In two recent decisions, judges of the US Court of Appeals for the Federal Circuit expounded on the standards under which software-related patent claims are subject matter eligible under 35 USC § 101.

In *Ancora*, HTC moved under § 12(b)(6) to dismiss Ancora's infringement action, arguing that the asserted claims were invalid as patent ineligible under § 101. Section 101 defines patent-eligible subject matter as "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." Laws of nature, natural phenomena and abstract ideas are ineligible. After the district court determined that the claims were directed to an abstract idea and dismissed the action, Ancora appealed to the Federal Circuit.

The patent in issue was for "Restricting Software Operation Within a License Limitation" and taught that among "[n]umerous methods . . . for the identifying and restricting of an unauthorized software program's operation," software-based methods require writing a license signature on the computer's hard drive, and hardware-based methods require inserting a costly and inconvenient software-authentication dongle. The patent's self-described improvement embeds a non-removable, non-modifiable unique identification code "key" in the read-only memory of the computer's Basic Input Output System (BIOS) module. Each application program licensed to run on the computer is associated with a license record (author and program names, and number of licensed network users). Storing this license record in a "verification structure" created in a portion of BIOS memory that "may be erased or modified" uses "existing computer hardware (eliminating [additional] expense and inconvenience . . . while storing the verification information in a space that is harder and riskier for a hacker to tamper with than storage areas used by earlier methods."

The district court granted HTC's motion to dismiss after concluding that under the two-step Alice/*Mayo* analysis (*IP Update,* Vol. 17, No. 7), the claims:

- Focused "on the abstract concept of selecting a program, verifying whether the program is licensed, and acting on the program according to the verification"
- Contained no "inventive concept" of something significantly more than the abstract idea because "[s]pecifying that the BIOS be used to house the verification structure" calls for nothing more than "[s]toring data in the memory of a computer component that generally stores data"

On *de novo* review, the Federal Circuit reversed.

The panel first considered whether, under *Alice* step one, the district court correctly characterized the "'claimed advance' in the process of determining whether the claims were directed to an abstract idea" (citing *Finjan* quoting *Enfish*, regarding software innovations where the eligibility issue turns on "whether the claims focus on 'the specific asserted improvement in computer capabilities . . . or, instead . . . computers are invoked merely as a tool.'") In this case, the Federal Circuit analogized the invention to those at issue in *Finjan*, *Enfish*, *Visual Memory*, *Core Wireless* and *Data Engine*. The Court found that the claimed method specifically identified how the non-abstract computer-functionality improvement is effectuated, and therefore concluded that the claim was not directed to an abstract idea.

The *Ancora* case was decided on the heels of a decision rendered just a week earlier by Federal Circuit Judge William C. Bryson (sitting by designation) in the Eastern District of Texas in *CyWee v. Samsung Elecs.* In *CyWee*, Samsung moved for summary judgment of invalidity under § 101 against patents asserted by CyWee directed to 3D pointing devices and methods for compensating movement/rotation. Samsung argued that the asserted claims were patent-ineligible because "CyWee's patent claims merely recite algorithms that operate on data obtained from convention sensors." Judge Bryson denied the motion, explaining that conventional or unconventional use is not critical to the determination of subject matter patentability.

As Judge Bryson further explained, under Supreme Court of the United States and Federal Circuit precedent (*Flook*, *Diehr*, *Thales Visionix*), while mathematical formulas are not patentable, claims *containing* mathematical algorithms may be, depending on the role the formula plays: "Claims are patent eligible under § 101 'when a claim containing a mathematical formula implements or applies that formula in a structure or process which, when considered as a whole, is performing a function which the patent laws were designed to protect.'"

CyWee's patent claimed a particular combination of sensors used to gather raw data points relating to an object's position. Those data points were then used in a mathematical formula to determine the orientation of the object in a spatial reference frame. Judge Bryson emphasized that such equations must be viewed in conjunction with *all other* claim components to examine what is new and useful (and avoid foreclosing more than necessary). Analogizing to the patent-eligible technologies at issue in *Thales* and *Diehr*, Judge Bryson found that the invention defined by CyWee's apparatus claims performed a specific, useful function by a particular device to have tangible, physical results from the receipt and assessment of information, and that the method claims used inputs from six- and nine-axis sensors to track the orientation status of the 3D pointing device and correct errors associated with conventional motion detectors.

Judge Bryson stressed that although the Federal Circuit recognized the unconventional positioning of the sensors in *Thales*, this was not critical to patentability (as evidenced by the court determining patent-eligibility without reaching *Alice* step two). Quoting *Diehr*, Judge Bryson stated that unconventional use is "additional evidence," but "[t]he '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."

Personalized Medicine Claims Make It Past § 101 Invalidity Challenge

Vanda Pharmaceuticals Inc. v. West-Ward Pharmaceuticals Intl. Ltd., 887 F.3d 1117 (Fed. Cir., 2018) (Lourie, J) (Prost, CJ, dissenting).

The US Court of Appeals for the Federal Circuit affirmed a district court finding that a patented method for treating schizophrenia was not subject matter ineligible under 35 USC § 101.

Vanda Pharmaceuticals owns a patent relating to a method of treating schizophrenia patients with iloperidone. The cytochrome P450 2D6 gene (CYP2D6) encodes an enzyme known to metabolize iloperidone. Expression of this gene varies among individuals, and thus some patients with lower than normal CYP2D6 are poor metabolizers of iloperidone. These patients are more at risk for a side effect known as QTc prolongation—a life-threatening ventricular arrhythmia. The patent teaches that treatment of a patient who has lower CYP2D6 activity with iloperidone can be accomplished more safely by administering a lower dose of the drug than would be administered to a person who has normal CYP2D6 enzyme activity. The patented method requires the steps of (1) determining the patient's CYP2D6 metabolizer genotype by (a) obtaining a biological sample and (b) performing a genotyping assay, and (2) administering specific dose ranges of iloperidone depending on the patient's CYP2D6 genotype.

West-Ward Pharmaceuticals filed an abbreviated new drug application seeking approval of a generic version of a drug sold by Vanda, prompting Vanda to file a lawsuit. In response, West-Ward challenged the subject matter eligibility of the patent claims based on § 101. Following a bench trial, the district court analyzed the asserted claims using the *Alice/Mayo* two-step framework. First, the district court found that the asserted claims depended upon laws of nature, specifically, "the relationship between iloperidone, CYP2D6 metabolism, and QTc prolongation." In the second step of the eligibility analysis, however, the district court found that the asserted claims transformed the underlying law of nature into a patent-eligible application through the claim limitations—"conducting CYP2D6 genotyping tests to determine the appropriate dose of iloperidone to reduce QTc-related risks." As a result, the district court found the claims patent eligible. West-Ward appealed.

West-Ward argued that the district court erred in determining that the asserted claims were valid under the two-step *Alice*/*Mayo* framework. Vanda argued that while the district court's ultimate conclusion was correct, it had erred by not finding the asserted claims patent eligible under both steps of *Alice/Mayo*. The Federal Circuit agreed with Vanda. The Court explained that the claims were not directed to a patent ineligible concept at step one, and thus the Court need not even address step two of the inquiry. The Court also concluded that the asserted claims were directed to "a specific method of treatment for specific patients using a specific compound at specific doses to achieve a specific outcome."

In reaching its decision, the Federal Circuit noted that, conceptually, the asserted claims cover very similar subject matter to the claims that were invalidated by the Supreme Court of the United States' 2012 decision in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* (IP Update, Vol. 15, No. 3), as both sets of claims generally relate to optimizing the therapeutic efficacy of a drug by determining the relative presence of a biomarker in a patient sample prior to dosing. Several crucial differences resulted in the Court's finding that Vanda's patent claims were eligible, however. First, although the claim at issue in *Mayo* recited administering a drug to a patient, the claim considered as a whole was not directed to a novel method of treating a disease—which Vanda's claims were. Second, the claims in *Mayo* did not require that the doctor actually use a natural relationship to determine the appropriate dose. The Court emphasized the importance of the end result: the observation or detection of a relevant biomarker for the purpose of optimizing therapeutic efficacy, like that at issue in *Mayo*, is not patent eligible, but the specific method of treatment that is based on this optimization, like that in the current case, is patent eligible.

Chief Judge Prost dissented, arguing that the asserted patent claims were directed to a law of nature and that the majority's "efforts to distinguish Mayo cannot withstand scrutiny." In her view, the majority analysis of *Alice/Mayo* step one "conflates the inquiry at step one with the search for an inventive concept at step two." Petition for *certiorari* was filed December 27, 2018.

An "Unremarkable Proposition": *En Banc* Denials Reaffirm that § 101 Analysis May Contain Underlying Factual Issues

Berkheimer v. HP Inc., 890 F.3d 1369 (Fed. Cir., 2018); *Aatrix Software, Inc. v. Green Shades Software, Inc.*, 890 F.3d 1354 (Fed. Cir., 2018) (reh'g denied).

The *per curiam* US Court of Appeals for the Federal Circuit denied petitioners' requests for *en banc* review in the *Berkheimer* and *Aatrix Software, Inc.*, cases, holding that the issue of whether a claim element is well understood, routine and conventional to a skilled artisan in the relevant field at a particular time is a fact question to be answered under normal procedural standards.

In February 2018, the Federal Circuit vacated a grant of summary judgment for patent ineligibility in *Berkheimer* and vacated a district court's grant of a motion to dismiss in *Aatrix* for patent ineligibility (*IP Update,* Vol. 21, No. 3). In both cases, the Court emphasized the factual disputes underlying the § 101 analysis.

Appellees HP and Green Shades Software both petitioned for rehearing *en banc* at the Federal Circuit in their respective cases, and they presented the issues to the Court as follows:

Berkheimer

- Is the threshold inquiry of patent eligibility under 35 USC § 101 a question of law without underlying factual issues that might prevent summary judgment?
- Is the appropriate inquiry under *Alice* step 2 whether the claims transform an abstract idea into a patent-eligible application, or merely "whether the invention describes well-understood, routine, and conventional activities"?
- Is a statement in a patent specification reciting that the invention is new and improves upon the prior art enough to create a genuine issue of material fact that precludes summary judgment as to patent eligibility under 35 USC § 101?

Aatrix Software, Inc.

- Is the threshold inquiry of patent eligibility under 35 USC § 101 a question of law without underlying factual issues based on compliant allegations pled to avoid dismissal under Fed. R. Civ. P. 12(b)(6)?

In the concurring opinion authored by Judge Moore (and joined by four additional judges), the Court answered the primary issue in both petitions in the opening sentence: "*Berkheimer* and *Aatrix* stand for the unremarkable proposition that whether a claim element or combination of elements would have been well-understood, routine, and conventional to a skilled artisan in the relevant field at a particular point in time is a question of fact." In answering that fact question, the Court noted that it may be necessary to weigh evidence to determine whether additional limitations beyond the abstract idea would have been well understood, routine and conventional to a person having ordinary skill in the art.

With respect to the evidence itself in an *Alice* step 2 inquiry, the Court noted that the challenger bears the burden of demonstrating a lack of patent eligibility, and there must be evidence supporting that position. The Court held that relying on the specification alone may support such a position where the specification "admits" that additional claim elements are well understood, routine and conventional. In such a situation, it will be "difficult, if not impossible for a patentee to show a genuine dispute," the Court noted.

Moore's concurring opinion also made clear that normal procedural standards for fact questions apply to the underlying fact question(s) in an *Alice* analysis, and if the patentee's evidence showing that aspects of the invention at issue are not well understood, routine and conventional does not pertain to the invention *as* *claimed*, it will not create a factual dispute as to those claims. The Court also reiterated that a conclusion—such as that in *Aatrix*—that the claims at issue survive a motion to dismiss challenge is not a holding that they are patent eligible. Similarly, the Court reiterated the sentiment from the *Berkheimer* opinion that the decision in that case should not cast doubt on the propriety of previous cases resolving patent eligibility on motions to dismiss or summary judgment.

Judges Lourie and Newman together concurred in the denial of the petition for rehearing *en banc*. Lourie wrote separately to stress that § 101 law needs clarification by a higher authority, such as Congress. Additionally, Lourie posed the question of why *Alice* step 2 in an abstract idea analysis is necessary at all. According to Lourie, if a claim recites "something more," such as an inventive physical or technological step, it is not an abstract idea and can be examined under the anticipation or obviousness statutes. Therefore, the step 2 prohibition on identifying the "something more" from elements that are well understood, routine and conventional is the equivalent of a §§ 102 and 103 inquiry.

Judge Reyna wrote separately to dissent from the denial of the petition for rehearing *en banc*. According to Reyna, the *Aatrix* and *Berkheimer* decisions alter the § 101 analysis in a significant and fundamental manner by departing from the inquiry as a question of law to presenting the analysis "as predominately a question of fact." One of Reyna's concerns moving forward is that "the court offers no meaningful guidance to the bar, the government, or the public on how to proceed on these new grounds." He further posed the following questions:

- To what extent will discovery be allowed to prove or disprove a fact that has been placed in contention?
- Does this new factual inquiry extend to other aspects of the § 101 inquiry, such as whether a claim is directed to an abstract idea or a natural phenomenon?
- Can expert opinion supplant the written description?
- Does the court or jury determine the factual issue?
- What deference is due to the fact finder?

According to Reyna, the *Aatrix* decision removes the inventive concept inquiry from the claims and specification, and moves it to extrinsic evidence. Further, transforming a legal inquiry into a factual dispute will cause § 101 disputes to carry-through to trial as opposed to being resolved early in a given case. The Solicitor General was invited on January 7, 2019 to file a brief in *Berkheimer* to express the views of the United States.

Concrete Solution to Computer Problem Is Patent Eligible

Core Wireless Licensing v. LG Electronics, Inc., 880 F.3d 1356 (Fed. Cir., 2018) (Moore, J).

Affirming a series of district court rulings, the US Court of Appeals for the Federal Circuit found claims directed to software menus that display a limited subset of commonly used functions—useful in conserving space on small screens—to be patent eligible. The Court also affirmed the district court's denial of the defendant's motion for judgment as a matter of law (JMOL) on anticipation, despite the fact that the plaintiff put forward no rebuttal witness on validity.

Core Wireless owns patents directed to software menus useful with applications running on small screens; *i.e.*, menus that display a limited subset of potential functions. These menus allow users to navigate to and access the most commonly used functions without needing to key through a large menu on a small screen. Core Wireless sued LG for infringement of these patents.

LG moved for summary judgment of invalidity, arguing that the patents were ineligible for protection under § 101 because they were directed to the abstract idea of indices. The district court denied summary judgment. After trial, LG also moved for JMOL on anticipation, arguing that a prior art reference taught the use of a small menu to save space on a small screen. LG argued that Core Wireless had not put forward any expert on validity, so there was no evidence on which a reasonable jury could have relied to find that the patents were not anticipated. The district court disagreed and denied the JMOL. LG appealed.

The Federal Circuit affirmed. Addressing the § 101 issue, the Court found that rather than merely reciting indices, the patents claimed a concrete solution to a problem specific to computers, which was lack of screen size and resulting navigational difficulties. The Court analogized these patents to others that offered seemingly abstract solutions to novel issues created by computers that the Court had previously held to be patent eligible.

Turning to the JMOL, the Court noted that not only does the defendant bear the burden of proving anticipation, but it also must do so by means of clear and convincing evidence. The Court explained that JMOL should be granted in only the most extreme cases, such as where an opposing party's witness makes a key admission. Here, Core Wireless was not required to put forward any affirmative evidence of validity. Instead, Core Wireless properly relied on cross examination of LG's witness to impeach testimony, including an admission that the prior art reference only taught a list that allowed a user to access every function of the software, rather than the limited list taught by the asserted patents. Thus, the Court found that the jury was entitled not to credit LG's witness and that LG had not properly carried its burden of proof.

The Results Are In: Voter Verified's Claims Are Patent Ineligible

Voter Verified, Inc. v. Election Sys. & Software LLC, 887 F.3d 1376 (Fed. Cir., 2018) (Lourie, J).

Addressing issue preclusion and patent ineligibility stemming from a Rule 12(b)(6) motion to dismiss, the US Court of Appeals for the Federal Circuit affirmed the district court's dismissal of Voter Verified's patent infringement complaint, finding the claims at issue invalid under § 101.

In 2009, Voter Verified sued the predecessors of Election Systems & Software for infringement of a reissue patent directed to voting methods and systems that provide for "auto-verification" of a voter's ballot. Through a series of summary judgment orders, the district court held that various claims were not infringed and not invalid under §§ 101 and 112 because Election Systems failed to present any arguments or evidence regarding invalidity for those claims. The issues went on appeal to the Federal Circuit, which affirmed the district court (IP Update, Vol. 15, No. 11).

In 2016, Voter Verified sued Election Systems in a different district court, alleging that Election Systems was infringing the same patent as in the earlier case. Election Systems moved under Rule 12(b)(6) to dismiss the complaint on the grounds that all of the claims of the same asserted patent were invalid under § 101. In response, Voter Verified argued that issue preclusion, also known as "collateral estoppel," precluded Election Systems from re-litigating the § 101 issue, which Voter Verified contended was decided in the previous litigation. Nevertheless, the district court granted the motion, concluding that the *Alice* two-step analysis was a substantial change in the law that would prevent issue preclusion from applying in this case, and substantively, that all claims of the asserted patent were directed to patent-ineligible subject matter under § 101. Voter Verified appealed.

The Federal Circuit first addressed the issue of whether the Supreme Court of the United States' *Alice* decision was a substantial change in the law such that issue preclusion would not apply. Based on the first factor of a three-part test, the Federal Circuit explained that the Supreme Court in *Alice* applied the same § 101 test as it previously set out in *Mayo* and did not materially change it. Therefore, the Federal Circuit held that the intervening change in the law exception did not preclude the application of issue preclusion in the case.

The Court next analyzed the issue preclusion question under the 11th Circuit's four-factor test, focusing on two of the factors that the parties contested. First, the Court agreed with Election Systems that the § 101 issue was never actually litigated; the district court dismissed the § 101 issue when Election Systems chose not to respond to those arguments during summary judgment briefing. Next, the Court found that the § 101 issue was not necessary to the judgment in the first district court action. Instead, the district court made decisions on both non-infringement and invalidity, but did not specify which were critical to its final judgment. Therefore, finding that issue preclusion did not attach to defendant's motion to dismiss, the Court proceeded to its § 101 *Alice* analysis.

The Federal Circuit first grouped the asserted claims into a representative method claim and a representative system claim. Then, taking all of the factual allegations in the pleadings as true and as viewed in the light most favorable to the plaintiff, the Court found that the factual allegations presented did not prevent a § 101 determination. The Court then performed the two-step *Alice* test.

After considering the claims and the specification, the Federal Circuit determined that "the claims as a whole are drawn to the concept of voting, verifying the vote, and submitting the vote for tabulation." These steps, the Court noted, are "nothing more than abstract ideas."

Next, the Federal Circuit looked for an inventive concept in the claims sufficient to transform them into patent-eligible subject matter. The Court found only general-purpose computer functions being used to perform the abstract idea of voter verification. For example, the specification recited general computer-related devices such as "a standard personal computer," "a visual display device" or "a laser printer." The Court held that these standard components did not sufficiently transform the patent's abstract ideas into patent-eligible subject matter. Petition for writ of *certiorari* to the United States Court of Appeals for the Federal Circuit was denied January 7, 2019.

35 USC 102 – ANTICIPATION & BARS TO PATENTABILITY

Distribution Agreement Qualifies as Commercial Offer for Sale

The Medicines Co. v. Hospira, Inc., 881 F.3d 1347 (Fed. Cir., Feb. 6, 2018) (Hughes, J).

Addressing what qualifies as an invalidating offer for sale under 35 USC 102(b), the US Court of Appeals for the Federal Circuit reversed a district court finding that a distribution agreement was not a commercial offer for sale.

The Medicines Company (TMC) owns two patents covering pharmaceutical bivalirudin, an anti-coagulant synthetic peptide branded and sold as Angiomax. More than a year before filing the patents, TMC entered into an exclusive distribution agreement with Integrated Commercialization Solutions, Inc. (ICS). The distribution agreement stated that TMC desired to sell Angiomax to ICS and that title would pass to ICS upon receipt of Angiomax at the distribution center. The agreement also permitted TMC to reject all purchase orders submitted by ICS. ICS received the first batch of Angiomax less than one year before the filing of the patents.

Seeking to market a generic version of Angiomax, Hospira filed an abbreviated new drug application seeking US Food and Drug Administration approval. TMC sued for patent infringement. In response, Hospira alleged that the asserted patents were invalid because a distribution agreement between TMC and ICS was signed prior to the critical date and thus constituted an invalidating "sale" under § 102(b). The district court found that the distribution agreement was not an invalidating sale because the agreement was for ICS to be a distributor of Angiomax and was not an offer to sell Angiomax. Finding no offer for sale, the district court did not reach whether the distribution agreement covered the patented invention. Hospira appealed the invalidity finding.

The Federal Circuit reversed the district court's invalidity finding. In a prior appeal involving the parties, the Court explained that the framework for determining whether there is an offer for sale requires focusing on activities that would be understood to be commercial sales and offers for sale in the commercial community (*IP Update*, Vol. 19, No. 8). The Court found that under this framework, the distribution agreement was an agreement to sell and purchase Angiomax. TMC argued that the distribution agreement was not an offer for sale because it permitted TMC to reject all of ICS's purchase orders. The Court rejected TMC's argument because the agreement explicitly stated that TMC desired to sell Angiomax to ICS, that TMC was required to use "commercially reasonable efforts" to fill the purchase orders, and that TMC was unlikely to reject any purchase orders because ICS had exclusive distribution rights. The Court found that the distribution agreement was a commercial offer for sale and remanded to the district court to determine if the distribution agreement covered the patented invention. Following remand, the Court granted Hospira's request to stay this case pending resolution of any petition for writ of *certiorari* filed by TMC. Hospira filed a motion to dismiss its counterclaim of invalidity which disposed of all claims pending in the case.

Reference Buried in Indexing Blizzard Is Not a Printed Publication

Acceleration Bay, LLC v. Activision Blizzard Inc., 908 F.3d 765 (Fed. Cir., Nov. 6, 2018) (Moore, J).

Addressing the post-America Invents Act standard for determining whether a reference qualifies as a printed publication within the meaning of 35 USC § 102(a), the US Court of Appeals for the Federal Circuit upheld a Patent Trial and Appeal Board (PTAB) ruling that the test for public accessibility is not merely whether the reference has been indexed.

Acceleration Bay owns three patents directed to broadcast techniques in which broadcast channels overlay a point-to-point communications network. Blizzard filed several petitions for *inter partes* review of the patents. During the proceeding, the PTAB found that the Lin reference, which was cited as prior art, was not a printed publication within the meaning of § 102(a).

In evaluating whether the Lin reference qualified as a printed publication, the PTAB heard testimony from a systems administrator at the computer science and engineering department of the University of California, San Diego, who testified that the Lin reference was uploaded to the library's website on November 23, 1999, before the critical date of the relevant patents. At the time the reference was uploaded, a report with a unique identifier was created, identifying the year the reference was uploaded and the order in which the reference was uploaded relative to other papers. The PTAB found that users could search the database index by either the author or the year of the report, but that advanced searching by keywords for author, title and abstract fields, while possible, was "unreliable." Based on these findings, the PTAB found that the Lin reference was not a printed publication under § 102(a). Blizzard appealed.

The Federal Circuit affirmed the PTAB's decision that the Lin reference was not a printed publication, finding that the reference was not publicly accessible because it was not indexed in any "meaningful way." The Court relied on the PTAB's finding that, despite some indexing and search functionality by author or year, there was no evidence as to how many reports were filed in the database in 1999. Thus, an individual could theoretically be sifting through thousands of reports filed that year.

The Federal Circuit also stated that the test for public accessibility is not whether the reference has been indexed, but whether the reference is available such that persons interested and ordinarily skilled in the subject matter or art, exercising reasonable diligence, can locate it. The Court found that under this test, the Lin reference was not a printed publication under § 102(a).

Practice Note: Indexing alone is not enough to show public accessibility. To establish a reference as a printed publication, it is important to look for keyword searching by title or topic, and not just searching by the author or year.

Information Distributed Without Disclosure Restrictions May Qualify as Prior Art Printed Publications

Medtronic, Inc. v. Mark A. Barry, 891 F.3d 1368 (Fed. Cir., 2018) (Chen, J).

Addressing whether the distribution of certain materials at one or more meetings renders such materials printed publications under 35 USC § 102(b), the US Court of Appeals for the Federal Circuit vacated a Patent Trial and Appeal Board (PTAB) decision that certain video and slides distributed to specific groups of people at meetings were not admissible as prior art because they were not "sufficiently accessible to the public."

Medtronic manufactures surgical systems and tools used in spinal surgeries. Dr. Mark Barry owns patents directed to methods for ameliorating aberrant spinal column deviation conditions. Dr. Barry sued Medtronic for patent infringement, alleging that Medtronic's products infringed several of his patents relating to spinal tools and systems. In response, Medtronic petitioned for inter partes review (IPR) proceedings, claiming that Dr. Barry's patents were obvious in view of the following:

- A prior art US patent
- A chapter in a book entitled *Masters Techniques in Orthopaedic Surgery: The Spine* (2d ed.)
- A video entitled "Thoracic Pedicle Screws for Idiopathic Scoliosis" and slides entitled "Free Hand Thoracic Screw Placement and Clinical Use in Scoliosis and Kyphosis Surgery" that had been distributed at a meeting of the Spinal Deformity Study Group (SDSG) in Arizona

The PTAB instituted IPR proceedings and found that the challenged claims would not have been obvious over the prior art US patent and book chapter, and that the video and slides did not qualify as prior art publications against Dr. Barry's patents because they were not "sufficiently accessible to the public." Medtronic appealed.

On appeal, the parties mainly disputed whether the video and slides constituted prior art printed publications within the meaning of 35 USC § 102(b). Medtronic argued that the PTAB erred in assuming that that since the video and slides were distributed only to members of the SDSG, they were not "sufficiently accessible." Dr. Barry countered that since the video and slides were only available to a limited group of experts, they were not "publicly accessible."

The Federal Circuit vacated the PTAB's decision, finding that whether a distribution renders the materials printed publications under 35 USC § 102(b) depends upon "the size and nature of the meetings and whether they are open to people interested in the subject matter of the material disclosed," and "whether there is an expectation of confidentiality between the distributor and the recipients of the materials." In vacating the PTAB's finding that the videos and slides were not "sufficiently accessible to the public," the Federal Circuit noted that the PTAB failed to fully consider all of the relevant factors, particularly with respect to the potentially critical difference between events where the materials were distributed, including the SDSG meeting in Arizona and programs in Colorado Springs and St. Louis, which were not limited to members of the SDSG. In particular, the PTAB failed to address whether the disclosures of materials at the programs in Colorado Springs and St. Louis would remain confidential.

Remanding the case for further proceedings, the Federal Circuit held that:

> Distributing materials to a group of experts, does not, without further basis, render those materials publicly accessible or inaccessible, simply by virtue of the relative expertise of the recipients. The nature of those meetings, as well as any restrictions on public disclosures, expectations of confidentiality, or, alternatively, expectations of sharing the information gained, can bear important weight in the overall inquiry.

Printed Publication Status Based on Public Accessibility

Jazz Pharmaceuticals, Inc. v. Amneal Pharmaceuticals, LLC, 895 F.3d 1347 (Fed. Cir., 2018) (Lourie, J).

Jazz Pharmaceuticals owns several patents relating to a drug distribution system for tracking prescriptions of sensitive drugs such as Xyrem®. During the regulatory review process, the FDA published a Notice in the *Federal Register* about an advisory committee meeting and provided a hyperlink to its website where information relating to Xyrem's approval would be posted. The FDA subsequently posted Xyrem's materials, such as the meeting transcript and slides, preliminary clinical safety review data, the briefing booklet and the proposed distribution system. These materials are collectively referred to as the ACA materials.

Amneal Pharmaceuticals petitioned for *inter partes* review (IPR) of Jazz's patents based on the ACA materials. The threshold issue before the PTAB was whether the ACA materials were publicly accessible and whether one of ordinary skill in the art, exercising reasonable diligence, would have been able to locate them. The PTAB found that the ACA materials were publicly accessible on the FDA website listed in the Notice more than two months prior to the critical date of the Jazz patents. The PTAB also found that a pharmacist, aware that Xyrem's active ingredient (γ-hydroxybutyrate) could potentially be abused as a "date-rape drug," would have had sufficient motivation to locate the FDA Notice and the ACA website. The PTAB held that the ACA materials were prior art to Jazz's patents, and found the challenged claims obvious. Jazz appealed.

The Federal Circuit affirmed the PTAB's decision, finding that the ACA materials were publicly accessible to a pharmacist or a computer scientist. The Court found that announcement of the ACA meeting was widely disseminated through a Notice in the *Federal Register*, that the meeting was open to the public, that the ACA materials on the website were accessible via the link, and that the Notice provided specific instructions on how to access those materials. The Court rejected Jazz's argument that the ACA materials needed to be indexed or searchable to constitute a printed publication, finding that accessibility was sufficient to establish that the materials qualified as printed publications. The Court also found that since the ACA materials were posted on a public domain source, there was no reasonable expectation that a user would not copy or distribute the ACA materials. The Court therefore held that the ACA materials were "in the possession of the public" and constituted prior art.

The Federal Circuit found no error in the PTAB's claim interpretation and held that the record supported the finding that Jazz's patented risk management system for tracking prescriptions was obvious. The Court agreed that implementing the ACA materials' centralized database system on multiple computers, a feature taught in another prior art reference, would have been a predictable use of a known distributed data system according to its established function.

35 USC 103 – OBVIOUSNESS

Subjective Preference Is No Excuse for Ignoring Teaching Away

Polaris Industries, Inc. v. Arctic Cat, Inc., 882 F.3d 1056 (Fed. Cir., Feb. 9, 2018) (O'Malley J).

Addressing the issues of teaching away and commercial success, the US Court of Appeals for the Federal Circuit remanded a case to the Patent Trial and Appeal Board (PTAB) to reconsider its final written decision issued in one of two *inter partes* reviews (IPRs) where the PTAB found the challenged claims unpatentable over one combination of references but not the other.

Arctic Cat, a manufacturer of all-terrain vehicles (ATVs), filed two IPR petitions for a patent held by its competitor, Polaris Industries, for the configuration of ATVs. The PTAB found the patents obvious from a combination of prior art presented in one IPR but not the other, and the parties cross-appealed. The Federal Circuit affirmed the PTAB IPR decision finding the patent valid, but overturned in part the IPR decision finding it invalid and remanded for reconsideration.

The Federal Circuit upheld the PTAB's claim constructions and part of its conclusion on the motivation to combine prior art. Specifically, the Court found that the PTAB properly gave a broad interpretation for the placement of the claimed plates because the claims and specification allowed for it, but properly narrowed the term "extending between" to require no intervening parts because such a construction conformed to all of the patent examples. The Court also upheld the PTAB's conclusion that a skilled artisan would have been motivated to combine or rely on the asserted prior art because the prior art dune buggies were analogous to the claimed ATVs and the component placement in the prior art allowed for comparable placement of the driveshaft as taught in the challenged patent.

The Federal Circuit remanded the case to the PTAB, however, finding that the obviousness analysis was inadequate. First, the Court found that the PTAB had failed to take into account uncontested evidence of teaching away. It was undisputed that the prior art suggested that placing the fuel tank under the seat would require raising the occupancy area, and that the claimed fuel tank configuration was therefore taught to be undesirable because it would raise the center of gravity and make the ATV more dangerous. As noted by the Court, since the claimed tank placement ran counter to the prior art teaching, the PTAB relied on a theory of "subjective preference" to nevertheless find obviousness: "one of ordinary skill has the ability to weigh the various benefits and disadvantages based on subjective preferences in an analysis *largely unrelated to obviousness*" (emphasis in original).

The Court rejected this framework: "[w]e have never articulated a framework for analyzing whether claims would have been obvious that includes the phrase 'subjective preference' or that permits a tribunal to wholly disregard the significance of prior art teachings based on such a characterization." In short, the Court found that the PTAB's analysis did not comport with a proper obviousness analysis by allowing hindsight bias, focusing on what a skilled artisan would have been able to do rather than motivated to actually do, and discarding relevant evidence of teaching away. While the Court acknowledged that merely expressing a general preference without criticizing, discrediting or otherwise discouraging the invention is not teaching away, statements of preference are still relevant to motivation.

Second, the Federal Circuit found that the PTAB erred by rejecting Polaris's uncontested claims of commercial success as "conclusory." The Court explained that a plaintiff need not provide more than conclusory statements as to commercial success where its evidence is otherwise unchallenged. If the plaintiff provides sufficient evidence to tie the objective evidence of commercial success to a specific product that embodied the claim features, the plaintiff is entitled to a "presumption of a nexus," which may be rebutted by defendant's evidence. Arctic Cat provided no evidence to overcome the presumption, however, and therefore the Court found that the PTAB erred in disregarding commercial success in its obviousness analysis.

Mental Steps May Be Disregarded as Printed Matter in Obviousness Analysis

Praxair Distrib., Inc. v. Mallinckrodt Hosp. Prod. IP Ltd., 890 F.3d 1024 (Fed. Cir., May 16, 2018) (Lourie, J) (Newman, J, concurring).

The US Court of Appeals for the Federal Circuit concluded that the printed matter doctrine may be extended to mental steps and that claim limitations claiming the content of information are not given patentable weight unless the limitation has a functional relationship to other claim limitations.

Praxair petitioned for *inter partes* review of Mallinckrodt's patent, which is directed to methods of distributing nitric oxide gas cylinders for pharmaceutical applications. The Patent Trial and Appeal Board (PTAB) held that all but one of the challenged claims would have been obvious over the cited prior art, but concluded that one claim (claim 9) was not unpatentable as obvious over these references. In construing the claims, the PTAB applied the printed matter doctrine, interpreting claim limitations directed to information, evaluation and/or recommendation as printed matter steps not to be given patentable weight when such limitations lacked a functional relationship to other limitations in the claim. Both Praxair and Mallinckrodt appealed.

Before the Federal Circuit, Mallinckrodt argued that the PTAB misapplied the printed matter doctrine by extending it to mental steps, but the Court disagreed. The Federal Circuit explained that a claim limitation is directed to printed matter only if it claims the content of information, and then such a limitation is not given patentable weight if it lacks a functional relationship to other claim limitations. This is because such information is not patent eligible subject matter. Subject matter eligibility underlies the printed matter doctrine, and, when a claim limitation directed to a mental step attempts to capture informational content, such a claim limitation may lack patentable weight in an obviousness analysis. Mallinckrodt argued that the limitation in dispute was functionally related to other claim limitations, but the Federal Circuit disagreed, finding that no functional relationship was specifically claimed. Regarding claim 9, the Federal Circuit agreed with the PTAB that a functional relationship was recited, and hence the limitation was given patentable weight. However, the Federal Circuit concluded that claim 9 was nevertheless obvious over the cited references.

In a concurrence, Judge Newman agreed with the panel majority that the challenged claims were unpatentable but disagreed regarding the panel's view of the printed matter doctrine and its applicability to information and mental steps. In Newman's view, extending the printed matter doctrine to mental steps both complicates and muddies the analysis, and is contrary to the patent statute because it fails to determine patentability of the claimed subject matter as a whole.

Creating Abuse-Resistant Treatments for Opioid Dependence Is Not So Obvious After All

Orexo AB v. Actavis Elizabeth LLC, 903 F.3d 1265 (Fed. Cir., Sept. 10, 2018) (Newman, J).

In a case involving abuse-resistant pharmaceutical compositions for the treatment of opioid dependence, the US Court of Appeals for the Federal Circuit reversed the district court's finding of non-obviousness on a patent covering the drug Zubsolv.

Orexo owns two patents directed to Zubsolv, its US Food and Drug Administration approved product for treatment of opioid dependence. A common treatment for opioid addiction is a protocol called "substitution therapy," in which the abused drug is substituted with a partial opioid agonist that is longer acting but less euphoric. The substitute drug reduces cravings and withdrawal symptoms while decreasing the patient's dependency. A common "substitute" drug is buprenorphine, which can be administered as a sublingual tablet or as an oral film. Addicts have been known, however, to abuse buprenorphine by dissolving the tablets or film and injecting the solution intravenously to enhance the euphoric opioid effect.

To counteract this abuse, drug companies have combined buprenorphine with the opioid antagonist naloxone at a 4:1 ratio. Naloxone has poor transmucosal bioavailability, so if the mixture is taken in a sublingual tablet or as an oral film, the buprenorphine will act as intended to treat opioid dependency with little interference with naloxone. If the tablet is dissolved and injected, however, the naloxone will antagonize the effects of buprenorphine, resulting in withdrawal symptoms and thus deterring abuse of the formulation. Naloxone's functional blockade of buprenorphine's action is partial and short lived.

Orexo's patent describes a formulation that enhances the bioavailability of the buprenorphine, which permits a reduced amount of the buprenorphine in the tablet, thereby reducing the amount available on dissolving and injecting the product intravenously. The formulation works by adhering microparticles of buprenorphine to the surface of carrier particles of citric acid. The patent showed a 66 percent improvement in bioavailability in buprenorphine relative to the prior art formulations.

Actavis initiated a lawsuit by filing an abbreviated new drug application for a generic counterpart to Zubsolv. At trial, the district court found certain claims of one of the patents invalid as obvious. Specifically, the district court found that all the ingredients in the claims were generally known, and although the specific formulation was not shown or suggested in any reference, the new combination would have been obvious to a person of ordinary skill. The district court cited to Actavis's expert testimony as showing that "citric acid is pharmaceutically acceptable, water soluble, and of the right size, so therefore it would act as a carrier particle, because it is in the Suboxone tablet." Orexo appealed.

The Federal Circuit reversed the district court's obviousness determination, finding that none of the prior art taught using citric acid as a carrier particle and that Actavis's expert did not testify that a skilled artisan would obviously select citric acid as a carrier for buprenorphine—he simply stated that the artisan would expect it to work. The Court found that the expert's analysis was incorrect, stating that the question was not whether the various references separately taught components of the patented formulation, but whether the prior art suggested the selection and combination achieved by the invention. The Court also stated that the district court improperly discounted the enhanced bioavailability of the patented formulation, and the real-world evidence that Zubsolv is less susceptible to abuse than Suboxone. Based on the entirety of the record, the Court found that Actavis did not establish obviousness by clear and convincing evidence.

Reasonable PTAB Determinations Supported by Substantial Evidence Will Be Sustained

IXI IP v. Samsung Electronics, 903 F.3d 1257 (Fed. Cir., Sept. 10, 2018) (Reyna, J).

The US Court of Appeals for the Federal Circuit reiterated the standard under which Patent Trial and Appeal Board (PTAB) decisions regarding obviousness are reviewed, concluding that substantial evidence supported the PTAB's determination of how an artisan would understand the teachings of the prior art.

Samsung Electronics and Apple (collectively, Samsung) filed a petition for *inter partes* review (IPR) challenging claims of IXI's patent. The PTAB instituted review and found that the challenged claims were invalid as obvious. IXI appealed.

The patent at issue is directed to a system that contains both a personal area network and a wide area network, connected via a cellphone, including "a first wireless device . . . having a software component to access information from the Internet . . . and, a second wireless device . . . to provide [a] first short-range radio signal, wherein [a] software component includes a network address translator software . . . a service repository software component to identify a service provided by the second wireless device." During the proceeding, the PTAB determined that Samsung established by a preponderance of the evidence that prior art references taught every limitation such that all of the challenged claims were obvious.

The Federal Circuit reviews PTAB legal conclusions without deference and PTAB factual findings for substantial evidence. Issues relating to a motivation to combine prior art references and a reasonable expectation of success are both questions of fact. Substantial evidence is "such relevant evidence as a reasonable mind might accept as adequate to support a conclusion." As the Federal Circuit noted, "[w]here two different conclusions may be warranted based on the evidence of record, the Board's decision to favor one conclusion over the other is the type of decision that must be sustained by this court as supported by substantial evidence."

The stipulated (single) issue on appeal was whether a person of skill in the art (POSITA) would read a prior art reference relied on by the PTAB as implicitly describing an implementation in which a Java look-up service identifying network-provided services is located on the cellphone. Samsung conceded that there was no express statement to that effect, but argued that a POSITA would read the reference to understand that the look-up service *may* be co-located. IXI argued that the only express disclosure in the reference places the look-up in a laptop. Based on the prior art disclosure, expert statements that a POSITA would read the reference to include co-location (corroborated by the Java specification), implicit disclosure in view of the reference's system methodology, and other expert testimony, the PTAB rejected IXI's arguments for a narrow interpretation (citing a specific reference figure and inoperability).

The Federal Circuit agreed, concluding that "the Board's determination that a POSITA reading [the prior art reference] would understand that the cellphone is the master of the ad-hoc network and contains the [look-up service] is reasonable and supported by substantial evidence."

Post-Priority References Can Be Used in Context of Obviousness Analysis

Yeda Research v. Mylan Pharm. Inc., 906 F.3d 1031 (Fed. Cir., Oct. 12, 2018) (Reyna, J); *In re Copaxone Consol. Cases*, 906 F.3d 1013 (Fed. Cir., Oct. 12, 2018) (Reyna, J).

In two opinions by the same panel concerning the same three patents, the US Court of Appeals for the Federal Circuit relied in part on post-priority evidence in affirming both the district court's and the Patent Trial and Appeal Board's (PTAB's) holdings that claims directed to dosing regimens were obvious.

Yeda is the assignee (and Teva is the new drug application holder) of three patents concerning a dosing regimen for a prior art treatment for multiple sclerosis called Copaxone® (glatiramer acetate). The claims of the patents recite a method involving three subcutaneous injections of 40 mg of Copaxone over a period of seven days with at least one day in between each injection. The claims of the patents were found invalid by a district court during litigation and by the PTAB in an *inter partes* review proceeding. Yeda appealed.

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The Federal Circuit affirmed both the district court and the PTAB decisions. In finding the claims invalid, both tribunals noted that it was well known that subcutaneous administration of Copaxone caused significant and uncomfortable injection site reactions that led to patient non-compliance. The prior art already described two different dosing regimens: 20 mg daily and 40 mg every other day. Both regimens were understood to be equally effective (perhaps because the overall weekly total dose is almost identical for both regimens), but patient compliance was significantly better for the less frequent dosing regimen.

The district court and the PTAB both noted that the only difference between the prior art 40 mg dosing regimen and the claimed regimen was one dose over a two-week time span (*i.e.*, seven doses over two weeks in the prior art versus six doses over two weeks pursuant to the claims). Given the general motivation in the art to administer Copaxone less frequently, and expert testimony that Copaxone is "a forgiving drug," it would have been obvious to try to remove one dose from the prior art regimen to arrive at the claimed regimen. Moreover, expert testimony indicated that a regimen of injections on pre-determined days of the week has better patient adherence than an every-other-day regimen, in which the particular injection days differ from week to week. Citing *KSR*, both tribunals noted that the "small field" of prior art "presented a finite and known pool of dose and frequency options easily traversed to show obviousness," and that the universe of dosages and frequencies "represent[s] a limited number of discrete permutations." The district court further explained that "the prior art . . . provided clear direction as to choices likely to be successful in reducing adverse side effects and increasing patient compliance." The Federal Circuit found no error in the district court and the PTAB's findings.

In finding obviousness, both tribunals also relied, in part, on a non-prior-art publication (Khan 2009) that was published three weeks after the priority date. Noting that the study reflected in Khan 2009 was commenced two years earlier, the district court and the PTAB both agreed that Khan 2009 was admissible "for the limited purpose of showing the state of the art at the time of the invention." Crucially, the Khan 2009 study discussed the motivation in the art to reduce dosing frequency to improve patient compliance and suggested that alternate day administration of Copaxone could be as effective as daily administration. As explained by the PTAB, Khan 2009 is "probative of the fact that those skilled in the art were motivated to investigate dosing regimens of [Copaxone] with fewer injections to improve patient compliance." The Federal Circuit agreed that Khan was admissible to show the state of the art at the time of the invention, and noted that even if reliance on Khan was improper, there was substantial evidence otherwise supporting the district court and the PTAB's findings.

Practice Note: These decisions stand for the proposition that in both a district court and before the PTAB, non-statutory prior art may in fact be admissible in an obviousness analysis, as long as it is used for "considering the knowledge, motivations, and expectations of a POSITA regarding the prior art."

Prima Facie Obviousness: Much Ado "Abut" Ranges

In Re: Brandt, 886 F.3d 1171 (Fed. Cir., Mar. 27, 2018) (Reyna, J).

Addressing the issue of claims that recite a range that abuts but does not overlap that of a prior art reference, the US Court of Appeals for the Federal Circuit upheld the Patent Trial and Appeal Board's (PTAB's) finding of a *prima facie* case of obviousness.

The application in issue relates to "high density polyurethane or polyisocyanurate construction boards, as well as their use in flat or low-slope roofing systems." The independent claim recited as a feature "said coverboard having *a density greater than 2.5 pounds per cubic foot and less than 6 pounds per cubic foot*."

During examination, the examiner issued a final rejection under 35 USC § 103(a) over a prior art reference disclosing a prefabricated roofing panel with a coverboard having a polymer material core layer with a density “between 6 lbs/ft^3 and 25 lbs/ft^3 and preferably a density of at least 8 lbs/ft^3.” The examiner took the position that it would have been obvious to a skilled artisan to have “a cover board that had a density of less than 6 pounds per cubic feet as an obvious design choice and also due to margin of error by the slightest percentage.” The applicants appealed the rejection, and the PTAB affirmed the rejection. This appeal to the Federal Circuit followed.

Applicants challenged the PTAB’s finding of a *prima facie* case of obviousness based on the prior art coverboard density range disclosure, because that range did not overlap with the claimed density range. Specifically, applicants argued that the PTAB erred by applying a *per se* rule that whenever the differences between a prior art reference’s disclosed range and the application’s claimed range are close, a *prima facie* case of obviousness is established.

The Federal Circuit disagreed with the premise that the PTAB applied a *per se* rule. Rather, it found a *prima facie* obviousness conclusion grounded in the facts before it. The PTAB specifically agreed with the examiner’s factual finding that the difference between the claimed range and prior art range was “virtually negligible.” This finding accounted for manufacturing tolerance levels, because “precise results are not always achieved and tolerance levels are usually taken into account.” In addition, the cited reference recognized that the composition and compressive strength of the coverboard may vary through the addition of fillers during manufacturing. The Court concluded that “[t]his is a simple case in the predictable arts that does not require expertise to find that the claimed range of ‘less than 6 pounds per cubic feet’ and the prior art range of ‘between 6lbs/ft^3 and 25lbs/ft^3’ are so mathematically close that the examiner properly rejected the claims as *prima facie* obvious.”

The Federal Circuit also noted that the applicants did not provide any evidence showing a criticality of the claimed range.

Practice Note: When the difference between a claim and the prior art rests on a claimed range, it is important to provide evidence of criticality of that range.

Secondary Considerations

No Amount of Prior Art Obviates Inquiry of Secondary Considerations of Non-Obviousness

Am. Innotek, Inc. v. United States, 706 F. App'x 686 (Fed. Cir., Dec. 19, 2017) (Taranto, J) (non-precedential).

In a short opinion, the US Court of Appeals for the Federal Circuit affirmed an obviousness conclusion, explaining that a court must consider secondary *indicia* of non-obviousness even in the face of voluminous prior art teaching the claimed features.

American Innotek asserted that the United States infringed a patent related to “fluid containment bags” when it procured allegedly infringing bags from one of American Innotek’s competing suppliers. After making factual findings related to the scope and content of the prior art, the differences between the prior art and the asserted patent, motivation to combine and objective *indicia* of non-obviousness, the trial court determined that the asserted patent was invalid as obvious. American Innotek appealed.

The Federal Circuit affirmed, but clarifiedAthat the trial court was wrong to imply a categorical rule that objective *indicia* could never overcome a strong showing of obviousness in situations where multiple combinations of prior art were applied according to their expected functions. The Federal Circuit reiterated that secondary considerations are case-specific and such an assessment requires that “[o]bjective indicia of nonobviousness must be considered in every case where present.”

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Exploring the Waters of Motivation to Combine and Secondary Considerations

ZUP, LLC v. Nash Manufacturing, Inc., 896 F.3d 1365 (Fed. Cir., Jul. 25, 2018) (Prost, CJ) (Newman, J, dissenting).

The US Court of Appeals for the Federal Circuit affirmed a district court's obviousness determination, finding that if there is substantial evidence supporting a motivation to combine prior art references and the elements of a patent claim were used in the prior art for the same purpose, there is no genuine dispute as to the existence of a motivation to combine and weak evidence of secondary considerations cannot overcome a strong showing of obviousness.

ZUP and Nash are competitors in the water recreational industry. ZUP owns a patent directed to a water recreational board, such as a wakeboard, in which a rider simultaneously uses side-by-side handles and side-by-side foot bindings to help maneuver between various riding positions. After Nash began selling its Versa Board, ZUP filed a lawsuit alleging infringement, trade secret misappropriation and breach of contract. After Nash filed a motion for summary judgment of invalidity, which the district court granted, ZUP appealed.

The Federal Circuit affirmed the district court's findings that all of the elements of the claimed invention existed in the prior art. The Court also agreed that there was substantial evidence of a motivation to combine the elements of the prior art, given that the same elements of ZUP's patent were used in the prior art for the same purpose, and concluded that there was no genuine dispute about the existence of a motivation to combine.

Turning to secondary considerations, the Federal Circuit found that ZUP's minimal evidence of secondary considerations did not create a genuine dispute of fact sufficient to withstand summary judgement on the question of obviousness. The Federal Circuit held that weak evidence of secondary considerations cannot overcome a strong showing of obviousness. The Federal Circuit found that because the differences between ZUP's claimed invention and the prior art were minimal, any long-felt need was also minimal.

Judge Newman dissented, arguing that the majority opinion's decision was based on an incorrect application of the law of obviousness and was without regard to the principles of summary judgment. In particular, Newman stated that objective considerations of obviousness are not merely a rebuttal to overcome the other three obviousness factors, but must be fully considered with the other factors of obviousness, and that secondary considerations guard against hindsight where the inventor's teachings are used as a template to render the invention obvious.

"Blocking Patent" Deterrence Effect May Discount Secondary Considerations for Follow-On Patents

Acorda Therapeutics, Inc. v. Roxane Laboratories, Inc., 903 F.3d 1310 (Fed. Cir., Sept. 10, 2018) (Taranto, J) (Newman, J, dissenting).

The US Court of Appeals for the Federal Circuit affirmed a district court's obviousness determination, finding that a patentee's exclusive, in-licensed "blocking" patent limited the weight of secondary factors favoring non-obviousness of its follow-on patents.

Acorda Therapeutics owns four US patents directed to use of a sustained-release formulation of 4-aminopyridine (4-AP; Ampyra®) for improving gait function or speed in patients with multiple sclerosis (MS). Acorda is also an exclusive licensee of a patent from Elan Corp. that broadly covers methods of treating MS using a sustained-release formulation of mono- or di-aminopyridines. The Acorda patents require the recited dose (10 mg), dosing regimen (twice daily), duration of therapy (two weeks) and pharmacokinetics (serum levels of 15–35 ng/ml) of the drug, which are not expressly taught by the Elan patent.

Acorda filed an abbreviated new drug application litigation asserting the Acorda and Elan patents against several generic drug companies, including Roxane Laboratories, which had sought US Food and Drug Administration approval to market generic versions of Ampyra. Roxane stipulated to patent infringement, but claimed that the Elan and Acorda patents were invalid due to obviousness.

The district court upheld the validity of the Elan patent but found the Acorda patent claims invalid as obvious. The district court found that, in view of the prior art, a person of ordinary skill would have been motivated to improve the walking ability of MS patients by administering a stable dose of 10 mg of 4-AP twice daily, with a reasonable expectation of success. Further, the recited pharmacokinetic aspects were found to be inherent to dosing. While acknowledging evidence of commercial success, long-felt need and failure of others, the district court held that the weight of these secondary indicia of non-obviousness was discounted: not only did the in-licensed Elan patent deter third-party innovation in this blocked space, but Elan and Acorda were incentivized not to develop the follow-on patents immediately. Acorda appealed.

On appeal, Acorda argued against the district court's determination of obviousness and contended that it was improper for the district court to hold that a blocking patent negated secondary factors supporting non-obviousness. The Federal Circuit disagreed on both counts. The Court found that the prior art of record rendered obvious all asserted claims of the Acorda patents, and agreed with the district court's determination that the Elan patent deterred third parties from investing the resources necessary to make, develop and market a "blocked" invention because of the risk of infringement liability and associated monetary or injunctive remedies. The Court explained that where the earlier (blocking) and later patents were owned by or licensed to the same entity (such as in the instant case), the effect of the blocking patent is especially relevant to evaluating objective indicia of the obviousness of the later patent.

Judge Newman dissented, stating that the district court used hindsight to select "separate limitations from separate sources, and retrospectively [fit] them into the Acorda template." Citing "decades of failure" with an unpredictable drug having a "narrow toxic-to-therapeutic range" and severe side effects, she stated that the record supported Acorda's position. In Newman's opinion, the statutory safe harbor for research on patented subject matter would have reduced the threat of blocking patents. She lamented that the majority had misconstrued what constitutes commercial success. Lastly, she noted that the Patent Trial and Appeal Board's *inter partes* review decision upheld the validity of the Acorda patents and that issues relating to privity, estoppel and finality from that decision had not been explored here.

Practice Note: In patent validity challenges based on obviousness, it may be worthwhile to investigate whether the patentee was an owner or exclusive licensee of an earlier blocking patent that can form the basis to argue reasonable reluctance to speedy file and/or license a follow-on patent.

Obviousness-Type Double Patenting

Self-Help CIP Doesn't Give Rise to § 121 Safe Harbor

In re: Janssen Biotech, Inc., 880 F.3d 1315 (Fed. Cir., Jan. 23, 2018) (Prost, CJ).

Addressing whether patent holders can use the 35 USC § 121 safe harbor on a self-help basis to avoid obviousness-type double patenting, the US Court of Appeals for the Federal Circuit upheld a Patent Trial and Appeal Board (PTAB) rejection based on such double patenting. The panel concluded that once a patent issues on a continuation-in-part (CIP), rather than as a divisional, with claims to subject matter outside the scope of a restriction requirement, there is no safe harbor refuge from double patenting.

Janssen filed a CIP claiming priority to an application that ultimately matured into a patent. Both the CIP and the issued patent disclosed and claimed priority through a series of applications directed to antibodies specific to human tumor necrosis factor alpha and a later application directed to immunoreceptor molecules specific for tumor necrosis factor alpha or beta. All told, more than 30 patents reached through the original priority application for the benefit of an earlier filing date.

In 2013, in response to a third-party request, the US Patent and Trademark Office re-examined the issued patent on double patenting grounds over three patents. During the re-examination, Janssen cancelled two claims and requested that the issued patent be amended to delete the benefit claims to the earlier application directed only to tumor necrosis factor alpha. Janssen also amended the specification, abstract and drawings to conform to the later application, thereby deleting the portions relating only to the alpha factor. Lastly, Janssen requested that the application for the issued patent be designated as a divisional of the later application (directed to tumor necrosis factor alpha or beta), rather than as a CIP. The examiner and the PTAB maintained the double patenting rejections on the basis that the § 121 safe harbor did not apply. Janssen appealed.

On appeal, the Federal Circuit considered "whether, several years after a challenged patent issues on a CIP application, a patent owner can retroactively bring the challenged patent within the scope of the § 121 safe harbor by amending the CIP application during a reexamination proceeding to predesignate it as a divisional application."

The Federal Circuit applied a strict application of § 121, noting that in accordance with its literal terms, the safe harbor protects only divisional applications (or the original application) and patents "issu[ed] on" such applications. Therefore, patents issued on CIP applications are not within the scope of the safe harbor.

The Court cited in support *G.D. Searle v. Lupin Pharma*. (*IP Update*, Vol. 18, No. 7), which held that "the patent owner should not take advantage of the safe-harbor provision simply by designating the CIP as a divisional application in a reissue application years after the fact." The Court reasoned that the application on which the challenged patent had issued was not a divisional because it contained new matter that was not in the original application, nor could the application be retroactively altered by simply deleting new matter, and the patent owner could not for purposes of § 121 retroactively relinquish the new matter in the CIP after enjoying years of patent protection.

Applying the reasoning in *Searle*, the Court concluded that "a patent owner cannot retroactively bring its challenged patent within the scope of the safe-harbor provision by amendment in a reexamination proceeding."

Terminal Disclaimer Does Not Establish Claim Preclusion

SimpleAir, Inc. v. Google LLC, 884 F.3d 1160 (Fed. Cir., Mar. 12, 2018) (Lourie, J).

Addressing claim preclusion, the US Court of Appeals for the Federal Circuit reversed a district court's dismissal of a complaint as barred by claim preclusion and the *Kessler* doctrine.

SimpleAir obtained a family of patents including a parent patent and several child patents claiming continuation priority back to the parent patent. During prosecution, SimpleAir filed terminal disclaimers in each child patent to overcome obviousness-type double patenting rejections.

After the patents issued, SimpleAir filed several patent infringement lawsuits against Google's cloud messaging and cloud-to-device messaging services. In the first lawsuit, a jury found infringement of one of the child patents, but the Federal Circuit reversed the verdict. In the second lawsuit, a jury found non-infringement of a different child patent. SimpleAir then filed a third lawsuit, asserting infringement of two different child patents. Google moved to dismiss SimpleAir's complaint (under Fed. R. Civ. Pro. 12(b)(6)) on the basis that it was barred by claim preclusion and the *Kessler* doctrine. The district court agreed, reasoning that (1) the two patents shared the same specification with the previously adjudicated child patents, and (2) the filing of the terminal disclaimers indicated that the US Patent and Trademark Office believed the patents-in-suit were patentably indistinct from the earlier patents. Concluding that the various child patents claimed the same underlying invention, the district court dismissed SimpleAir's complaint. SimpleAir appealed.

On appeal, the Federal Circuit found the district court record insufficient to sustain the district court's dismissal. The Court agreed that the various lawsuits and child patents substantially overlapped, but ultimately found that the district court never analyzed the claims of any patent in reaching its conclusion that the child patents claimed the same invention. The Court also rejected the district court's reliance on terminal disclaimers:

> [A] terminal disclaimer is a strong clue that a patent examiner and, by concession, the applicant, thought the claims in the continuation lacked a patentable distinction over the parent. But as our precedent indicates, that strong clue does not give rise to a presumption that a patent subject to a terminal disclaimer is patentably indistinct from its parent patents. It follows that a court may not presume that assertions of a parent patent and a terminally-disclaimed continuation patent against the same product constitute the same cause of action. Rather, the claim preclusion analysis requires comparing the patents' claims along with other relevant transactional facts.

Because the district court did not specifically consider the claims, the Federal Circuit found insufficient basis for claim preclusion.

Google also argued that if claim preclusion did not apply, then the *Kessler* doctrine barred SimpleAir's claims. The *Kessler* doctrine is based on a 1907 Supreme Court of the United States decision that protects a party's rights to continue a practice that had been accused of infringement where an earlier judgment found that essentially the same activity did not infringe the patent. However, the Federal Circuit explained that the doctrine has not been applied to bar a broader set of rights than would have been barred by claim preclusion. The Court declined to do so, explaining, "Google asks us to subsume claim preclusion within a more expansive, *sui generis Kessler* doctrine. But the *Kessler* doctrine just fills a particular temporal gap between preclusion doctrines . . . it does not displace them."

Practice Note: Claim preclusion does not apply where claims of an asserted patent are not the same as claims of an earlier litigated patent from same family—unless the court determines the asserted claims are narrower than the previously litigated claim.

Inherency

Obviousness Cannot Be Predicated on What Is Unknown

Endo Pharmaceuticals Solutions, Inc. v. Custopharm Inc., 894 F.3d 1374 (Fed. Cir., July 13, 2018) (Chen, J).

The US Court of Appeals for the Federal Circuit upheld a district court finding that the patent challenger failed to prove that patents directed to a testosterone replacement injection therapy were valid and non-obvious.

Endo Pharmaceuticals holds the new drug application for Aveed, a long-acting injectable testosterone undecanoate (TU) formulation. Bayer Intellectual

Property and Bayer Pharma own the two patents listed in the Orange Book for Aveed. In 2014, Custopharm's predecessor in interest, Paddock Laboratories, submitted an abbreviated new drug application and a Paragraph IV certification. Endo and Bayer subsequently sued Custopharm for patent infringement.

The claims of the Orange Book-listed patents require three primary elements:

- 750 mg of TU
- A vehicle comprising 40 percent castor oil and 60 percent benzyl benzoate (the '395 patent only required a co-solvent rather than benzyl benzoate specifically)
- Administration at an initial interval of two injections four weeks apart and maintenance injections at 10-week intervals thereafter (this limitation applied to the asserted claim of one of the listed patents only)

Custopharm argued that the asserted claims were obvious based on three prior art references (collectively, the articles). The articles taught administration of 1000 mg of TU at a concentration of 250 mg/ml in castor oil. The articles, however, did not describe the use of a co-solvent, although it was known in the art in 2007 that the vehicle formulation used in the articles was 40 percent castor oil and 60 percent benzyl benzoate.

The district court found that Custopharm had not met its burden of proving that the disputed claims would have been obvious because (1) one would not have been motivated to lower the dosage of TU from 1000 mg to 750 mg, as required by the patent claims; (2) the articles did not inherently disclose benzyl benzoate as a co-solvent; and (3) the articles did not disclose the specific injection schedule of the '395 patent. Custopharm appealed.

On appeal, Custopharm argued that a skilled artisan would have been motivated to lower the dose of TU from 1000 mg (as disclosed in the articles) to 750 mg (as required by the patent claims), because under the American Association of Clinical Endocrinologists (AACE) Guidelines, four of 14 patients in one of these clinical studies were being overdosed. The district court found this evidence insufficient because under US Food and Drug Administration (FDA) guidelines, only one of these patients would have been considered overdosed, and it found that FDA guidelines are more prevalently applied than AACE guidelines. The Federal Circuit found no error in the district court's determination that Custopharm failed to affirmatively demonstrate that a skilled artisan would have been motivated to lower the dose of TU despite no clear evidence of overdosing under the FDA guidelines. The Federal Circuit also found that Custopharm's overdose theory improperly assumed that the only solution to overdosed patients was to reduce the dosage rather than extending the injection intervals.

Custopharm also argued that the vehicle formulation was "necessarily present" in the articles because (1) it was later revealed to be the actual formulation the authors of the articles used in their reported clinical studies, and (2) the articles provided a detailed recitation of the TU injection composition's pharmacokinetic performance, and from this information the skilled artisan would have derived the claimed vehicle formulation of 60 percent castor oil and 40 percent benzyl benzoate. The Federal Circuit disagreed. With respect to prior art in an obviousness analysis, "[o]bviousness cannot be predicated on what is unknown." While the inherent characteristic does not have to be recognized or appreciated by a skilled artisan, it must be either necessarily present or the natural result of the combination of elements explicitly disclosed by the prior art. Here, the Court found that the pharmacokinetic performance data was not enough to establish that the articles barred the possibility of alternative vehicles being used in the prior art compositions.

The Federal Circuit also found no errors in the district court's finding that the articles did not disclose the claimed injection schedule. Custopharm argued that once a skilled artisan recognized that patients were being overdosed, the claimed injection schedule would be the result of routine treatment of individual patients and would thus be obvious. The Court found this argument unpersuasive, because (1) it was predicated on Custopharm's overdose theory, which had already been rejected, and (2) read together, the cited art did not contemplate a two-phase dosing regimen with initial loading doses followed by maintenance doses.

Practice Note: This case highlights the difficulty in establishing obviousness based on an inherent characteristic in a prior art reference. To support such an inherency argument, it is important at trial to establish a clear factual record that demonstrates what is disclosed in the prior art reference that would prove that the inherent-undisclosed claim element was necessarily present.

35 USC 112 – WRITTEN DESCRIPTION

Incorporation by Reference: Context May Affect Written Description Support for Later-Added Claims

Paice LLC v. Ford Motor Company, 881 F.3d 894 (Fed. Cir., Feb. 1, 2018) (O'Malley, J).

The US Court of Appeals for the Federal Circuit partially vacated a ruling by the Patent Trial and Appeal Board (PTAB), concluding that an incorporation by reference clause in an earlier application in the line that led to the challenged patent did not limit the applicability of incorporated reference in terms of providing written description support for later-added claims.

Paice appealed final written decisions issued by the PTAB in six *inter partes* review (IPR) proceedings initiated by Ford to challenge two of Paice's patents relating to hybrid cars. The challenged patents were directed to a torque-based algorithm for selecting operating modes in a hybrid vehicle having an internal combustion engine and one or more battery powered electric motors. The claims at issue generally recite methods for comparing the instantaneous torque required to propel the vehicle, to both a setpoint and the engine's maximum torque output to determine whether to operate the engine, the electric motor or both. The PTAB held several challenged claims to be unpatentable over a reference that Paice asserted was not prior art to the challenged claims by virtue of an incorporation by reference in an earlier application in the family that matured into the challenged patent.

The Federal Circuit affirmed the PTAB decisions on obviousness, essentially based on affirmance of the PTAB's broadest reasonable interpretation construction of two disputed claim terms, and its conclusion that the final written decisions provided "a reasoned basis for their decisions," but it vacated the PTAB ruling relating to the priority date to which the challenged claims were entitled. In doing so, the Court clarified whether, and to what extent, a document is incorporated by reference in a patent application.

The priority date for later-added patent claims depends on when the claimed subject matter first appeared in the chain of patent applications from which the claims arose. For claims to be entitled to a priority date of an earlier-filed application, the application must provide adequate written description support for the later-claimed limitations.

During the IPR proceedings, Paice argued that the challenged claims were entitled to claim priority from an earlier US application and that the earlier application provided sufficient written description support for the challenged claims by virtue of incorporation by reference of a US patent to Severinsky. The PTAB rejected Paice's argument and found that the later-added limitations were not supported by an adequate written description.

The Federal Circuit reversed, concluding that the statement in the earlier application that "[Severinsky] *is incorporated herein by this reference*" (emphasis in original) "identified with detailed particularity the specific material subject to incorporation and where that material can be found," and was "plainly sufficient to incorporate Severinsky in its entirety." The Court explained that the PTAB's reliance on a subsequent sentence in the application that stated "[w]here differences are not mentioned, it is to be understood that the specifics of the vehicle design shown in [Severinsky] are applicable to the vehicles shown herein as well" did not limit incorporation to only those disclosures in Severinsky that are not different from disclosures from the disclosures in the application. Rather, the Court concluded that "[t]he sentence has no bearing . . . on the extent of incorporation. It refers only to the applicability of certain features of Severinsky's invention to the . . . application's purportedly new and improved hybrid vehicle, rather than to which textual portions of the Severinsky document are incorporated." As the Court further explained, "[t]he applicability of a document's disclosed features and the incorporation of the document itself are distinct concepts, and one does not imply the other."

The Federal Circuit explained that when read in context, the entire passage makes it clear that Severinsky is incorporated in its entirety into the application, but applies only some of the specific features of the invention disclosed in the application now in issue.

The Court remanded the case to the PTAB to determine whether the earlier application, with Severinsky incorporated in its entirety, provides the requisite written description support for the challenged claims. Thereafter, the parties settled and filed a joint motion to terminate the proceeding before the PTAB. *Ford Motor Company v. Paice LLC*, 2018 WL 4401833 (September 14, 2018).

PTO Clarifies Written Description Guidance for Claims Drawn to Antibodies

The US Patent and Trademark Office (PTO) issued a memorandum to patent examiners clarifying the written description requirement of 35 USC § 112(a) for claims drawn to antibodies. The memorandum was spurred by the US Court of Appeals for the Federal Circuit 2017 decision in *Amgen v. Sanofi*, which addressed adequate written description for claims drawn to antibodies. In *Amgen*, the Federal Circuit explained that when an antibody is claimed, § 112(a) requires adequate written description of the antibody itself. This is in contrast to MPEP 2163(II)(3)(a), which teaches "disclosure of an antigen fully characterized by its structure, formula, chemical name, physical properties, or deposit in a public depository provides an adequate written description of an antibody claimed by its binding affinity to that antigen, if generating the claimed antibody is so routine that possessing the [antigen] places the applicant in possession of an antibody" (the so-called newly characterized antigen test).

The Federal Circuit found that although the newly characterized antigen test was noted in dicta in several other Federal Circuit decisions, it could not stand because it contradicted the *quid pro quo* of the patent system whereby one must describe an invention in order to obtain a patent. Therefore, the memorandum instructs examiners that adequate written description of a newly characterized antigen alone should not be considered adequate written description of a claimed antibody to that newly characterized antigen, even when the preparation of such an antibody is routine and conventional.

The memorandum further instructs examiners to continue to follow the guidance in the MPEP 2163 except for the portion teaching that disclosure of a fully characterized antigen may provide written descriptive support of an antibody to that antigen. The memorandum noted that the MPEP will be updated to reflect these changes.

Practice Note: If an applicant intends to claim an antibody, the applicant should describe the antibody in the specification in sufficient detail to avoid a lack of written description rejection, and not merely rely on the description of the corresponding antigen.

Earlier Disclosure Conveys Possession of Invention, Is Not Invalidating Reference

Hologic, Inc. v. Smith & Nephew, Inc., 884 F.3d 1357 (Fed. Cir., Mar. 14, 2018) (Stoll, J).

Addressing the written description requirement under 35 USC § 112, the US Court of Appeals for the Federal Circuit found that an international patent application had sufficient written description to act as a priority document rather than an invalidating obviousness reference.

Smith & Nephew owns a patent directed to an endoscope and has claims reciting a "permanently affixed light guide" in one of two channels. The patent claims priority to an earlier-filed Patent Cooperation Treaty (PCT) application by the same inventor and with a nearly identical specification. During the national stage examination, the specification of the application was amended to state that "[a] connection . . . for a light source is also present, for connection to a light guide, such as a fibre optics bundle which provides for lighting at the end of lens" in response to an objection for inadequate disclosure.

After the application issued, Hologic filed a request for *inter partes* re-examination of the patent. During re-examination, the examiner found that the patent could not claim priority to the international application because the international application did not provide adequate written description for the broad genus of "light guides." The examiner determined that the phrase "fibre optics bundle" alone did not provide adequate written description. The examiner found that without adequate written description in the international application, the effective priority date of the patent was well after the publication of the international application. Therefore, the international application publication was prior art to the claims of the patent under pre-America Invents Act § 102(b), resulting in rejection of the re-examined claims of the patent.

Smith & Nephew appealed to the Patent Trial and Appeal Board (PTAB), which reversed the examiner, finding that the earlier-filed PCT application provided sufficient written description support for the claimed light guide, therefore entitling the patent to the priority date of the PCT application. Hologic appealed to the Federal Circuit.

On appeal, the Federal Circuit affirmed the PTAB's decision. The Court found that the specification of the earlier-filed PCT application supported the PTAB's finding that the PCT application contemplated a distinct channel for light or viewing, separate from cutting tools. Based on this description, the Court found that substantial evidence supported the PTAB's conclusion that a person of ordinary skill, reviewing the PCT figures and specification, would have understood that the inventor had possession of a light guide affixed in the "first channel."

Practice Note: It remains good practice to include generic support, at least as an example, when drafting patent specifications. Practitioners should also ensure that claim terms, including in child applications, are fully supported in the specification of relevant priority documents.

Inadequate Written Description Means Claim of Priority Is All Washed Up

D Three Enterprises, LLC v. SunModo Corp., and Rillito River Solar, LLC DBA EcoFasten Solar, 890 F.3d 1042 (Fed. Cir., May 21, 2018) (Wallach, J).

Addressing adequacy of a written description to support a claim of priority, the US Court of Appeals for the Federal Circuit upheld a grant of summary judgment finding that boilerplate language in the asserted priority document could not be relied on to support the later claims, and that the asserted claims were therefore invalid in view of the accused structures.

D Three Enterprises sued SunModo and Rillito River Solar (together, appellees) for infringement of three D Three patents. Appellees filed a joint motion for summary judgment, arguing that the priority claim of the asserted patent to the common priority 2009 application was invalid, and therefore the asserted patents were not entitled to the claimed priority date and the asserted claims were invalid as anticipated by the allegedly infringing products (which were on sale prior to asserted patents' actual filing date).

To determine whether the asserted claims could claim priority from the 2009 application, the district court divided the asserted claims, which relate to roof mount sealing assemblies, into two categories: (1) claims that *do not* recite a washer and *do not* limit a type of attachment bracket, and (2) claims that *do* recite a washer and *do not* limit its location. The district court determined that only one washerless assembly was disclosed in the 2009 application, which consistently described a single type of attachment bracket and taught that when a washer is present in an assembly, the washer is only above a flashing component.

The district court concluded that the 2009 application disclosure was limited to (1) assemblies with no washer, but requiring a W-pronged attachment bracket, and (2) assemblies with washers that are only located above a flashing component. Accordingly, the district court granted the motion, finding that the asserted claims lacked support in the 2009 application and were therefore invalid over the accused devices. D Three appealed.

With regard to asserted claims that *do not* recite a washer and *do not* limit a type of attachment bracket, the Federal Circuit agreed with the district court that the 2009 application "in no way contemplates the use of other types of attachment brackets in a washerless assembly," and never describes any other types of attachment brackets that could be used. The Court went on to explain that the *absence* of an admission that various attachment brackets cannot be used in a washerless system is insufficient to provide written description, and that boilerplate language regarding "modifications, permutations, additions and sub-combinations" is also insufficient to show adequate disclosure of the actual combinations and attachments used in the asserted claims.

With regard to asserted claims that recite a washer in a location other than above a flashing component, D Three did not contest that the 2009 application disclosed a washer "only above the flashing." However, D Three asserted that adequate written description support was provided by a disclosure of systems without a washer and with a washer located above the flashing. D Three also argued that the application did not "require the washer to be atop the flashing as opposed to below." The Federal Circuit rejected these contentions, explaining that the "lack of any disclosure of an assembly with a washer below the flashing, or statement on the flexibility of the position of the washer, is fatal to D Three's argument." Rather, "demonstrating adequate written description 'requires a precise definition' of the invention." It is not sufficient "that the disclosure, when combined with the knowledge in the art, would lead one to speculate as to the modifications that the inventor might have envisioned, but failed to disclose."

Accordingly, the Federal Circuit concluded that the asserted claims lacked sufficient written description support in the 2009 application, were not entitled to claim priority from it, and were therefore invalid.

Practice Note: When drafting a patent, be sure to include several alternative structures or species of a feature rather than relying on boilerplate language.

Indefiniteness

Don't Have "Means?" Things Might Get GUI

Zeroclick, LLC v. Apple, Inc., 891 F.3d 1003 (Fed. Cir., June 1, 2018) (Hughes, J)

The US Court of Appeals for the Federal Circuit reiterated that the relevant inquiry and factual findings required to support a conclusion that claims recite mean-plus-function terms is evidentiary support by the challenger that a contested claim term fails to recite structure.

Zeroclick sued Apple for allegedly infringing patent claims related to graphical user interfaces (GUIs) and modifications that allow the GUIs to be controlled using predefined pointer or touch movements. Apple counterclaimed that the asserted claims were invalid. The district court agreed, finding the claims invalid for indefiniteness, as reciting means-plus-function limitations for which the specification(s) did not disclose sufficient structure.

Zeroclick appealed, arguing that the district court erred in construing claim terms as means-plus-function limitations. After *de novo* review of the claim construction, whether the claim language invoked § 112(6), post-AIA § 112(f) and any indefiniteness, the Federal Circuit reversed the district court's judgment and remanded for further proceedings.

Federal Circuit precedent recognizes "the importance of the presence or absence of the word 'means'" to determine whether § 112, ¶ 6 applies to a claim limitation. *Williamson* (*IP Update,* Vol. 18, No. 6). While failure to use "means" creates a rebuttable presumption that § 112, ¶ 6 does not apply, the presumption can be overcome and § 112, ¶ 6 will apply "if the challenger *demonstrates* that the claim term fails to recite sufficiently definite structure or else recites function without reciting sufficient structure for performing that function." Under a preponderance of the evidence standard, "the essential inquiry remains 'whether the words of the claim are understood by persons of ordinary skill in the art to have a sufficiently definite meaning as the name for structure,'" *i.e.*, "a reasonably well understood meaning in the art." Following traditional claim construction principles, the § 112, ¶ 6 determination must be made on an element-by-element basis in light of evidence intrinsic and extrinsic to the asserted patent, including an analysis of the patent and its prosecution history.

Here, the district court failed to undertake such an inquiry and make related factual findings. Although none of the limitations at issue used the word "means," Apple provided no evidentiary support for its position that the limitations should nonetheless be construed under § 112, ¶ 6, and thus the presumption *against applying* § 112, ¶ 6 remained unrebutted. The Federal Circuit considered the district court's discussion, finding it "couched in conclusory language" that contrasted and relied on Apple's arguments against Zeroclick's contentions, but "pointed to no record evidence" supporting Apple's contention that § 112, ¶ 6 applied.

The Federal Circuit thus found the district court's treatment of the claim terms "program" and "user interface code" as nonce words (substituting for "means" to presumptively bring the disputed limitations under § 112, ¶ 6) erroneous for at least three related reasons:

- "[T]he mere fact that the disputed limitations incorporate functional languages does not automatically convert the words into means for performing such functions."

- The analysis "removed the terms from their context, which otherwise strongly suggests the plain and ordinary meaning of the terms," despite a person of ordinary skill in the art being able to "reasonably discern from the claim language" that "program" and "user interface code" were used "not as generic terms or black box recitations of structure or abstractions, but rather as specific references to conventional [GUIs] or code, existing in prior art at the time of the inventions."
- "[T]he district court made no pertinent finding [compelling] the conclusion that a conventional [GUI] program or code is used in common parlance as substitute for 'means.'"

The remand is pending, as the US District Court for the Northern District of California took the question of claim construction back under submission.

INVENTORSHIP

Inventorship Challenge Survives Another Day Because of Unclear Contract

James v. J2 Cloud Services, LLC, 887 F.3d 1368 (Fed. Cir., Apr. 20, 2018) (Taranto, J).

Addressing the issue of federal jurisdiction based on a lack of Art. III standing by plaintiff, the US Court of Appeals for the Federal Circuit reversed a district court's dismissal of a claim for correction of inventorship for lack of standing, finding that there was at least a factual dispute about any implied assignment or promise to assign patent rights by the inventor.

Gregory James filed a lawsuit asserting a claim for correction of inventorship under 35 USC § 256, along with state law claims for unjust enrichment, conversion, misappropriation and unfair competition. The complaint alleged that James was the sole inventor of the subject matter claimed in a patent directed to systems and methods "for accepting an incoming message over a circuit switched network and transmitting it over a packet switched network." The patent named Jack Rieley and Jaye Muller as the inventors and was originally assigned to JFAX Communications, a company owned by Rieley and Muller.

The complaint alleged that a Software Development Agreement (SDA) was entered into between JFAX (for which Rieley signed) and GSP Software, a partnership of professional software developers and independent contractors (for which James signed). The SDA preamble stated that GSP "will develop software solutions for the exclusive use of JFAX" but did not mention patent rights, whereas it expressly required the assignment to JFAX of "all copyright interests" in the developed "code and compiled software." The complaint also alleged that James developed the software and hardware components covered by the patent and assigned all copyrights in the code and compiled software to JFAX, but did not assign any patent rights.

The current assignee, AMT, and J2, an exclusive licensee, filed a motion under Rule 12(b)(1) to dismiss the case for lack of jurisdiction, asserting that James had no Article III standing to bring the action. The district court granted the motion, concluding that James lacked a stake in the controversy because he failed to allege facts sufficient to show he had an ownership or financial interest in the patent, and also dismissed the state law claims. James appealed.

The Federal Circuit reversed, explaining that

> . . . if Mr. James were to prevail on his allegations that he is the sole inventor and owner of the patent, he would stand to gain concretely, whether through securing an entitlement to seek damages for past acts of infringement or otherwise. Such a gain would directly be related to the merits of the claim and would redress the asserted injury of being deprived of allegedly rightful ownership. In

the absence of other facts, that is enough to give Mr. James Article III standing.

The Federal Circuit noted that the district court did not conclude otherwise but found this reasoning inapplicable, focusing instead on the important qualification that "[w]hen the owner of a patent assigns away all rights to the patent, neither he nor his later assignee has a 'concrete financial interest in the patent' that would support standing in a correction of inventorship action.'" The Federal Circuit noted that the district court relied on two sources for its conclusion—the SDA and the "hired-to-invent doctrine"—but explained that neither supported the conclusion that James had assigned, or obligated himself to assign, his patent rights to JFAX, at least not at this stage of the action. The Court noted that the SDA was amenable to the construction that James did not assign or promise to assign patent rights that would have accrued to him as an inventor. The Court also noted that the hired-to-invent principle does not apply where the underlying agreement for engagement of services was between two legal entities where the inventor was not personally a party.

ASSIGNMENT

Don't Count on Employment Agreement Promise of Assignment for Standing

Addressing whether a patent owner with incomplete ownership interest had standing to sue, the US Court of Appeals for the Federal Circuit upheld a district court's decision, finding that the plaintiff did not have full ownership of the asserted patent by virtue of an inventor's employment agreement with the patent owner's transferee. *Advanced Video Technologies LLC v. HTC Corp., et al.*, 16-2309; -2310; -2311 (Fed. Cir., Jan. 11, 2018) (Reyna J) (O'Malley, J, concurring) (Newman, J, dissenting).

Advanced Video sued HTC on a patent relating to a full duplex single chip video codec. Advanced Video obtained ownership of the patent through a series of title transfers that originated from Infochips Systems. Of the three inventors listed on the patent and employed by Infochips, one (Hsiun) refused to assign her ownership interest in the invention despite being required to under her employment agreement. HTC moved to dismiss the case for lack of standing because Hsiun was not a party to the suit.

Advanced Video argued that Hsiun's employment agreement transferred ownership rights to Infochips and subsequently to Advanced Video. The employment agreement at issue contained three relevant provisions:

- A "will assign" provision
- A "trust" provision
- A "quitclaim" provision

Under the "will assign" and "trust" provisions, Hsiun agreed to make a full written disclosure that Infochips would hold in trust, and further agreed that she would assign, all rights to any and all inventions. Under the "quitclaim" provision, Hsiun agreed to waive all claims she had or may have relating to infringement of the patent. The district court dismissed the case, finding that these provisions did not create a transfer of Hsiun's ownership rights and that Advanced Video lacked standing because Hsiun was not a party to the suit. Advanced Video appealed.

On appeal, the Federal Circuit found that the "will assign" provision did not create an immediate assignment of rights in the invention to Infochips. The Court agreed with the district court that the word "will" in the provision invokes a promise to do something in the future and does not create a present assignment. Advanced Video argued that even if ownership rights were not assigned, Hsiun was a trustee, and her interests in the invention were immediately placed in trust for the benefit of

Infochips and subsequently Advanced Video. The Federal Circuit disagreed, finding that for purposes of standing, Infochips did not have any ownership rights since no ownership interests were ever actually transferred out of trust. As to the quitclaim provision, the Federal Circuit found that it only applied to "rights resulting from any applications actually assigned," and because no patent rights were ever assigned to Infochips, the quitclaim provision did not apply.

The Federal Circuit ultimately concluded that Advanced Video did not have full ownership of the asserted patent and had no standing to maintain its suit. The Court suggested that to gain standing, Advanced Video must seek to enforce its alleged ownership rights against Hsiun. Advanced Video petitioned for a rehearing, which was denied. It also petitioned the Supreme Court for writ of *certiorari*, which also was denied.

Practice Note: Careful attention should be paid to the verb tense used in assignment provisions, and to whether an employee has actually made an assignment or whether the employee agrees that he or she will make the assignment.

PRIORITY CLAIMS

Benefit of Earlier Filing Date or Gaining Patent Term? Patentee Can't Have Its Cake and Eat It Too

Nat. Alternatives Int'l, Inc. v. Iancu, 904 F.3d 1375 (Fed. Cir., Oct. 1, 2018) (Prost, CJ).

Affirming a Patent Trial and Appeal Board (PTAB) priority determination invalidating a patent, the US Court of Appeals for the Federal Circuit found that amending the priority claim of a parent application to delete a reference to earlier-filed applications affected the priority claim of the child application, making the earlier applications prior art.

Natural Alternatives International (NAI) filed a chain of eight patent applications. In each continuing application, NAI claimed priority to the first application under 35 USC § 120 through the prior applications. During the pendency of the fourth application, NAI filed a new provisional application. When filing the fifth application in the chain—a continuation-in-part application—NAI claimed the benefit of both the first four continuing applications and the new provisional application. Shortly after filing its sixth application, NAI amended the priority of its fifth application by deleting its priority claim to the first through fourth applications and retained benefit only to the provisional application under 35 USC § 119(e). The priority claims of the sixth through eighth applications were not amended; these applications eventually issued, claiming priority to the first five applications and the provisional application. The patent at issue in this case is the eighth patent in the chain.

Woodbolt Distributors requested that the US Patent and Trademark Office (PTO) re-examine NAI's eighth patent, alleging that the priority claim of the patent was defective. The PTO instituted *inter partes* re-examination, and the PTAB affirmed the examiner's conclusion that the challenged claims of the eighth patent were anticipated or obvious over the cited prior art because the eighth patent was not entitled to the benefit of the first application's filing date since NAI deliberately deleted the specific reference to the earlier applications in the fifth application. NAI appealed.

On appeal, NAI argued that:

- Priority to the first application "vested" with the sixth application once the sixth application met all the criteria of § 120.
- Waiver of priority is limited to the intervening application in which priority was waived (in this case the fifth application) and does not extend to subsequent applications.

- The PTAB erroneously viewed priority as a single growing chain rather than multiple fixed chains.
- The PTAB's view of priority claims limits an applicant's ability to amend a priority claim to gain patent term.

The Federal Circuit found that NAI's "vesting" argument conflated properly claiming priority with demonstrating entitlement to priority, and noted that patent claims "are not entitled to an earlier priority date merely because the patentee claims priority." Citing the Manual of Patent Examining Procedure (MPEP) § 201.11, the Court noted that, contrary to NAI's argument, nothing in MPEP's text limits the scope of a waiver of priority to only the instant application. The Court also declined to adopt NAI's interpretation of chain of priority as multiple fixed chains, reasoning that the long-standing interpretation of priority has been viewed as a single chain, growing with each additional continuation.

Finally, the Federal Circuit noted that NAI's final argument suggests that NAI does need not to trade the benefit of an earlier filing date in order to gain patent term. The Court found that under NAI's theory, a patentee could gain patent term on its earlier application by deleting a priority claim while simultaneously shielding its subsequent child applications (*e.g.*, the eighth application in NAI's case) from the parents being cited as prior art. The Court concluded that a patentee cannot have it both ways.

RE-EXAMINATION

Re-Examination Findings Not Dispositive in District Court Proceeding

Exmark Manufacturing Company, Inc. v. Briggs & Stratton Power Products Group, LLC, 879 F.3d 1332 (Fed. Cir., Jan. 12, 2018) (Stoll, J).

Finding that rulings on validity from re-examination proceedings are not dispositive of validity in a district court proceeding, the US Court of Appeals for the Federal Circuit vacated summary judgment of no invalidity as well as the jury's willfulness finding and damages award. The Court found that the higher "clear and convincing" standard of proof in district court does not preclude the district court from reaching a different conclusion on validity than that reached during a re-examination proceeding.

Exmark sued Briggs for infringement of a patent directed to a lawn mower having improved flow control baffles. Three separate re-examinations confirmed patentability of Exmark's patent. The district court granted summary judgment that the claim was not invalid, relying solely on the fact that the claim had survived multiple re-examinations. Following a jury award of damages for willful infringement, the district court denied Briggs' motion for a new trial on damages. Briggs appealed.

On appeal, the Federal Circuit vacated the district court's summary judgment of no invalidity. While the district court stated it had given the re-examinations "some, though not determinative, weight," the Federal Circuit disagreed, finding that the district court opinion was conclusory and offered no other explanation for its determination. The Court found that the district court had improperly deferred to the re-examination findings and neglected its obligation to reach an independent conclusion, noting that the district court was required to independently assess validity in view of the higher "clear and convincing" standard of proof in district court.

The Federal Circuit also vacated the jury's damages award. While the Court agreed that it was permissible to apportion damages through the royalty rate instead of the royalty base, it found that Exmark's expert failed to adequately tie the proposed royalty rate of 5 percent to the facts of the case. The expert considered the *Georgia-Pacific* factors but failed to explain the extent to which those factors affected the royalty calculation. The Court also found that the expert's analysis ignored the value added by other patented components as well as non-patented elements, such as durability, reliability and branding. The Court remanded to the district court for new determinations of invalidity and damages, including, if necessary, a new trial on damages.

On remand, the jury awarded Exmark $14.4 million in compensatory damages. Briggs filed for a motion for a judgement as a matter of law, remittitur, and a new trial with corresponding briefings (decision pending). 8:10-cv-00187 (D. Neb).

PATENT TERM ADJUSTMENT

Counting the Days: PTA Calculated from Date National Stage Commences

Actelion Pharm., Ltd. v. Matal, 881 F.3d 1339 (Fed. Cir., Feb. 6, 2018) (Lourie, J).

Addressing the patent term adjustment (PTA) calculations under 35 USC § 154(b)(1)(A)(i)(II), the US Court of Appeals for the Federal Circuit held that an applicant must comply with the "express request" provision of § 371(f) to commence the national stage, and that the national stage commences on the next workday if the 30-month date falls on a federal holiday. At issue in the appeal were four days of patent term extension.

Actelion filed an International Patent Application on July 16, 2009. On January 12, 2012, four days before the 30-month deadline for national phase entry, Actelion filed a US national stage patent application claiming priority to the International Patent Application. The US Patent and Trademark Office (PTO) issued the first office action on April 26, 2013, which was after the statutory deadline for action, leading to accrual of "A Delay" under 35 USC § 154. Upon issuance, the PTO calculated "A Delay" of 41 days (March 16, 2013, to April 26, 2013). Actelion requested recalculation of the PTA in view of § 154, claiming it was entitled to a PTA of 45 days because accrual should have been calculated based on the application's January 12, 2012, filing date. In recalculating, the PTO reduced the PTA to 40 days (March 17, 2013, to April 26, 2013). Actelion filed suit against the PTO in the Eastern District of Virginia. The district court granted the PTO's motion for summary judgment, agreeing that the PTO correctly calculated the PTA. Actelion appealed.

The Federal Circuit affirmed. The Court agreed with the PTO that calculating "A Delay" is based on the date of full compliance with the "entirety of § 371." To commence the national stage before the 30-month deadline, Actelion was required to make an express request under § 371(f). Since Actelion failed to make an express request for early examination, the national stage did not commence until the 30-month deadline, which was January 16, 2012. Moreover, because the 30-month deadline fell on a federal holiday, the national stage did not commence until the next workday, which was January 17, 2012. The Court therefore concluded that the PTO correctly calculated the PTA to be 40 days.

AIA

Constitutionality

Supreme Court Rules Inter Partes *Review is Constitutional, for Now*

In a 7–2 decision authored by Justice Thomas, the Supreme Court of the United States held that *inter partes* review (IPR) proceedings—a congressionally created administrative processes in which the Patent and Trademark Office (PTO) may reconsider and cancel patent claims that were wrongly issued—are constitutional. In doing so, the Supreme Court affirmed several Federal Circuit decisions. *Oil States*

Energy Srvs., LLC v. Greene's Energy Group, LLC, 138 S. Ct. 1365 (2018) (Thomas, Justice) (Breyer, Justice, concurring) (Gorsuch, Justice, dissenting).

Background

The America Invents Act (AIA) created IPR proceedings to provide a procedure by which "any person other than the patent owner" may challenge the validity of a patent on the basis of prior art. IPR proceedings are discretionally instituted by the PTO's Patent Trial and Appeal Board (PTAB or Board) and include many similar features to those found in Article III courts, including motion practice, discovery, depositions, cross-examination, evidence and an adversarial hearing before the Board. At issue before the Supreme Court was whether the revocation of a patent must be tried before an Article III court—thus rendering IPR proceedings unconstitutional. Prior to appeal and *certiorari*, the challenged claims of the patent at issue were found valid in the district court, but invalid by the Board in a parallel IPR.

In the Federal Circuit decision from which *certiorari* was granted, and in two others—*MCM Portfolio LLC* v. *Hewlett-Packard Co.* (*IP Update*, Vol. 19, No. 1) and *Cascades Projection LLC v. Epson America, Inc*. (*IP Update*, Vol. 20, No. 6)—the appellate court held that IPR proceedings are constitutional. In *MCM*, the Federal Circuit concluded that patents were a "public right" in that they flow entirely from a legislative regime, and therefore Congress could grant their review. In *Cascades*, the Federal Circuit rejected *en banc* an appeal citing *MCM*, with the dissent arguing that a more comprehensive analysis as to whether patent rights were public rights or private rights was warranted.

The Supreme Court's Decision

In upholding Congress's authority to create IPR, Justice Thomas, writing for the majority, agreed with the Federal Circuit that patents were indeed a public right, and that IPR "falls squarely within the public rights doctrine" and thus does not encroach on the judicial powers. Reasoning, in part, that the grant of a patent by the government (the PTO) "gives the patent owner the 'right to exclude others from making, using, offering for sale, or selling the invention throughout the United States,'" the Court found that a grant of a patent akin to the grant of a "public franchise." Moreover, the grant of a patent "is a matter between 'the public,' who are the grantors, and the patentee."

Because an IPR is essentially "a second look" at this grant—made considering the same statutory requirements —it falls into this very same category. The Supreme Court further reasoned that Congress has long been able to grant a public franchise (such as a toll bridge) while reserving its authority to revoke or amend the franchise in an administrative proceeding. Likewise, Congress has authorized the PTO (as part of the Executive Branch) to grant patents, and the PTO grants patents subject to its authority (through the Board) to cancel them outside of an Article III court. The Court distinguished early cases, which declared patents could only be cancelled by courts, as describing a statutory scheme that existed prior to the current version of the Patent Act, and noted that the Patent Act specifically qualifies that any property rights an owner of a patent enjoys are "subject to the provisions of the [Patent Act]."

The Supreme Court rejected the argument that IPR violated Article III because of its extraordinary similarity to judicial proceedings, indicating that a "looks alike" test has never been adopted to determine whether an administrative procedure was improper outside of an Article III court. The Court also quickly dismissed an argument that IPR proceedings violate the Seventh Amendment's right to a trial by jury, noting that it has long been established that the Seventh Amendment is no longer a bar to non-Article III adjudication of a matter once the matter has been properly assigned to the non-Article III adjudication.

The Dissent

The minority and majority opinions primarily wrestled with whether history and tradition established that patent validity must be decided by a court. Justice Gorsuch, writing for the minority, made an impassioned dissent that patents have always been considered personal rights that could only be revoked with the concurrence of independent judges, and that judicial independence from the acts of political appointees—no matter how well intended—was a fundamental promise provided by the framers. Concerned with the witling away of individual rights by the political branches, Gorsuch focused on the time of the founding, wherein judges alone resolved virtually all patent challenges, and the conditioned grant of public franchises was disfavored as anticompetitive monopolies. While the majority countered that early English patents included a revocation clause, and a cited cases in which patents were revoked outside the courts by a Privy Council, the minority pointed out that these cases only applied to the revocation of patents on munitions during wartime.

The Decision Is A Narrow One

The Court specifically noted that its decision addresses "only the precise constitutional challenges . . . raised," and does not apply to whether infringement actions could be heard in a non-Article III forum, future due process challenges to IPR, or whether IPR would be constitutional "without any sort of intervention by a court at any stage of the proceedings"—surely setting the stage for further IPR related appeals.

Adverse Judgment

Disclaiming Yourself into an Adverse Judgment

The US Court of Appeals for the Federal Circuit agreed with the Patent Trial and Appeal Board (PTAB) that because a patent owner disclaimed all claims challenged in an *inter partes* review (IPR) prior to institution, the IPR petitioner was entitled to an adverse judgment. *Arthrex, Inc. v. Smith & Nephew, Inc.*, 880 F.3d 1345 (Fed. Cir., 2018) (Dyk, J) (O'Malley, J, concurring) (Newman, J, dissenting).

After a petition for IPR was filed against a patent owned by Arthrex, Arthrex disclaimed all claims that were the subject of the petition. The disclaimer occurred before the PTAB issued an institution decision. The PTAB then entered an adverse judgment citing 37 CFR § 42.73(b). Arthrex appealed.

The Federal Circuit panel majority agreed that the PTAB acted within the scope of the regulation. While the rule defines "trial" as requiring "a contested case instituted by the Board based upon a petition," the Federal Circuit explained that the language relating to remaining claims "in the trial" can be interpreted as meaning that there is no claim remaining for trial, which occurs when, as here, all of the challenged claims have been cancelled.

The Court further explained that the rule's purpose is to define the circumstances in which the estoppel provision applies, and that the purpose of the estoppel provision is to "provide[ ] estoppel against claims that are patentably indistinct from those claims that were lost." The panel thus concluded that there was "no meaningful distinction between claims that are cancelled before an IPR proceeding is instituted and claims that are cancelled after an IPR proceeding is instituted."

The panel considered the various subsections of § 42.73(b), explaining that the rule should be applied consistently over the various subparts. Subsection 1 states that "[d]isclaimer of the involved application or patent" will be construed as a request for an adverse judgment, and the panel explained that "this subsection on its face seems to apply at any time during the proceeding. We see no reason why estoppel should apply if a patent owner disclaims an entire patent or application before an institution decision but should not apply if a patent owner merely disclaims some of the claims." The panel noted that subsection 3 "similarly contains no time limitation" and that according to this subsection, "a '[c]oncession of unpatentability or derivation of the contested subject matter' will be construed as an adverse judgment."

In her concurrence, Judge O'Malley agreed with Judge Dyk that the Federal Circuit had jurisdiction to review the PTAB's adverse judgment against Arthrex, and that the PTAB's interpretation of § 42.73(b) was consistent with the text of that regulation. O'Malley expressed doubt, however, "about whether the Director had the authority under 35 U.S.C. § 316 (or any other statutory provision) to issue that regulation [§ 42.73(b),] or whether, if so, the regulation was properly promulgated."

In dissent, Judge Newman expressed the view that the IPR was not "instituted" because the patentee disclaimed all of the challenged claims before the PTAB decided whether to institute. In her view, no IPR could be instituted because no challenged claims remained in the patent. Newman found the adverse judgment improper since, according to the majority, it "subjects Arthrex to the estoppel provisions of 37 C.F.R. § 42.73(d)(3) . . . as if there had been an IPR trial and Arthrex had lost on the merits."

Estoppel

Overruling Achates: PTAB Time-Bar Decisions Are Reviewable

In an *en banc* decision, the US Court of Appeals for the Federal Circuit overruled its previous decision in *Achates Reference Publishing v. Apple* (*IP Update*, Vol. 18, No. 10) and found that the bar on judicial review of institution decisions under 35 USC § 314(d) does not apply to decisions rendered by the Patent Trial and Appeal Board (PTAB) on whether an *inter partes* review (IPR) proceeding is time-barred under 35 USC § 315(b). *Wi-Fi One, LLC v. Broadcom Corp.*, 878 F.3d 1364 (Fed. Cir., 2018) (*en banc*) (Reyna, J, joined by Prost, CJ, and Newman, Moore, O'Malley, Wallach, Taranto, Chen and Stoll, JJ) (O'Malley, J, concurring) (Hughes, J, dissenting, joined by Lourie, Bryson and Dyk, JJ).

An institution decision made by the PTAB in an IPR proceeding is final and non-appealable under 35 USC § 314(d). Under § 315(b), an IPR is time-barred and thus may not be instituted if the petition requesting the proceeding is filed more than one year after the date on which the petitioner, a real party in interest or a privy of the petitioner is served with a complaint alleging infringement of the patent. A number of factors are relevant in determining whether a party is a real party or is in privy with another party. For example, one factor that may be considered is whether the non-party to the IPR proceeding exercised or could exercise control over a party's participation in the IPR proceeding.

In its earlier *Achates* decision, the Federal Circuit found that a PTAB determination as to whether a petition is time-barred is final and non-appealable. Subsequently, the Supreme Court of the United States decided in *Cuozzo Speed Technologies* that the PTAB's ruling on whether a petition was pleaded with particularity is not reviewable (*IP Update*, Vol. 19, No. 7). The Supreme Court left open the possibility of judicial review for decisions that are not closely tied to the application and interpretation of statutes related to the institution decision.

In this case, the *en banc* Federal Circuit revisited and overruled *Achates*, noting "the strong presumption favoring judicial review of administrative actions" and the absence of clear and convincing congressional intent to bar the review. The majority also found that its decision was consistent with the statutory scheme "as understood through the lens of" the Supreme Court's decision in *Cuozzo*. Specifically, the majority found that the time-bar is not closely tied to the institution decision and thus falls within one of the examples of potential judicial review outlined in *Cuozzo*.

Judge O'Malley concurred. Her concurrence turned on the distinction between the Director's authority to exercise discretion when reviewing the adequacy of a petition to institute, and the Director's authority to undertake such a review in the first instance. She found that the time-bar is directed to a procedural right that prevents an agency from acting outside its statutory limits and is unrelated to the agency's core statutory function of determining whether claims are patentable.

Judge Hughes, joined by Judges Lourie, Bryson and Dyk, dissented. The dissent found that the time-bar is closely tied to and is part of the PTAB's institution decision, and thus argued that time-bar determinations should also be final and non-appealable.

PTAB Designates § 315(b) Opinions as Informative IPR Precedent

On the heels of the US Court of Appeals for the Federal Circuit's *en banc* opinion in *Wi-Fi One, LLC v. Broadcom Corp.* holding that § 315(b) time-bar determinations are appealable (*IP Update*, Vol. 21, No. 2), the Patent Trial and Appeal Board (PTAB) designated two of its earlier § 315(b) decisions as informative precedent. *Luv'n Care, Ltd. v. McGinley*, Case No. IPR2017-01216 (PTAB, Sept. 18, 2017) (Browne, APJ); *Amneal Pharmaceuticals, LLC v. Endo Pharmaceuticals Inc.*, Case No. IPR2014-00360 (PTAB, June 27, 2014) (Bonilla, APJ). In light of this designation, scrutiny of service timing and satisfaction of fee-payment requirements will continue to be central to § 315(b) time-bar analysis for *inter partes* review (IPR).

The issue in *Luv'n Care, Ltd.*, concerned the impact of failure to pay the required petition fees due to insufficient funds in the deposit account used. The petitioner filed its IPR petition against the challenged patent on March 20, 2017, but the US Patent and Trademark Office (PTO) did not receive payment on that date. After discovering that the PTO had not received payment of the required fees, the petitioner filed a second petition on April 11, 2017, and was accorded a filing date for that later petition. The petitioner then filed a motion to have the later petition accorded the filing date of the earlier petition. The earlier filing date was necessary for the petitioner to safely file its IPR petition within the § 315(b) one-year period of being served with the patent owner's district court complaint alleging infringement of the challenged patent.

The PTAB denied institution of the earlier-filed petition, citing 35 USC § 312(a)(1) and observing that an IPR petition "may be considered only if the petition is accompanied by payment established by the Director under section 311." The PTAB noted its earlier precedent explaining that § 312(a) was not jurisdictional and that petition defects under that section could be cured in some circumstances. But the PTAB found, with analysis, that it would not waive the fee requirement in this case.

In *Amneal Pharmaceuticals, LLC*, the issue was whether the "served with a complaint" provision under § 315(b) was implicated by the patent owner's service of a motion to amend its district court complaint, which included a proposed second amended complaint alleging infringement of the challenged patent. The patent owner filed an initial complaint against the petitioner on November 7, 2012, and filed a first amended complaint one week later. On December 11, 2012, the challenged patent issued. The patent owner then filed a motion to amend the complaint on January 9, 2013, including a copy of its proposed second amended complaint in which it alleged infringement of the challenged patent for the first time. Those documents were served on the petitioner via the district court's notice of electronic filing. The district court granted the patent owner's motion on January 14, 2013. The patent owner then filed its second amended complaint on January 17, 2013. The petitioner filed its IPR petition against the challenged patent on January 16, 2014. In its preliminary response, the patent owner argued that the petition was time-barred under § 315(b).

The PTAB concluded that the date the patent owner served the petitioner with its motion to file its second amended complaint, January 9, 2013, did not start the § 315(b) time clock. According to the PTAB, the motion was simply a request to file the proposed second amended complaint, and at that time the petitioner was not yet a defendant in a lawsuit with respect the challenged patent. As a result, the petition was filed within the one-year period after the petitioner was served with the second amended complaint.

The Cases that Never Were: Nullified Litigation and the One-Year Bar

Addressing whether either of two previously filed district court actions precluded institution of an *inter partes* review (IPR) proceeding under the one-year time bar of 35 USC § 315(b), the Patent Trial and Appeal Board (PTAB) held that the bar does not apply to voluntary dismissals without prejudice under Fed. R. Civ. P. 41(a) because such a dismissal effectively nullifies the very existence of the prior action. *Superior Comms., Inc. v. Volstar Tech., Inc.*, Case No. IPR2017-00067 (PTAB, Apr. 20, 2018) (Zado, APJ).

During an IPR proceeding, the patent owner, Volstar Technologies, asserted that the PTAB should have denied institution under § 315(b) because the petitions were filed more than one year after the petitioner (Superior Communications), the real party-in-interest or the petitioner's privy was served with a patent infringement complaint. Volstar identified two prior district court actions asserting infringement of the challenged patent that it contended gave rise to a time bar: a 2012 case against AT&T, in which AT&T was a privy to Superior, according to Volstar, and a case against Superior filed in 2013. Both cases were pending for more than one year and were ultimately dismissed without prejudice pursuant to Fed. R. Civ. P. 41(a).

In finding the IPR petition timely, the PTAB noted that the voluntary dismissal of both actions without prejudice under Rule 41(a) nullified the existence of those prior actions, relying on US Court of Appeals for the Federal Circuit precedent holding that Rule 41(a) dismissals leave the parties "as though the action had never been brought." The PTAB reasoned that the nullified prior litigation cannot form the basis of a bar under § 315(b).

Volstar attempted to distinguish the present case from the Federal Circuit rule, relying on a Tolling Agreement entered into by the parties to the prior litigation, which it argued should be viewed in conjunction with the dismissal of the prior actions as effectively creating a dismissal with prejudice. In support, Volstar argued that the Tolling Agreement prevented Superior from seeking damages it would otherwise have been entitled to seek. The PTAB disagreed, explaining that the Tolling Agreement cannot change the *de jure* legal effect of the dismissal, and distinguished cases cited by Volstar where only *some* claims were dismissed without prejudice and where a "without prejudice" dismissal led to consolidation of an action with a related case where the claims were continually litigated. Accordingly, the PTAB found that the IPR petition here was not subject to a § 315(b) bar because Volstar failed to rebut that the dismissals of the prior cases without prejudice rendered those cases a nullity for purposes of the § 315(b) one-year rule.

Practice Note: Patent owners should exercise caution when dismissing under Rule 41(a), because if an action is dismissed without prejudice, the PTAB will not consider how long the underlying action was pending in terms of determining whether an IPR petition is barred. Petitioners should be aware that where a prior action is dismissed without prejudice under Rule 41(a), IPR petitions may still be filed more than one year after the petitioner is served with the complaint, regardless of the duration of pendency of the prior action.

Dismissal "Without Prejudice" Does Not Nullify Service of Complaint

Addressing 35 USC § 315(b), the US Court of Appeals for the Federal Circuit sat *en banc* to determine whether dismissal "without prejudice" would extinguish the effect of a previously served infringement complaint, an event that would otherwise trigger the start of the one-year time limit for filing an *inter partes* review (IPR) petition. *Click-to-Call Techs., LP v. Ingenio, Inc.*, 899 F.3d 1321 (Fed. Cir., 2018) (O'Malley, J) (Taranto, J, concurring) (Dyk and Lourie, JJ, dissenting). The majority held that the one-year clock runs from service of a complaint, even if the case is later dismissed without prejudice.

Ingenio was a successor-in-interest to Keen, Inc., which had been involved in an infringement action several years earlier involving the challenged patent. Keen had been served with a complaint alleging infringement of the patent on September 14, 2001. Eventually, the parties settled, and the district court granted the parties' motion to dismiss the district court action "without prejudice." On May 28, 2013, Ingenio filed a petition for IPR on the patent.

Click-to-Call, the current owner of the patent, argued that Ingenio's IPR petition was time barred under § 315(b) because Ingenio's predecessor-in-interest (Keen) had been served with a complaint alleging infringement of the patent more than 10 years earlier. Ingenio argued that § 315(b) did not apply because the prior action had been dismissed without prejudice, which operated to nullify the prior action, and it was as if service of the complaint had never occurred. The Patent Trial and Appeal Board (PTAB) agreed, instituted review and cancelled the challenged claims. Click-to-Call appealed.

On appeal, the *en banc* majority disagreed with the PTAB's decision, finding that the one-year clock under § 315(b) remained unaffected by subsequent events in the case, including a dismissal without prejudice. Under *Chevron* step one, the Federal Circuit found the language of § 315(b)—"more than 1 year after the date on which the petitioner . . . is served with a complaint alleging infringement of the patent"—unambiguous, and the PTAB therefore had no authority to interpret its meaning. Even if there were an ambiguity, the Federal Circuit found the PTAB's interpretation unreasonable under *Chevron* step two. The PTAB interpreted "served with a complaint" as capable of being nullified if the case were later dismissed "without prejudice," because such a dismissal restores the parties to the situation that existed before the complaint was filed. The resulting legal effect is that service never occurred. Although true with respect to the propriety of service for the underlying action, the Federal Circuit found that a dismissal did not nullify the triggering effect of § 315(b).

Judge Taranto concurred but wrote separately to note that Congress knew how to modify a statute to account for the legal effect of a dismissal without prejudice, as it did in § 315(a)(2)(C), which specifically addresses such voluntary dismissals with respect to that provision. As § 315(b) is silent, a dismissal of the action would not affect the clock-starting effect of being "served with a complaint alleging infringement" for purposes of the one-year time bar.

The dissent would have affirmed the PTAB's position, arguing that Congress drafted § 315(b) with a full understanding of the background principle of law that a voluntary dismissal without prejudice has a nullifying effect. Further, the dissent warned that the majority's rule would lead to an abusive practice where a patent owner could serve a complaint for infringement and then immediately dismiss the action without prejudice to trigger the defendant's one-year clock for filing an IPR.

Ingenio's petition for *certiorari* is currently pending at the Supreme Court, *Dex Media, Inc. v. Click-To-Call Techs., LP*, No. 18-916 (Jan 11, 2019), wherein it has presented two questions: (1) whether 35 U.S.C. § 314(d) permits appeal of the PTAB's decision to institute an IPR upon finding that § 315(b)'s time bar did not apply and (2) whether 35 U.S.C. § 315(b) bars institution of an IPR when the previously served patent infringement complaint, filed more than one year before the IPR petition, had been dismissed without prejudice.

Immunity

Tribal Immunity Does Not Apply to IPR Proceedings

The US Court of Appeals for the Federal Circuit affirmed a Patent Trial and Appeal Board (PTAB) finding that tribal immunity does not apply to *inter partes* review (IPR) proceedings. *Saint Regis Mohawk Tribe v. Mylan Pharmaceuticals, Inc.*, 896 F.3d 1322 (Fed. Cir., 2018) (Moore, J).

The appeal stems from a multi-front dispute between Allergan and various generic drug manufacturers regarding patents related to Allergan's Restasis product, a treatment for alleviating the symptoms of chronic dry eye. In 2015, Allergan sued the generic drug manufactures in the Eastern District of Texas, alleging infringement of its Restasis patents based on their filings of abbreviated new drug applications. In 2016, Mylan petitioned for IPR of Restasis patents, and the other generic drug manufacturers subsequently filed similar petitions. The PTAB instituted IPR and scheduled a consolidated oral hearing for September 2017.

Less than one week before the oral hearing, Allergan transferred certain patents relating to its Restasis product to the Saint Regis Mohawk Tribe. Allergan moved to withdraw, and the Tribe moved to terminate the IPR proceedings, asserting tribal sovereign immunity. In February 2018, the PTAB denied both motions (*IP Update*, Vol. 21, No. 3). The Tribe and Allergan appealed.

On appeal, the Tribe argued that tribal immunity applies to IPR proceedings under the Supreme Court of the United States' 2002 decision in *Fed. Maritime Comm'n v. S.C. State Ports Auth.* (*FMC*). In *FMC*, the Supreme Court considered whether state sovereign immunity precluded the Federal Maritime Commission from "adjudicating a private party's complaint that a state-run port ha[d] violated the Shipping Act of 1984." In answering the question, the Supreme Court asked whether Commission adjudications "are the type of proceedings from which the Framers would have thought the States possessed immunity when they agreed to enter the Union." In finding that sovereign immunity applied, the Supreme Court recognized the distinction between adjudicative proceedings brought against a state by a private party, where sovereign immunity applies, and agency-initiated enforcement proceedings, where sovereign immunity does not apply.

In the case at hand, the Tribe argued that tribal immunity applies in IPR proceedings under *FMC* because an IPR is a contested adjudicatory proceeding between private parties in which the petitioner, not the US Patent and Trademark Office, defines the contours of the proceeding. The generic drug manufacturers disagreed, arguing that IPR proceedings are more like traditional agency actions because the PTAB is not adjudicating claims between parties, but instead is reconsidering a grant of a government franchise.

The Federal Circuit rejected the Tribe's argument, finding that tribal immunity does not apply to IPR proceedings. The Court noted that IPR proceedings are neither clearly a judicial proceeding instituted by a private party nor clearly an enforcement action brought by the federal government. However, the Court found that IPR proceedings are more akin to an agency proceeding for the following reasons:

- The government has broad discretion in deciding whether to institute an IPR proceeding.

- The government may choose to continue an IPR proceeding once instituted even if the petitioner chooses not to participate.
- IPR procedures are different than the Federal Rules of Civil Procedure.
- Congress did not contemplate that tribal immunity would apply to IPR proceedings.

Given these findings, the Court affirmed the PTAB's decision that tribal immunity does not apply.

Practice Note: The Federal Circuit's decision is limited to tribal immunity. The Court recognized that there are many parallels between sovereign immunity and tribal immunity, but left for another day the question of whether there is any reason to treat state sovereign immunity differently.

The Tribe's petition for *certiorari* is currently pending at the Supreme Court, *Saint Regis Mohawk Tribe v. Mylan Pharms., Inc.*, No. 18-899 (Dec. 20, 2018), wherein it has presented the sole question of whether IPR before the PTAB is the type of proceeding in which tribal sovereign immunity may be asserted.

Petition / Institution

Supreme Court to PTAB: All or Nothing at All

In a 5–4 decision, the Supreme Court of the United States reversed a decision by the US Court of Appeals for the Federal Circuit, holding that once the Patent Trial and Appeal Board (PTAB) institutes an *inter partes* review (IPR) proceeding, it must review every claim challenged in the petition. *SAS Institute Inc. v. Iancu*, 138 S. Ct. 1348 (2018) (Gorsuch, Justice, joined by Roberts, Chief Justice, and Kennedy, Thomas and Alito, Justices) (Ginsburg, Justice, dissenting, joined by Breyer, Sotomayor and Kagan, Justices) (Breyer, Justice, dissenting, joined by Ginsburg, Sotomayor and Kagan, Justices). Going forward, the PTAB will no longer be permitted to engage in the practice of "partial institution," *i.e.*, institution of only some of the claims challenged in the petition.

This dispute arose when SAS filed a petition for IPR challenging all 16 claims of a patent owned by ComplementSoft. The PTAB determined that SAS demonstrated a reasonable likelihood of success on only nine of the challenged claims, and therefore declined to institute an IPR on the remaining seven claims. In doing so, the PTAB relied on a regulation that states that the US Patent and Trademark Office (PTO) director "may authorize the review to proceed on all or some of the challenged claims and on all or some of the grounds of unpatentability asserted for each claim." 37 CFR § 42.108(a). In its final written decision, the PTAB found all but one of the instituted claims unpatentable and was predictably silent with regard to the seven claims on which it did not institute. SAS appealed to the Federal Circuit, which (over a "vigorous" dissent by Judge Newman) upheld the regulation (*IP Update,* Vol. 19, No. 12).

In reversing the Federal Circuit, the Supreme Court found that the America Invents Act (AIA) supplied a clear answer to the question at hand: § 318(a) states that the PTAB "shall issue a final written decision with respect to the patentability of *any patent claim challenged by the petitioner*." The Court found this directive both mandatory and comprehensive, analogizing it to civil litigation where a plaintiff would expect to have a decision on all the claims in the complaint and not just "those the decision maker might wish to address." The Supreme Court also dismissed the director's argument for partial institution because such power simply does not appear in the AIA, and the text that Congress chose to utilize strongly counsels against permitting partial institution.

The Supreme Court next addressed the comprehensive AIA framework for IPR proceedings to show that Congress was clear when requiring institution of all claims. Justice Gorsuch cited § 312(a)(3), explaining that the petition, not the institution decision, defines the contours of the proceeding. Next, citing § 314(b), Gorsuch stated that the director's decision to institute "pursuant to [the] petition" is simply a yes or no choice—not a piecemeal determination.

Additionally, citing § 314(a), the Supreme Court explained that the statute requires institution when a reasonable likelihood of success is shown for "at least one of the claims challenged in the petition." As the majority explained, this requirement combined with the need to use the petition itself as the procedural contour of the proceeding suggests, if anything, a regime where reasonable likelihood of success on one claim is both necessary and sufficient to justify review of all the challenged claims.

AIA § 316(a)(8) was also informative for the Court, since it discusses the patent owner's response "to the petition" and not its response to the instituted claims. Lastly, the Supreme Court noted that § 318(a) mandates that the PTAB issue a final decision for "any patent claim challenged by the petitioner."

In contradistinction to AIA proceedings, the Supreme Court looked to the provision covering a related proceeding, *ex parte* re-examination, where the director is explicitly granted discretion to determine, on a claim-by-claim basis, whether to review for patentability. 35 USC § 303(a).

In attempting to reconcile the statutory sections of the AIA, the director argued justification for the PTAB to exercise discretion in the language of §§ 314 and 318. According to the director, since § 314 is directed to claims in the petition, while § 318 is directed to claims challenged by the petitioner, there is enough linguistic discrepancy to find the number of claims in the petition to be fewer than those eventually challenged by the petitioner in the actual IPR proceeding. Justice Gorsuch stated, however, that "[w]e just don't see it," and noted that whatever differences there may be are insufficient to authorize the PTO's regulation. If anything, this discrepancy could be a result of the patent owner's ability to cancel, settle or amend various claims (powers specifically within the statute's text), thereby making the claims in the petition fewer than those eventually challenged.

The Supreme Court also dismissed the director's final two arguments. The Court rejected a policy argument that investing the PTAB with discretion for partial institution promotes efficiency at the PTAB, thus expediting the streamlined nature of the IPR system. The Court simply noted that such policymaking was a job for Congress. The Court also rejected the director's argument that reviewing a decision not to institute on some challenged claims was violative of the Supreme Court's *Cuozzo* decision (*IP Update*, Vol. 19, No. 7). The Court noted that the case at hand did not involve a challenge to the determination of a likelihood of success, but rather was an appeal over whether the director exceeded its statutory authority in declining to institute all claims despite finding the requisite likelihood of success for at least one challenged claim.

One dissent, authored by Justice Ginsburg, was short but strongly worded. Ginsburg noted that viewing the combination of the majority's interpretation of § 318(a) and the absence of a mandate to institute IPRs at all under *Cuozzo*, the PTAB could simply decline to institute on petitions having some challenged claims where no reasonable likelihood of success is demonstrated while simultaneously noting that other claim challenges warrant *ex parte* re-examination. Such a procedure would permit petitioners to file multiple petitions in order to determine which claims are most likely to be instituted and then file amended petitions that would receive institution. Justice Ginsburg found it difficult to believe that Congress would implicitly authorize this practice while clearly precluding the more rational way of weeding out insubstantial challenges through the PTAB's process of partial institution.

Another dissent by Justice Breyer noted many linguistic gaps in the statutory framework that the majority found so clear. For example, Breyer explained that the phrase "any patent claim challenged by the petitioner" is not clear as to whether such claim is from the "original petition." Under the majority view, if 16 claims are challenged and 15 of the challenges are found to be frivolous, the PTAB is nevertheless required to issue *appealable decisions* on each claim, as opposed to the PTAB's regulatory framework, where only a decision on the one non-frivolous claim would be appealable and the decision not to institute IPR on the remaining 15 claims would not be appealable.

Breyer's dissent also focused on the need to effectuate the statute's purpose and avoid a "rigid" reading of the statute (such as the majority's reading). The dissent pointed to the director's ability to institute as an authorization of discretion because some challenges are allowed and others are not. The dissent wondered why a hard line to stop at all claims or no claims would be preferred over the more efficient claim-by-claim alternative.

The dissent also found the majority's reading of the statute at odds with *Cuozzo*, noting that it was difficult to understand why Congress would make decisions not to institute non-appealable and wholly within the director's discretion, while simultaneously requiring institution of all challenged claims even if a likelihood of unpatentability was demonstrated for only one. In Breyer's view, that paradigm creates appellate review of final decisions upholding the patentability of claims in cases where a petitioner, in its petition, failed to raise a reasonable likelihood that a claim was invalid. The dissent argued that this additional work for the PTAB and the Federal Circuit could not have been Congress' intent when creating a more streamlined and inexpensive procedure for patentability review.

No Sua Sponte Remand for Erroneously Limited Post-SAS Final Written Decisions

The US Court of Appeals for the Federal Circuit concluded that, post-*SAS*, it possessed jurisdiction to hear an appeal from an *inter partes* review (IPR) even where the Patent Trial and Appeal Board (PTAB) erred in limiting its institution decision to less than all the challenged claims and grounds. *PGS Geophysical AS v. Iancu*, 891 F.3d 1354 (Fed. Cir., 2018) (Taranto, J).

PGS Geophysical is the patent owner of methods and systems directed toward marine seismic surveying. A competitor filed three separate IPRs against PGS's patent. The PTAB instituted all three petitions, but only for some of the claims and not on all asserted grounds. PGS initially appealed the findings of the PTAB's final written decisions (FWDs) as to obviousness, but during the pendency of the appeal, the parties settled. Director Iancu intervened to defend the PTAB's decisions, however.

The Federal Circuit explained that under *SAS Institute, Inc. v. Iancu* (*IP Update*, Vol. 21, No. 5), in which the Supreme Court of the United States held that the IPR statute does not permit partial institution on an IPR petition, the PTAB erred in limiting the scope of the IPRs it instituted and in the scope of its FWDs. The Court concluded, however, that it still had jurisdiction to address the merits of the PTAB's decisions and did not need to remand to the PTAB to address the claims and grounds the PTAB improperly excluded.

Specifically, the Court found that the standard for "final agency action" under the Administrative Procedure Act, 5 USC § 704, was met because the PTAB's FWDs constituted a completion of the decision making process sufficient to determine all legal rights and obligations at issue. The Court explained that the PTAB issued institution decisions and FWDs in each IPR, and that even though the decisions were erroneous under *SAS*, they terminated the IPR proceedings as to all claims and grounds. Drawing an analogy to civil litigation, the Federal Circuit compared this situation to one where a district court erroneously and prematurely dismisses one count of a complaint while proceeding to a merits determination on a second count. Once the second count is resolved, both counts are subject to appeal. The Court noted that "legal error does not mean lack of finality."

The Federal Circuit also pointed out that it was under no obligation to *sua sponte* correct the PTAB's error regarding its failure to institute on all claims under a harmless error analysis requiring the challenger to bear the burden of showing prejudice. Noting that neither party expressly sought relief under *SAS*, the Court declined to exercise its discretion to revive the non-instituted claims in the interest of finality and expedition. Indeed, the Court declined to comment on whether the outcome would be altered if either party had specifically sought *SAS*-based relief.

On the merits of the FWDs, wherein the PTAB found certain claims to be obvious, the Federal Circuit affirmed, noting precedent regarding affirmance of an agency action "of less than ideal clarity if the agency's path may reasonably be discerned."

No Waiver on Non-Instituted Claims when Request Made Shortly After SAS

The US Court of Appeals for the Federal Circuit granted a motion for remand, finding that a party did not waive *SAS*-based relief when it requested reconsideration of non-instituted claims shortly after the issuance of the Supreme Court of the United States' *SAS* decision and again after the Federal Circuit issued its first orders recognizing that *SAS* required consideration of all grounds raised in an *inter partes* review (IPR) petition. *BioDelivery Sciences International, Inc. v. Aquestive Therapeutics, Inc.*, 898 F.3d 1205 (Fed. Cir., 2018) (Newman, J).

BioDelivery filed three IPR petitions challenging a patent owned by Aquestive. In the first petition, the Patent Trial and Appeal Board (PTAB) did not institute on all claims and grounds set forth in the petition. In the second and third petitions, review of all claims was instituted, but not on all the challenged grounds. In three separate final written decisions, the PTAB upheld the patentability for all instituted claims and grounds.

BioDelivery appealed each decision, with oral argument occurring in February 2018. On April 24, 2018, the Supreme Court issued its decision in *SAS Institute, Inc. v. Iancu* (*IP Update*, Vol. 21, No. 5), where it held that if the PTAB institutes IPR proceedings, it must do so "on each claim challenged" and "the grounds on which the challenge to each claim is based."

Nine days after the Supreme Court's *SAS* decision, BioDelivery filed a motion to remand the decision in its first petition for consideration of the patentability of the non-instituted claims. Shortly after the Federal Circuit began issuing remands where the PTAB instituted fewer than all grounds, BioDelivery filed a second motion for remand in the second and third petitions based on the non-instituted grounds.

Aquestive opposed the motions, arguing that BioDelivery filed the motions too late and should have filed the motions upon the Supreme Court's decision to hear *SAS*, during the IPR's pendency or during the briefing period of the Federal Circuit appeal. The Federal Circuit rejected each argument, citing numerous recent decisions remanding final written decisions based on non-instituted grounds and claims.

Aquestive also argued that the motions for remand of the second and third petitions based on non-instituted grounds should be considered untimely, because it should have been clear from *SAS* that institution of all claims and grounds was required, thereby eliminating the need to have presented two separate motions. The Federal Circuit disagreed, finding that *SAS* only explicitly discussed institution of "claims" and not "grounds," meaning that BioDelivery was not required to predict that the Court would authorize remand requests based on non-instituted grounds. Thus, the Court found that BioDelivery's motion based on non-instituted grounds being filed shortly after the Federal Circuit authorized such relief was timely.

One Is the Loneliest Number to Institute . . . Two Is Just as Odd as One, but Under SAS It's Simply All or None

Addressing whether the review of a single claim on a single challenged ground in a petition may be sufficient to institute *inter partes* review (IPR) for all challenged claims on all challenged grounds, the Patent Trial and Appeal Board (PTAB) held that *SAS Institute*'s baseline "one claim" requirement is also a threshold past which no further review of the petition's substantive arguments is necessary. *Alcatel-Lucent USA Inc. v. Oyster Optics, LLC*, Case No. IPR2018-0070 (PTAB Aug. 31, 2018) (Kenny, ALJ).

Alcatel-Lucent filed a petition for IPR against a patent owned by Oyster Optics. In May 2018, the PTAB instituted review for all claims on all grounds, even though the PTAB's evaluation of whether petitioner showed a reasonable likelihood of success was limited to a single ground of unpatentability for a single claim. Oyster filed a request for rehearing, arguing that the PTAB erred as a matter of law by failing to assess the merits of each claim and ground of unpatentability in the petition.

The PTAB denied Oyster's request for rehearing, basing its holding on the logical implications of the Supreme Court of the United States' opinion in *SAS Institute* (IP Update, Vol. 21, No. 5). The PTAB noted that Oyster failed to explain how *SAS* necessitates review of every claim, and pointed to contrary evidence from *SAS* where the Supreme Court interpreted § 314(a) of the America Invents Act to only guarantee meritorious assessment of all claims and all grounds in the final written decision. The administrative patent judge (APJ) here ruled that § 314(a) also authorizes the director to institute on all claims and on all grounds after a showing that "one claim" satisfies the threshold requirement for institution, quoting the Supreme Court's stated intention of creating a regime where a reasonable prospect of success on a single claim justifies review of all claims. The APJ rejected Oyster's alternative argument that excluding the meritorious analysis of all but one challenged claim and ground in the institution decision would disrupt the streamlining of trial as (1) underestimating the amount of overlap between the issues between the evaluated claim and the remaining claims, and (2) dismissing the well-defined grounds presented in the petition and the preliminary response, both of which will be clarified through discovery and trial briefing. Accordingly, the APJ upheld the PTAB's post-*SAS* practice of reviewing only as much of the petition as is necessary to find a single claim that permits institution.

PTAB Procedure

New Arguments May Be Struck from Reply, but Expanded Arguments Are Not New

The US Court of Appeals for the Federal Circuit held that the Patent Trial and Appeal Board (PTAB) is entitled to strike arguments improperly raised for the first time in a reply, but stated that expansion of previously argued rationale is not new argument. *Ericsson Inc. v. Intellectual Ventures I LLC*, 901 F.3d 1374 (Fed. Cir., 2018) (Reyna, J).

Ericsson petitioned for *inter partes* review (IPR) of an Intellectual Ventures (IV) patent. The PTAB granted partial institution, but struck portions of Ericsson's reply as new argument and, without consideration of the struck portions, went on to decide that Ericsson failed to prove that the challenged claims were obvious. Ericsson appealed.

The Federal Circuit found that the PTAB erred in not considering portions of Ericsson's reply and remanded for reconsideration.

The patent at issue increases wireless communication system reliability by minimizing effects of randomly occurring transmission errors. Among prior art techniques for reducing such burst errors, the patent indicated that "transmitting a *single* interleaved packet size for varying signal drop-out conditions is not completely effective in minimizing burst error effects," and that "interleaving *multiple message packets together* thus creat[es] better burst error correction capabilities" (emphasis added).

Although the patent had expired, Ericsson construed claim terms under the broadest reasonable interpretation (BRI) standard. The PTAB *sua sponte* constructed claims as requiring interleaving portions from *each* of the packets in the packet block *together*, but not interleaving *within* a packet, and interpreted a prior art reference as teaching non-interleaved S-blocks and R-block interleaving of portions of the same packet together, but not interleaving a portion of a first packet with a portion of a second packet.

Post-institution, IV raised the issue that expired claims should be construed under *Phillips*, not under the BRI standard. IV's undisputed *Phillips*-based construction required formation of blocks by "interleaving packets together." In its reply, Ericsson argued that since interleaving packets together was known to persons of ordinary skill in the art, "[t]he difference between interleaving R-blocks together and interleaving S-blocks together is insubstantial at best," and that the prior art suggested "an added benefit would be obtained from interleaving larger data portions." Citing 37 CFR 42.23(b), the PTAB struck these arguments as non-responsive to the patent owner response and improperly raising a new theory of obviousness for the first time: "All arguments for the relief requested in a motion must be made in the motion. A reply may only respond to arguments raised in the corresponding opposition, patent owner preliminary response, or patent owner response."

The Federal Circuit explained that the PTAB erred in not considering these arguments, and that by "parsing Ericsson's arguments . . . with too fine of a filter," it exacerbated the significance of interleaving, an argument thus only arose post-institution. Given (1) the admissions in the challenged patent, (2) arguments raised in Ericsson's petition, and (3) the PTAB's own "evolving understanding" of whether claim 1 requires the formation of blocks by "interleaving packets together," the non-considered portions of the reply "expressly follow" the contentions in the petition that "there is no substantial difference between interleaving R-blocks *within* S-blocks, and interleaving S-blocks *with* S-blocks" because the patent acknowledged interleaving was known. Therefore, Ericsson was entitled to argue that the distinction in the *specific* type of interleaving between the prior art and the patent would have been insubstantial to a person of ordinary skill in the art.

As the Federal Circuit noted, the PTAB's discretion to limit the scope of replies and reject arguments raised for the first time in a reply remains unchallenged and unchanged. Ericsson's actions neither relied on previously unidentified portions of prior art to make a meaningfully distinct contention, nor constituted an "entirely new rationale" worthy of being excluded. Because Ericsson cited no new evidence and merely expanded on previously argued rationale, the Court vacated the PTAB decision and remanded for consideration of all of Ericsson's reply arguments.

Additionally, because the missing interleaving limitation was the essential basis of the PTAB's patentability decision, the Federal Circuit concluded that Ericsson should have been given an opportunity to respond, viewing this as a "special case" where the PTAB revisited the claims in light of applying BRI pre-institution and the *Phillips* standard post-institution: "Ericsson likewise deserved an opportunity to do the same."

Real Parties-in-Interest / Standing

Control Is Key to Identifying Real Parties-in-Interest

Two decisions from the Patent Trial and Appeal Board (PTAB) highlight the key factor in identifying real parties-in-interest in an *inter partes* review (IPR): whether a non-party controls or has the ability to control the petitioner's participation in the IPR proceeding. *Mobile Tech, Inc. v. Sennco Solutions, Inc.*, Case No. IPR2017-02199 (PTAB, Apr. 10, 2018) (McGraw, APJ); *Puzhen Life USA, LLC v. Esip Series 2, LLC*, Case No. IPR2017-02197 (PTAB, Apr. 11, 2018) (Kaiser, APJ).

In *Mobile Tech*, the patent owner, Sennco Solutions, argued that the PTAB should deny Mobile Tech's petition because it failed to name Mobile Tech's sole owner as a real party-in-interest. In support of its argument, Sennco alleged that Mobile Tech could not make litigation decisions without input from its owner, that its owner received regular updates about the dispute, and that its owner had the sole right to manage Mobile Tech's business.

The PTAB found Sennco's arguments unpersuasive, finding that the mere existence of a parent-subsidiary relationship, without more, is insufficient to establish that the parent is involved in an IPR proceeding or makes decisions for the petitioner. The PTAB explained that one of the facts considered in determining if a non-party is a real party-in-interest is whether the non-party "exercised or could have exercised control over [Mobile Tech's] participation in a proceeding" and whether the non-party "is funding or directing the proceeding." The PTAB found that none of Sennco's allegations established that Mobile Tech's owner controlled or funded the proceeding. The PTAB thus concluded that Mobile Tech properly identified all real parties-in-interest, and instituted the IPR.

The PTAB addressed a similar situation in *Puzhen Life*, in which the patent owner, Esip Series, filed a request for rehearing, urging the PTAB to dismiss the petition because Puzhen Life failed to identify all real parties-in-interest. Esip Series argued that Puzhen Life should have named its corporate parent as a real party-in-interest because it substantively controlled Puzhen entities. The PTAB disagreed, holding that "without more, generic corporate control through ownership is insufficient to establish the control necessary to show that the corporate parent is a real party-in-interest."

Esip Series also alleged that Puzhen Life failed to name as a real party-in-interest doTERRA International, the only party against which Esip Series asserted its patent in a district court action. Esip Series argued that doTERRA desired review of the patent because doTERRA was the defendant in the district court action. The PTAB, however, found "no rule establishing that every party who has been sued for infringement of a patent is necessarily a real party-in-interest." Esip Series also argued that doTERRA's agreement to the same estoppel that applied to Puzhen Life made doTERRA a real party-in-interest. The PTAB disagreed, finding that doTERRA's agreement to the terms of the estoppel was not an agreement to be bound as a real party-in-interest. Accordingly, the PTAB denied Esip Series' request that the IPR be terminated.

Petitioner Has Standing When Injury Is Imminent

While reversing a Patent Trial and Appeal Board (PTAB) decision that confirmed the validity of a patent, the US Court of Appeals for the Federal Circuit ruled that a post-grant review (PGR) petitioner has Article III standing to appeal a PTAB decision where the petitioner demonstrates an intent to file an abbreviated new drug application (ANDA) for the patented product at some point in the future. *Altaire Pharmaceuticals, Inc. v. Paragon Bioteck, Inc.*, 889 F.3d 1274 (Fed. Cir., 2018) (Wallach, J) *remand order modified by stipulation* 738 Fed. Appx. 1017 (Fed. Cir., 2018). The Federal Circuit also ruled that the PTAB abused its discretion by failing to assign proper weight to witness testimony corroborating technical data while determining obviousness for validity purposes.

In 2011, Altaire Pharmaceuticals and Paragon Bioteck entered into an agreement to pursue US Food and Drug Administration approval for Altaire's products. According to the agreement, Paragon was responsible for preparing and submitting the new drug applications in support of the products, and Altaire would provide and bear the costs for the chemistry manufacturing and controls in support of the filing. Without participation or approval from Altaire, Paragon filed and received a patent related to ophthalmic use of a composition including phenylephrine of "chiral purity" greater than or equal to 95 percent. Altaire petitioned the PTAB for PGR, arguing that the patent's claims were obvious under products Altaire already manufactured. The PTAB instituted PGR, but found that Altaire failed to prove obviousness because Altaire did not timely qualify its witness as an expert, and thus the PTAB did not consider the declarations of the witness or Altaire's submitted test data as corresponding with the declarations. Altaire appealed.

On appeal, the Federal Circuit first addressed Altaire's standing to appeal the PTAB's decision. The Federal Circuit emphasized that in order to have standing, an appellant "must have (1) suffered an injury in fact, (2) that is fairly traceable to the challenged [action], and (3) that is likely to be redressed by a favorable judicial decision." The suffered injury must be concrete and particular. The Federal Circuit found that Altaire carried its burden to show a concrete, particularized injury when Altaire confirmed it would file an ANDA in the near future and therefore be subject to patent infringement suit filed by Paragon. Even though Altaire and Paragon were operating under an agreement, the Federal Circuit found that such injury was inevitable because the existence of the patent was an obstacle to Altaire's commercial plans and estoppel would attach from Altaire's participation in the PGR.

The Federal Circuit next addressed the PTAB's finding of non-obviousness. The Court found that the PTAB abused its discretion by failing to assign weight to Altaire's witness testimony concerning the chirality of certain products manufactured by Altaire and given to Paragon prior to Paragon's filing date. The Court emphasized that the PTAB rule governing the use of technical test and data in PTAB proceedings does not require declarations from experts to corroborate technical data. Despite initially remanding the case to the PTAB to reconsider its conclusion that certain tests submitted by Altaire were insufficient to show that Paragon's patents were obvious in light of Altaire's manufactured products, the Federal Circuit later vacated the portion of its opinion relating to remand based on the parties' settlement decision.

RPI, I Presume? Petitioner Has Evidentiary Burden that RPIs Are Correct

Addressing for the first time which party bears the burden of proof as to the accuracy of a petitioner's identification of real parties-in-interest (RPIs) in an *inter partes* review (IPR), the US Court of Appeals for the Federal Circuit found that the petitioner bears the ultimate burden of persuasion. *Worlds Inc. v. Bungie, Inc.*, 903 F.3d 1237 (Fed. Cir., 2018) (Prost, CJ). In addition, the Court clarified that a petitioner's identification of RPIs does not create a formal presumption of accuracy. As a result, a petitioner must use evidence to carry its burden, if and when a patent owner disputes the identified RPIs.

In 2012, Worlds sued Activision Publishing in district court for infringing various patents related to video gaming. Activision did not file an IPR petition challenging the validity of any claims of the asserted patents. In late 2014, Worlds added a new accused product to the litigation—a product Activision distributed for Bungie under a development and distribution agreement (DevPub Agreement). Although Bungie was not added as a party to the litigation, Bungie filed six IPR petitions on the asserted patents, listing itself as the sole RPI. Worlds argued that Activision should have been named as an RPI, and, as a result, the petition was time barred under § 315(b) because Activision had been served with a complaint alleging infringement of the challenged patents more than one year earlier. The PTAB rejected Worlds' arguments, finding that World had not shown that the DevPub Agreement gave Activision control over the litigation. The PTAB also accepted Bungie's representation that although Activision provided money to Bungie for development, Activision had not funded the IPRs. Worlds appealed.

On appeal, the Federal Circuit rejected the PTAB's RPI analysis because it failed to place the burden of persuasion on the petitioner and it appeared to rely on presumptions instead of actual evidence to support its conclusions. The Court held that as the proponent, the petitioner has the burden of persuasion to show that the RPIs listed in the petition are accurate. While the PTAB may accept the petitioner's identification of RPIs, it does not create a "formal presumption" of accuracy. If the patent owner reasonably challenges the list of RPIs by providing evidence—as it did in this case with the DevPub Agreement—the petitioner must respond with sufficient evidence to carry its burden. Petitioner must provide such evidence in the form of sworn declarations and documentary evidence, and not merely lawyer argument. Because the PTAB's RPI decision appeared to have placed the burden on patent owner to disprove petitioner's identification of RPIs, the Court vacated and remanded.

Sale of Invention

Secret Sales Still Qualify As Prior Art

Helsinn Healthcare S.A. v. Teva Pharm. USA, Inc., 139 S. Ct. 628 (Jan. 22, 2019)

On January 22, 2019, the Supreme Court of the United States held that the on-sale bar of AIA 35 USC §102(a)(1) applies to confidential sales where specific details are not made public.

The high court held that the post-AIA "on sale" bar provision operates the same as it did pre-AIA, namely the sale or details of the sale do not need to be publicly available in order to create a bar to patentability. The addition of the catchall phrase "or otherwise available to the public" that was added to AIA 35 USC §102 is not enough to conclude that Congress intended to alter the meaning of "on sale."

Helsinn developed Aloxi, a drug that treats chemotherapy-induced vomiting and nausea and which contains the active ingredient palonosetron. Helsinn entered into a licensing and a supply and purchase agreement with MGI Pharma to distribute, promote, market, and sell 0.25mg and 0.75mg doses of palonosetron in the United States. The purchase agreement included a confidentiality clause with regards to any proprietary information that may be revealed. The dosage formulations in the agreement were not released to the public, although there was a joint press release about the agreement in general, and the Form 8-K filing at the US Securities and Exchange Commission was accompanied by redacted copies of the agreements. In January 2003, almost two years after entering into the agreement with MGI Pharma, Helsinn filed a provisional patent application for 0.25mg and 0.75mg treatment doses of palonosetron. This provisional application ultimately led to four issued patents, the most recent being the '219 patent. The '219 patent, which is at issue in the case, was filed post-AIA in May 2013 and claimed a 0.25mg dose of palonosetron in a 5mL solution.

The litigation started after Teva sought approval from the US Food and Drug Administration (FDA) in 2011 to market a generic 0.25 mg palonosetron product. Helsinn then sued Teva for patent infringement of issued patents, including the '219 patent. In response, Teva argued that the '219 patent was invalid due to the on-sale bar of 35 U.S.C. § 102(a)(1).

The district court held in favor of Helsinn, finding that the sale to MGI Pharma did not create an on-sale bar under 35 USC 102(a)(1) because there was no public disclosure of the details of the agreement, such as the fact that it involved the 0.25mg dose. The Federal Circuit reversed the district court, holding that the fact that the sale itself was publicly disclosed was sufficient to meet the on-sale bar. Helsinn appealed to the Supreme Court.

The question addressed by the Supreme Court was whether, under the AIA, an inventor's sale of an invention to a third party who is obligated to keep the invention confidential qualifies as prior art for purposes of determining the patentability of the invention. In a unanimous decision authored by Justice Clarence Thomas, the Supreme Court concluded that such a sale qualifies as prior art.

The pre-AIA version of USC§ 102(b) stated "A person shall be entitled to a patent unless . . . (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States." After the AIA, 35 USC §102(a)(1) states that, "A person shall be entitled to a patent unless . . . the claimed invention was patented, described in a printed publication, or in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention."

The Supreme Court noted that its decisions prior to the AIA suggested that a sale or offer for sale did not need to be available to the public. The Court also noted that the Federal Circuit had also issued pre-AIA decisions finding that "secret sales" can still trigger the on-sale bar. However, Helsinn argued that these prior decisions were inapplicable to the AIA version of 102(a)(1) because the addition of the language "or otherwise available to the public" limits the "on sale" bar to those sales that make an invention available to the public. The Court disagreed. It found that the term "on sale" was used in the pre-AIA, as well as AIA, statute, and when Congress adopts similar language, it "must be considered to have adopted also the construction given by this Court to such language." The Court, therefore, decided that the additional language in the AIA version of 102(a)(1) did not alter the meaning of the on-sale bar and confidential sales are thus a bar to patentability.

Practice Note: Companies should be careful not to enter licensing, royalty or supply and purchase agreements prior to filing any patent applications.

CLAIM CONSTRUCTION / CLAIM SCOPE

Discord as to When District Courts Must Resolve Claim Scope Disputes

NobelBiz, Inc. v. Global Connect, L.L.C., 876 F.3d 1326 (Fed. Cir., Dec. 8, 2017) (*per curiam*) (O'Malley, J, dissenting, joined by Newman, J, and Reyna, J).

In July 2017, the US Court of Appeals for the Federal Circuit issued a non-precedential decision reversing the district court for failing to provide constructions for the claim terms "replacement telephone number," "modify caller identification data" and "outbound call." *NobelBiz, Inc. v. Global Connect, L.L.C.*, Case No. 701 Fed. Appx. 994 (Fed. Cir., July 19, 2017) (Hughes, J) (Newman, J, dissenting). The majority chastised the district court for giving these terms their plain and ordinary meaning (and in doing so allowing the parties' experts to make arguments to the jury about the meaning of the claims). Judge Newman penned a powerful dissent pointing out precedent instructing that where a term is used in common parlance and does not have special meaning in the art, assigning a claim construction of plain and ordinary meaning is appropriate. This dissent led to an *en banc* poll as to whether the decision should be examined *en banc*.

The patent holder filed a petition for rehearing *en banc* asking the Federal Circuit to re-examine its apparent inconsistency in applying *O2 Micro International Ltd. v. Beyond Innovation Technology Co*. (IP Update, Vol. 11, No. 4). The petition was summarily denied, but three members of the Court voted to grant the request to take the case *en banc*.

Judges O'Malley and Reyna agreed with the reasoning in Judge Newman's earlier dissent that a new trial was unnecessary because the "corrected" definitions for the disputed claim terms (as provided by the Federal Circuit majority at the panel level) did not change the result on the issue of infringement and encroached on the district court's role to submit factual questions to a jury.

The three-judge dissent went farther than Judge Newman's original discussion, however. The *en banc* dissent urged the full court to address the "growing confusion" regarding when lower courts must construe claim terms. Judge O'Malley specifically criticized decisions following *O2 Micro* as stretching that holding "well beyond the factual circumstances at issue there." In *O2 Micro*, the parties brought the district court a legitimate dispute as to the scope of claim language that was not readily understandable and would be understood only by one of ordinary skill in the art. In this case, however, the parties did not dispute how one of skill in the art would understand the scope of the claims; the parties instead disputed whether the district court was required to adopt a formal claim construction beyond assigning the plain and ordinary meaning. According to the dissent, the full Federal Circuit should weigh in on what constitutes an "actual dispute" as to the scope of claims following *O2 Micro*.

The dissent reasoned that additional guidance would be appropriate to assist district courts in discerning the difference between legal disputes that need to be resolved prior to the jury deciding infringement, and factual disputes that are no more than non-infringement arguments masquerading as claim construction disputes. According to the dissent, the fact that parties' experts might proffer differing definitions of a term's plain and ordinary meaning to a jury should not be enough to justify removing that question from the jury's consideration. Yet, because there is contrary Federal Circuit case law purporting to apply *O2 Micro* over the past decade, only *en banc* clarification would provide meaningful guidance to a district court that assigns a claim term its plain and ordinary meaning when the parties continue to dispute what the plain and ordinary meaning is.

Practice Note: There remains some confusion in the case law as to what constitutes an "actual" claim scope dispute. Unless and until this ambiguity is clarified, litigants can expect district courts to feel pressure to resolve disputes regarding the "scope" of claim terms assigned their plain and ordinary meaning even if those corresponding arguments do not become ripe until the exchange of expert reports, or even if they are not raised until the eve of trial (or in the midst of trial following objectionable expert testimony).

Got the Message: PTAB Doesn't Have to Construe Claim Term

The US Court of Appeals for the Federal Circuit affirmed a Patent Trial and Appeal Board (PTAB) decision, finding that the PTAB did not need to explicitly construe a claim term. *HTC Corp. v. Cellular Communications Equipment, LLC*, 877 F.3d 1361 (Fed. Cir., 2017) (Reyna, J).

Cellular Communications owns a patent directed to a communications system where the mobile device is assigned a plurality of codes for transmitting messages. When transmission conditions deteriorate, such as when there is a high amount of interference, the base station may command the mobile device to increase transmit power in order to send the message. To avoid operating at maximum transmission power, the patent's claimed solution sets a "transmit power difference" for the plurality of codes in the mobile device at the start of a message transmission. Setting this transmit power difference allows the mobile device to increase transmit power to overcome interference and avoid aborting the message transmission.

HTC and ZTE filed *inter partes* review (IPR) petitions challenging several claims in Cellular

Communications' patent. The PTAB instituted IPR on three grounds:

- Anticipation by Baker
- Obviousness over Reed in view of Baker
- Obviousness over Reed in view of Love

Ultimately, the PTAB issued a final written decision concluding that HTC failed to show that any of the challenged claims were unpatentable. HTC appealed.

On appeal, HTC argued that the PTAB failed to construe the term "message" according to its broadest reasonable construction. Specifically, HTC argued that the PTAB's application of the term improperly excluded single frame EDCH messages, which were an embodiment disclosed in the specification of the challenged patent. The Federal Circuit rejected HTC's argument and found that while neither the parties nor the PTAB explicitly construed the term "message," the PTAB agreed in its analysis that a message transmission can occur over a single frame or over multiple frames, and thus properly understood "message" to encompass EDCH messages that last a single frame.

HTC also argued that the PTAB's anticipation and obviousness findings were not supported by substantial evidence. However, the Federal Circuit rejected HTC's argument, finding that the PTAB's decision was supported by substantial evidence from the prior art references, expert declarations and admissions from HTC's witnesses. The Court thus affirmed the PTAB's finding of patentability.

Examiner's Reason for Allowance May Be Sufficient to Show Prosecution Disclaimer

While affirming a Patent Trial and Appeal Board (PTAB) decision to invalidate a patent as obvious, the US Court of Appeals for the Federal Circuit found that the PTAB incorrectly concluded that an examiner's statements in a "Notice of Allowance" was not a prosecution disclaimer. *Arendi S.A.R.L. v. Google LLC*, 882 F.3d 1132 (Fed. Cir., 2018) (Newman, J).

Google requested *inter partes* review (IPR) of one of Arendi's patents relating to a method of handling information. During the IPR proceeding, Arendi relied on the examiner's "Reasons for Allowance," arguing that amendments made during prosecution distinguished the prior art by further narrowing the scope of the claims. The PTAB disagreed, finding that amendments are not limited by the prosecution record when only the examiner disclaims subject matter that would otherwise fall within the scope of the claims. Finding that the claims were not narrowed based on prosecution disclaimer, the PTAB found the claims obvious over the prior art. The PTAB also found that even if the examiner's statements were considered prosecution disclaimers, the narrower interpreted claims would still be obvious over the prior art. Arendi appealed.

The Federal Circuit affirmed the PTAB's invalidity finding but determined that the PTAB erred in concluding that prosecution disclaimer does not apply. The Court noted that while the applicant, not the examiner, must disclaim subject matter that would otherwise fall within the scope of the claims, the applicant must clearly and unambiguously express surrender of subject matter during prosecution. Turning to the current case, the Court found that the applicant clearly and unambiguously expressed surrender by amending the claims and explaining why the amendment was necessary. The examiner simply confirmed why the amended claims were allowable. The examiner's Reasons for Allowance also made clear that both the examiner and the applicant understood that amendments were necessary to overcome prior art, and thus prosecution disclaimer applied. The Federal Circuit then turned to the PTAB's alternative ruling and affirmed, finding that even though prosecution disclaimer

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applied, the narrower interpreted claims were still obvious in view of the prior art.

Mic Drop: PTAB Not Bound by Prior Federal Circuit Decisions

In a split decision, the US Court of Appeals for the Federal Circuit affirmed a Patent Trial and Appeal Board (PTAB) decision finding a patent invalid despite a 2011 Federal Circuit decision that upheld the validity of the same patent. *Knowles Electronics LLC v. Cirrus Logic, Inc.*, 883 F.3d 1358 (Fed. Cir., 2018) (Wallach, J) (Newman, J, dissenting).

Knowles owns a patent directed to microelectromechanical system (MEMS) packages having a substrate, a microphone and a cover accommodating the microphone. According to the patent, the MEMS packages shield the microphone from interference signals or environmental conditions and improve over prior art drawbacks associated with manufacturing. Cirrus initiated an *inter partes* re-examination proceeding challenging certain claims of the patent. In the proceeding, the PTAB affirmed the examiner's rejection of certain claims for anticipation based on the construction of the term "package." The PTAB also affirmed the examiner's finding that certain newly proposed claims were unpatentable for lack of adequate written description. Knowles appealed.

The Federal Circuit had considered the same patent seven years ago in an appeal from a decision at the US International Trade Commission. In the prior appeal, the Federal Circuit concluded that the patent was not invalid. In the current appeal, Knowles argued that the PTAB improperly construed the term "package" differently from the way the Federal Circuit construed it in the earlier proceeding. The majority found that the PTAB properly construed the term "package," however, and explained that there was no inconsistency between the prior construction and the current broadest reasonable interpretation (BRI) by the US Patent and Trademark Office (PTO).

Regarding the written description issue, the Federal Circuit applied the pre-America Invents Act (AIA) § 112 requirement and found that the PTAB's written description ruling was supported by substantial evidence. The Court agreed that a person of skill in the art, reading the specification, would not have recognized that the inventor possessed solder pads "configured to" connect to a printed circuit board through a reflow process. As the panel explained, "it is not sufficient for purposes of the written description requirement that the disclosure, when combined with the knowledge in the art, would lead one to speculate as to the modifications that the inventor might have envisioned, but failed to disclose."

In dissent, Judge Newman argued that the construction of the term "package" was different in the two cases. She argued that the PTAB was bound by the previous Federal Circuit ruling and faulted the majority for perpetuating the position that the PTAB need not apply a prior final judicial decision of the same issue of the same claims of the same patent. In Judge Newman's view, the PTAB's "duplicate" litigation of the same question negates the purpose of the AIA, which is "to provide a more efficient and less costly post-grant determination of certain validity issues."

Practice Note: Although the PTAB took the position that the PTO, in determining the BRI, was not bound by the prior claim construction, the panel majority declined to address whether its prior decision was binding on the PTAB. In other words, as Judge Newman observed, the *status quo* is that claim construction collateral estoppel does not arise against the PTO.

Claim Differentiation Cannot Be Used to Broaden Narrowly Described Invention

The US Court of Appeals for the Federal Circuit reversed a district court's claim construction, finding that later-added dependent claims cannot broaden claim scope affirmatively limited by the specification.

Cave Consulting Grp., LLC v. Optuminsight, Inc., 723 Fed. Appx. 988 (Fed. Cir., 2018) (Lourie, J).

Cave owns a patent directed to a method for measuring physician efficiency and patient health risk stratification. The patent describes that a physician's efficiency can be determined by calculating "weighted episode of care statistics" of a peer group and of a physician. The patent explains that the invention "uses an indirect standardization technique for weighing together the episodes within the core group of medical conditions." After Cave sued Optum for infringement, Optum argued that the term "weighted episode of care statistics" should be construed to exclude direct standardization, while Cave argued for a broader claim scope that includes both direct and indirect standardization. Cave contended that indirect standardization was merely one embodiment and the claims were not so limited. The district court adopted Cave's construction, and a jury found infringement by Optum. Optum appealed.

On appeal, the Federal Circuit found that the district court erred in construing the term "weighted episode of care statistics" to include direct standardization. The Court noted that the only support for the district court's broad construction was based on the rationale of claim differentiation to preserve the validity of the dependent claims. In rejecting the district court's finding, the Federal Circuit noted that claim language is not read in isolation and that the patent describes its method as one that employs indirect standardization. Addressing the direct standardization claimed in the dependent claims, the Court found that the only support came exclusively from the description of the prior art methods, and not from the patent specification. The Court also noted that the dependent claims were added after the filing of the original application. The Court noted that if the originally filed application included claims reciting direct standardization, then the later-added dependent claims specifically claiming direct standardization would have lent support for the broader construction.

However, in view of the specification's consistently limiting description, the Court concluded that these interpretive canons, despite the later-added dependent claims, cannot overcome the claim scope that is unambiguously prescribed by the specification.

The Federal Circuit also rejected Cave's argument that indirect standardization is merely one embodiment, explaining that the specification affirmatively limits its method of use to one that uses indirect standardization, as opposed to other methods disclosed in the prior art. The Court also rejected Cave's argument that a clear and unmistakable disavowal is required to find disclaimer, explaining that explicit redefinition or disavowal is not required when the description itself is affirmatively limiting.

Finally, the Court concluded that Optum did not infringe as a matter of law. The Court noted that it is undisputed that Optum's method performs direct standardization, and no reasonable jury could find that Optum infringes under the correct construction of "weighted episode of care statistics," which excludes direct standardization. Cave's subsequent petition for writ of *certiorari* to the Supreme Court was denied. *Cave Consulting Grp., LLC v. Optuminsight, Inc.*, Case No. 18-590 (Jan. 7, 2019).

Extrinsic Evidence Not Required to Overcome Means-Plus-Function Interpretation

Addressing construction of claims including means-plus-function claim elements, the US Court of Appeals for the Federal Circuit overturned an International Trade Commission (ITC) plain and ordinary meaning construction in favor of a means-plus-function construction and, as a result, found the claims to be indefinite. *Diebold Nixdorf, Inc. v. ITC,* 899 F.3d 1291 (Fed. Cir., 2018) (O'Malley, J).

Nautilus Hyosung instigated an ITC § 337 investigation based on allegations of infringement by

Diebold of four patents covering automated teller machines. The ITC ultimately found that Diebold violated § 337 based on infringement of six claims. That finding was premised on the ITC's administrative law judge holding that a term of all asserted claims (cheque standby unit) was not a means-plus-function term subject to § 112, ¶6, and that it would not be indefinite even if it was a means-plus-function term. Diebold appealed.

The Federal Circuit found both that the claim term was a means-plus-function term and that the specification did not provide any corresponding structure, thus rendering the claims indefinite.

The Federal Circuit first concluded that the claims and specification described the cheque standby unit in purely function terms without reciting any specific structure. The Court next found that the presumption that the term was not a means-plus-function term because it did not have the word "means" had been overcome. In doing so, the Court disagreed with the ITC's position that a proponent of a means-plus-function interpretation must present extrinsic evidence showing that ordinary artisans would not understand the term to connote sufficient structure. The Court explained that the word "unit" was a generic nonce word similar to "means," citing its 2015 *en banc* decision in *Williamson v. Citrix Online* (IP Update, Vol. 18, No. 6), and distinguished a previous case, *Apex v. Raritan Computer* (2003), where the word "circuit" was found to connote structure. Finally, the Court discounted Nautilus Hyosung's expert testimony as only offering a purely functional definition without any structural definitions.

Having found that the disputed term was a means-plus-function claim element, the Federal Circuit next considered whether the specification disclosed any corresponding structure as required by statute. Finding that it did not, the Court concluded that the term was indefinite under § 112, ¶2.

Prediction: "Plain and Ordinary Meaning" Is Not Particularly Plain or Ordinary

The US Court of Appeals for the Federal Circuit, finding errors in claim construction, overturned a jury verdict of infringement and affirmed a district court summary judgment determination that the claims at issue were not anticipated by the prior art. *Wis. Alumni Research Found. v. Apple Inc.*, 905 F.3d 1341 (Fed. Cir., 2018) (Prost, CJ). Both issues involved hotly contested disputes as to the plain and ordinary meaning of key claim terms, and the Federal Circuit's decision ultimately turned on how it defined those terms.

The Wisconsin Alumni Research Foundation (WARF) owns a patent directed to a data speculation decision circuit that uses predictions to help increase the efficiency of computer processing functions running in parallel. The claims require that a prediction be associated with a "particular" load instruction. WARF filed a patent infringement complaint against Apple asserting the patent.

Apple argued that it did not infringe the claims because the plain and ordinary meaning of "particular" requires that the claimed prediction be associated with a single load instruction, but each "prediction" in Apple's accused product was tied to multiple load instructions. Apple's expert offered opinions based on this meaning of "particular," and WARF moved to exclude that testimony at trial. The district court denied WARF's motion and agreed with Apple's position about the meaning of "particular," but declined to give the jury a specific instruction about the meaning of "particular." The jury returned a verdict of infringement, and the district court denied Apple's motion for judgment as a matter of law. WARF appealed.

On appeal, the Federal Circuit agreed with Apple's position about the plain and ordinary meaning of the term "particular," but did not provide any analysis or explanation of its reasoning, or cite to any evidence upon which it relied to reach that conclusion. Instead, the Court focused on the merits of the infringement issue under the construction the Court adopted. The Court considered and rejected several arguments by WARF that the accused products still infringed, even under Apple's construction of "particular," but the Court overturned the jury verdict of infringement.

The anticipation issue on appeal rested on another claim construction dispute, this time with respect to claim language including a "prediction" limitation. WARF contended that the claimed "prediction" must be dynamic and capable of receiving updates. Apple contended that the term was broad enough to include static predictions. The Federal Circuit adopted WARF's definition because the patent as a whole "repeatedly and consistently" characterized a "prediction" as being capable of receiving updates, and because Apple could not point to any portion of the specification that described a static prediction. The Court found that construing "prediction" to encompass static predictions would expand the scope of the claims beyond what was supported by the specification. Finding that the prior art reference at issue did not disclose predictions that can receive updates, the Court affirmed the lower court's grant of summary judgment that the claims were not anticipated.

Similarity in Revised PTAB Claim Construction Avoids APA Misstep

In addressing whether a claim construction adopted by the Patent Trial and Appeal Board (PTAB) "changed theories midstream," the US Court of Appeals for the Federal Circuit affirmed the PTAB's construction—and its patentability determinations—finding no violation of the Administrative Procedures Act (APA) where the PTAB's construction was "similar enough" to a party's proposed construction. *Hamilton Beach Brands, Inc. v. f'real Foods, LLC*, 908 F.3d 1328 (Fed. Cir., 2018) (Reyna, J).

F'real Foods manufactures self-service machines for producing milkshake products. F'real asserted a patent directed to a "splash shield" that can be automatically rinsed after each use against Hamilton Beach Brands in 2014, but dismissed the action more than a year later, after determining that it mistakenly failed to reassign the patent to itself following merger activities. F'real subsequently filed another action joining its holding company, and Hamilton filed for *inter partes* review (IPR) three months later in 2016.

Before the PTAB, neither f'real nor Hamilton proposed a construction for the "nozzle terms" in the pre-institution briefing, and the PTAB instituted without construing these terms. F'real then proposed a construction for the nozzle terms in its patent owner response, and Hamilton responded to this construction in its reply. Both parties argued about the nozzle terms at the hearing. In finding the challenged claim patentable, the PTAB adopted a construction for the nozzle terms in its final written decision that was similar to that proposed by f'real. Hamilton appealed the final written decision, arguing that the PTAB violated the APA by improperly adopting a construction without providing an opportunity to respond.

The Federal Circuit affirmed the PTAB, finding no APA violation because the parties had a chance to address claim construction in post-institution briefing and at the oral hearing. In rejecting Hamilton's argument under *SAS Institute v. Iancu* (*IP Update*, Vol. 21, No. 5) that the PTAB "may not change theories midstream by adopting a construction in its final written decision that neither party requested or anticipated," the Court noted that the similarity between the PTAB's adopted construction and f'real's proposed construction was sufficient to not run afoul of the standard, and was thereby permissible under the APA.

The Federal Circuit also found substantial evidence to support the PTAB's finding that the challenged claim was not obvious despite the prior art's recital of cleaning a machine, because Hamilton failed to prove that the prior art provided a motivation to clean components with a fixed nozzle directed towards the splash shield.

Finally, the Court declined to address f'real's request that the IPR should have been denied in the first instance under the § 315 time bar because the relief sought by the statutory bar, *i.e*., *vacatur* and remand, differed from the relief sought by affirming the PTAB and thereby mandated being reviewed as a cross appeal. In *dicta*, however, the Court did note that f'real's dismissal on the 2014 action alone would not preclude application of the time bar.

Practice Note: Be prepared to discuss claim constructions similar to those proposed by adversaries in post-institution briefing and at the oral hearing, as such constructions by the PTAB are permissible under the APA as long as they fall below the "changing the theories midstream" standard. Consider filing a cross-appeal when seeking alternative relief that differs from affirming the PTAB's decision on the merits, *i.e*., the assertion of statutory bars.

Injecting Claim Construction into Motion to Dismiss Analysis Is Improper

The US Court of Appeals for the Federal Circuit reversed a district court's grant of dismissal as the pleading stage, concluding that the district court inappropriately engaged in claim construction at the pleading stage. *Nalco Co. v. Chem-Mod, LLC*, 17-1036 (Fed. Cir., Feb. 27, 2018) (O'Malley, J)

Nalco owns a patent directed to a method for removing mercury, a toxic pollutant, from the flue gas of coal-fired power plants. The claimed method involves reacting halogens (chlorine or bromine) with mercury in flue gas in order to form solid mercury-containing particles that can be filtered from the gas. Because halogens have corrosive properties, however, they cannot be inserted directly into the flue gas. Instead, the Nalco patent claims require injecting into the flue gas a halogen precursor, which will turn into the desired halogen at the high temperatures in the flue. The patent describes a preferred embodiment where the halogen precursor is directly injected into the flue gas downstream of the combustion zone.

Nalco filed a patent infringement lawsuit against Chem-Mod alleging the "Chem-Mod Solution" infringed the patent's claims. Nalco's first complaint alleged that the Chem-Mod Solution uses halogen precursors and meets the "injecting" step by adding these precursors directly to the coal before the coal is fed into the combustion zone. Chem-Mod moved to dismiss, and the district court granted the motion, finding that the Chem-Mod Solution differed from the claims of the patent based on when it is applied (before the coal is burned versus after) and how it is applied (to cold coal versus flue gas).

Nalco amended its complaint four separate times to add details regarding the Chem-Mod Solution and further explain its theory that the Chem-Mod Solution involved "injecting . . . into said flue gas." Nalco's amended complaint also alleged that the claims did not restrict when, where or how the injecting step is performed. Each time, the district court found that the amended complaint did not adequately plead that the Chem-Mod Solution met the claimed "injecting" step. Eventually, the district court dismissed the fourth amended complaint with prejudice. Nalco appealed.

On appeal, Nalco argued that the district court implicitly construed the term "injecting" to be limited to the first time the halogen precursor is mixed, thereby equating the place of mixing with the site of "injection." Nalco thus argued that the ultimate resolution of the infringement claims depends on claim construction. The Federal Circuit agreed, finding that Nalco's complaint plausibly pleaded infringement and that Chem-Mod's arguments "read like classic *Markman* arguments" and "boil down to objections to Nalco's proposed claim construction . . .

a dispute not suitable for resolution on a motion to dismiss." Thus, the Federal Circuit reversed the dismissal of Nalco's claims and remanded.

VENUE

Federal Circuit Continues Trend of Strict Adherence to Language of Patent Venue Statute

In a series of decisions, the US Court of Appeals for the Federal Circuit continued its trend of strict adherence to § 1400(b) when analyzing proper venue for patent infringement actions under the Supreme Court of the United States' 2017 decision in *TC Heartland* (*IP Update*, Vol. 20, No. 5). *In re ZTE (USA) Inc*., 890 F.3d 1008 (Fed. Cir., 2018) (Linn, J); *In re BigCommerce, Inc.*, 890 F.3d 978 (Fed. Cir., 2018) (Linn, J); *In re HTC Corp*., 889 F.3d 1349 (Fed. Cir., 2018) (Prost, J).

In *In re: ZTE*, the Federal Circuit granted *mandamus* to resolve the unsettled questions of (1) whether regional or Federal Circuit law governs the burden of proof on the propriety of venue under § 1400(b), and (2) which party bears that burden. The Court determined that the burden for proving venue under § 1400(b) was an issue unique to patent law, intimately related to a substantive determination, and that unlike § 1404, all patent venue appeals under § 1406(a) would be referred to the Federal Circuit. Therefore Federal Circuit law, not regional law, applies. As to the second question, the Federal Circuit determined that, consistent with *TC Heartland*'s interpretation of the patent venue statute as a more restrictive statute than the general venue statute, it is plaintiff's burden to establish venue in a patent case.

In *In re: BigCommerce, Inc.*, the Federal Circuit held that a domestic corporation incorporated in a multi-district state does not "reside" for purposes of § 1400(b) in each and every judicial district in that state. Analyzing the language of § 1400, the Court found that the statute plainly states that a "civil action for patent infringement may be brought in the judicial district where the defendant resides." Based on the plain language of § 1400 and the legislative history, the Court held that the proper venue for a domestic corporation is either (1) in the specific judicial district where it maintains its principal place of business, or, failing that, (2) in the specific judicial district in which its registered office is located.

In *In re: HTC Corp*., the Federal Circuit held that § 1400 does not apply to foreign corporations. The Court found that applying patent venue rules to foreign corporations would create a venue gap where a federal court has jurisdiction, but no proper venue to exercise that jurisdiction exists. Relying on the Supreme Court of the United States' 1972 decision in *Brunette Machine Works v. Kockum Industries*, the Court reaffirmed the long-established rule that suits against foreign corporations are outside the operation of all federal venue laws, and patent lawsuits against foreign corporations may be brought in any judicial district where the defendant is subject to personal jurisdiction. In this case, both a petition for rehearing to the Federal Circuit and a petition for writ of *certiorari* to the Supreme Court were filed, but both were denied.

Mind Your Own Place of Business

Addressing whether the place of business of a defendant's distributor should be considered a place of business of the defendant, Circuit Judge Bryson, sitting by designation in the US District Court for the Eastern District of Texas, explained that even where a distributor is "necessary" to a defendant's business, without more, its place of business is not imputed to defendant for purposes of patent venue. *EMED Techs. Corp. v. Repro-Med Sys., Inc*., No. 2:17-CV-728-WCB-RSP, 2018 WL 2544564 (E.D. Tex. June 4, 2018) (Bryson, J).

EMED Technologies Corp. filed a patent infringement action against Repro-Med Systems, Inc. (RMS), a New York corporation with its principal place of business in Chester, New York. RMS moved to dismiss under 12(b)(3) for improper venue because it is incorporated in New York and has no offices in the Eastern District of Texas. RMS does, however, sell products through various distributors it lists on its website. Two of its listed distributors have established places of business in the Eastern District of Texas, and RMS's website directs potential customers in the Eastern District to these two distributors. RMS and its distributors have an otherwise arms-length supplier-distributor relationship.

EMED argued that venue was proper, and the district court granted limited discovery on whether RMS had a regular and established place of business in the Eastern District of Texas. At deposition, RMS's chief financial officer admitted that RMS's customers "require RMS to conduct its business through a distributor" because it is more convenient for the customers. EMED then argued that because the distributors were "necessary to conduct the business of the defendant," the distributors' place of business should be imputed to RMS.

The district court disagreed, finding that without more, an arms-length business relationship does not cause a distributor's place of business to be attributed to its supplier. There was no allegation that the distributors and RMS acted as a single corporate entity, and the court cautioned that a "necessary distributor" theory essentially reverted patent venue under § 1400(b) into a test for personal jurisdiction, which the US Court of Appeals for the Federal Circuit explicitly rejected in *In re: Cray* (*IP Update*, Vol. 20, No. 9), following the Supreme Court of the United States' decision in *TC Heartland* (*IP Update*, Vol. 20, No. 5).

Finding that the distributors' place of business was not a place of business of the defendant, the district court found venue in the Eastern District of Texas improper and transferred the action to the Southern District of New York, where RMS's principal place of business was located.

Federal Circuit Law Governs Waiver or Forfeiture of Patent Venue Rights

The US Court of Appeals for the Federal Circuit concluded venue was improper under the patent venue statute as interpreted by the Supreme Court of the United States, finding that the accused infringer did not waive or forfeit its venue rights. *In re: Oath Holdings Inc., fka Yahoo Holdings, Inc.*, Case No. 18-157 (Fed. Cir., Nov. 14, 2018) (*per curiam*).

In March 2016, AlmondNet, Datonics and Intent IQ (the respondents) sued Oath in the US District Court for the Eastern District of New York (ED NY). Oath conducts business in the state of New York, is incorporated in Delaware, and does not have "a regular and established place of business" in the ED NY within the meaning of 28 USC § 1400(b), the venue provision for patent cases. In July 2016, Oath filed a motion to dismiss for failure to state a claim, but did not include a venue objection. In January 2017, Oath withdrew its motion to dismiss and filed its answer, admitting that venue was proper but expressly reserving the right to challenge venue based on any change in law, including the then-pending *TC Heartland* case before the Supreme Court of the United States.

In May 2017, the Supreme Court issued its decision in *TC Heartland*, holding that "a domestic corporation 'resides' only in its State of incorporation for purposes of the patent venue statute" (*IP Update*, Vol. 20, No. 5). On June 12, 2017, Oath moved to dismiss for improper venue because it did not reside or have a regular and established place of business in the ED NY. The respondents opposed, arguing that Oath waived its venue defense because the defense was available in July 2016 when Oath filed its initial motion to dismiss. The district court agreed, finding that Oath waived its venue challenge, and therefore denied Oath's motion.

Oath petitioned the Federal Circuit for a writ of *mandamus* that would direct the district court to grant the motion to dismiss. While the petition was pending, the Federal Circuit ruled in *In re: Micron* (*IP Update*, Vol. 20, No. 12) that *TC Heartland* was a change in law and that *TC Heartland*'s interpretation of the patent venue statute was not available prior to the Supreme Court decision. The Federal Circuit noted, however, that a venue defense might nevertheless have been forfeited if there was a delay in asserting it. The Court denied Oath's petition in light of *Micron*, finding that the proper course was for Oath to move the district court for reconsideration.

Oath moved the district court for reconsideration. The district court denied the motion, finding that *TC Heartland* did not change the law at the Supreme Court level because it reaffirmed Supreme Court precedent. Oath then filed a second petition for *mandamus*, asking the Federal Circuit to direct the district court to dismiss the action.

The Federal Circuit found that there was no dispute that in the case at bar, venue in the ED NY was improper under § 1400(b), so the only issue was whether Oath waived or forfeited its venue defense by waiting too long to invoke it. The respondents argued that *Micron* did not apply because the Federal Circuit decided the case under First Circuit law, while the present case arose under Second Circuit law. The Court rejected this regional circuit argument, finding that the interpretation of the patent venue statute is a matter of Federal Circuit law, and waiver and forfeiture of patent venue rights are therefore governed by Federal Circuit law. On this point, the Court found that Oath did not waive its patent venue rights.

The respondents also argued that Oath forfeited its venue defense because it did not object to venue in its answer and extensively participated in the litigation before the *TC Heartland* decision came down. The Federal Circuit rejected this argument, finding that Oath could not be faulted for waiting to present a venue objection until after *TC Heartland* was decided, where (1) the case was in an early stage, (2) the defense could not properly have been adopted by the district court at the time Oath answered, and (3) Oath's answer expressly put the respondents and the district court on notice that it would assert a venue defense if it became available under *TC Heartland*. The Court noted that Oath filed its motion to dismiss within 21 days of the Supreme Court's *TC Heartland* decision and that the respondents had not shown that judicial economy supported forfeiture of venue rights since the case was nowhere close to trial. The Court thus directed the district court to dismiss or transfer the case to a court having appropriate venue.

TRIAL PRACTICE GUIDE RULES UPDATE

Updated Trial Practice Guide: What You Need to Know

In August 2018, the US Patent and Trademark Office issued its first major update to the America Invents Act Trial Practice Guide (Updated TPG) since its publication in August 2012, providing additional guidance about trial practice before the Patent Trial and Appeal Board (PTAB). Among other things, the updated sections include guidance on the use of expert testimony, considerations in instituting review, sur-replies to principal briefs, the distinction between motions to exclude and motions to strike, pre-hearing conferences and procedures for oral hearing before the PTAB.

The Updated TPG provides guidance on the appropriate use of expert testimony during a proceeding. Before the PTAB, expert testimony is appropriately used to explain issues relating to the level of skill in the art, the teachings of the prior art and how they relate to the patentability of the challenged claims, reasons to combine the teachings of references in a particular way, and objective *indicia* of non-obviousness. The Updated TPG acknowledges that while expert testimony can be presented to establish the scope and content of the prior art for determining obviousness and anticipation, expert testimony cannot take the place of the disclosure of the prior art, be conclusory without supporting evidence from the record, or supply a limitation that is not indisputably within the common knowledge of a skilled artisan. As a result, while expert testimony may explain the patents and printed publications, it cannot be a substitute for disclosure in the prior art reference itself.

The Updated TPG also provides guidance regarding relevant considerations when instituting review and explicitly states that the PTAB will take into account whether the same or substantially the same prior art or arguments were previously presented to the Office. In reviewing "follow-on" petitions challenging the same patent as challenged previously in an *inter partes* review, a post-grant review or covered business method proceedings, the PTAB indicated that it would consider certain (non-exhaustive) factors, including whether the same petitioner previously filed a petition directed to the same claims of the same patent, whether at the time of that filing the petitioner knew or should have known about the prior art, whether at the time the second petition was filed the petitioner received the patent owner's preliminary response to the first petition, whether the petitioner provided an adequate explanation for the time between the multiple filings, and the finite resources of the PTAB.

One of the biggest changes in the Updated TPG is the allowance of sur-replies: "[s]ur-replies to principal briefs (*i.e.*, to a reply to a patent owner response or to a reply to an opposition to a motion to amend) normally will be authorized by the scheduling order entered at institution." The sur-reply practice replaces the previous practice of filing observations to cross-examination testimony.

The Updated TPG explains the differences between a motion to exclude and a motion to strike, and clarifies the circumstances in which each may be appropriate. Motions to exclude should be directed to excluding inadmissible evidence, whereas motions to strike are appropriate when a party believes the PTAB should disregard arguments or late-filed evidence entirely. Generally, authorizations to file a motion to strike should be requested within one week of the allegedly improper submission, and the PTAB expects to decide such motions as soon as practicable, and preferably before the oral hearing.

The Updated TPG also states that a pre-hearing conference will be held at either party's request, generally no later than three days prior to the oral hearing, to afford the parties the opportunity to preview (but not argue) the issues to be discussed at the oral hearing, and to seek the PTAB's guidance on particular issues that the panel would like addressed by the parties. The conference is also an opportunity to discuss any pending motions to strike, admissibility of a limited number of exhibits, and unresolved issues with demonstrative exhibits. The time for making the request for a pre-hearing conference will be set forth in the scheduling order, but generally will be required to be made no later than the due date for the reply to an opposition to a motion to exclude.

The Updated TPG also provides new details on procedures for the oral hearing, indicating that the PTAB expects to ordinarily provide one hour of argument per side for a single proceeding; that the petitioner generally argues first, followed by the patent owner, with a brief rebuttal by the petitioner; and that the petitioner cannot reserve for rebuttal more than half the total time allotted for argument.

McDermott
Will & Emery

DIVIDED INFRINGEMENT

TSA Headaches: Luggage Lock Licensor May Be Liable for Divided Infringement

Reaffirming the breadth of the *Akamai* standard for divided infringement, the US Court of Appeals for the Federal Circuit vacated a summary judgment of non-infringement where two steps of a four-step method for luggage screening were performed by the Transportation Security Administration (TSA) rather than by the defendant. *Travel Sentry, Inc. v. Tropp*, Case Nos. 16-2386; -2387; -2714; 17-1025 (Fed. Cir., Dec. 19, 2017) (O'Malley, J).

Tropp sued Travel Sentry for patent infringement. Tropp owns patents generally directed to a method for luggage screening that generally includes the following steps:

- Making available to consumers a special lock having a combination lock portion, a master key portion and an associated identification structure
- Marketing the special lock to consumers in a particular manner
- Using the identification structure to signal to a luggage screener to use a master key to open the lock pursuant to an agreement with the luggage screening entity
- The luggage screening entity acting pursuant to a prior agreement to look for the identification structure and, if it is found, to use the master key to open the lock as necessary

Travel Sentry licenses lock systems for airline luggage. Pursuant to a memorandum of understanding between Travel Sentry and TSA, Travel Sentry provides master keys and relevant training materials to TSA, and TSA distributes the keys to baggage-screening areas. TSA screeners identify Travel Sentry bags and use the master keys to open and reclose the bags' locks. Based on these uncontested facts, the district court granted summary judgment in favor of Travel Sentry on the theory that Travel Sentry did not direct or control any TSA activities. Tropp appealed.

On appeal, the Federal Circuit vacated the summary judgment. Under *Akamai*, acts may be attributed to an alleged infringer when that infringer (1) conditions participation in an activity or receipt of a benefit upon performance of a step or steps of a patented method, and (2) establishes the manner or timing of that performance (IP Update, Vol. 15, No. 9). The Court held that a reasonable jury could find both prongs of the *Akamai* test to be satisfied.

Under the first prong, the Federal Circuit defined the "activity" in which TSA sought to participate as "screening luggage that TSA knows can be opened with the passkeys provided by Travel Sentry." Further, the Court defined "benefits" to include "the ability to open identifiable luggage using a master key, which would obviate the need to break open the lock." The Court also found the "conditioning" requirement met because TSA must perform the final two claim steps (*i.e.*, identifying Travel Sentry locks and using the master keys to screen the bags as necessary) in order to gain the identified benefits.

Under the second prong, the Court found that a reasonable jury could find that Travel Sentry established the manner or timing of TSA's performance. The Court relied on Travel Sentry's entering into the memorandum of understanding with TSA (which set forth steps TSA would need to follow in order to obtain the associated benefits), providing TSA with master keys and instructional materials, establishing and its own identifying mark, maintaining and licensing the trademark to the identifying mark, and controlling the design of the locks and passkeys. The Court therefore vacated the district court's summary judgment and remanded for further proceedings.

Practice Note: Going forward, fewer divided infringement cases should be amenable to summary judgment, because the Federal Circuit has characterized both prongs of the *Akamai* test as questions of fact.

CRISPR INTERFERENCE

The Gene Editing Is Out of the Bottle: No Interference-in-Fact Between Claimed Inventions

Regents of the University of California v. Broad Institute, Inc., 903 F.3d 1286 (Fed. Cir., Sept. 10, 2018) (Moore, J).

In a case involving the right of priority to basic gene editing technology, the US Court of Appeals for the Federal Circuit affirmed a Patent Trial and Appeal Board (PTAB) decision that there was no interference-in-fact between the competing patent applications of two prestigious research institutions.

In 2012, the University of California (UC) first applied for a patent on using CRISPR (Clustered Regularly Interspaced Short Palindromic Repeats, a gene-editing technology that enables scientists to modify an organism's DNA) in any cellular environment, based on its experiments with bacteria. Several months later, the Broad Institute (of MIT and Harvard) applied for patents on using CRISPR to edit DNA in eukaryotic cells. While UC's application remained pending, 12 Broad Institute patents were granted and one application remained pending. The PTAB instituted an interference, and the Broad Institute moved to terminate, arguing that its involved claims were patentably distinct from UC's claims because a person of ordinary skill in the art would not have had a reasonable expectation that the CRISPR-Cas9 system would work successfully in the genomes of a eukaryotic cell—a group of organisms that includes plant and animals.

The PTAB determined, and the Federal Circuit agreed, that both claimed inventions were separately patentable and did not interfere with each other. The PTAB found that using CRISPR in eukaryotic cells would not be obvious in view of UC's claims, because a person of ordinary skill would not have a reasonable expectation of success using the CRISPR method with plant and animal cells.

A two-way test is used to determine whether claims are patentably distinct as required to support an interference proceeding. The PTAB must first determine whether "the subject matter of a claim of one party would, if prior art, have anticipated or rendered obvious the subject matter of a claim of the opposing party and vice versa." If the two-way test is not met, no interference-in-fact exists. In this case, the PTAB determined there was no interference-in-fact.

The Federal Circuit reviewed the PTAB's conclusion of obviousness in evaluating the interference-in-fact issue under the substantial evidence standard and concluded that substantial evidence supported the PTAB's determination that there was a patentable distinction between the competing claims of the Broad Institute and UC insofar as the Institute's claims would not have been obvious over UC's claims. Based on the evidence in the record—*e.g.*, expert testimony, contemporaneous publications, statements by the UC inventors acknowledging their own doubt and frustration, prior art failures—the Court determined that a person of ordinary skill in the art would not have had a reasonable expectation of success in applying the CRISPR-Cas9 system in a eukaryotic cell. The Court noted UC's argument that there was sufficient evidence in the record to support the opposite conclusion, but noted: "[w]e are, however, an appellate body. We do not reweigh the evidence."

The Federal Circuit rejected UC's argument that the PTAB improperly applied a narrow test requiring specific instructions in the prior art to establish a reasonable likelihood of success (the predicate for obviousness). The Court concluded that the lack of a reasonable expectation of success finding was not predicated *solely* on the lack of specific instructions in the art describing how to apply CRISPR-Cas9 in eukaryotes. The Court explained that the PTAB "performed a thorough analysis of the factual evidence and considered a variety of statements by experts for both parties and the inventors, past failures and successes in the field, evidence of simultaneous invention, and the extent to which the art provided instructions for applying the CRISPR-Cas9 technology in a new environment." The Federal Circuit stated, "[i]n light of this exhaustive analysis and on this record, we conclude that substantial evidence supports the Board's finding that there was not a reasonable expectation of success, and the Board did not err in its determination that there is no interference-in-fact."

The opinion concluded by emphasizing that the Court's holding addresses only the scope of the application claim sets. "It is not a ruling on the validity of either set of claims."

Practice Note: Although the America Invents Act changed the United States to a first-to-file country in March 2013, the first-to-invent system and the possibility of interference is still newsworthy almost six years later.

Since these competing applications were filed, researchers have discovered enzymes to replace Cas9 and have also modified the CRISPR-Cas9 to manipulate the genome in different ways. Although CRISPR-Cas9 is still often the preferred CRISPR variety, other systems may gain acceptance.

BIOSIMILARS

No State Law Remedies for Failure to Comply with BPCIA Notice

On remand from the Supreme Court of the United States, the US Court of Appeals for the Federal Circuit held that under the Biologics Price Competition and Innovation Act of 2009 (BPCIA), state law claims and remedies are not available in biosimilar patent litigation. *Amgen Inc. v. Sandoz Inc.*, 15-1499 (Fed. Cir., Dec. 14, 2017) (Lourie, J).

This appeal relates to certain BPCIA provisions that establish processes for obtaining US Food and Drug Administration (FDA) approval of biosimilars and for resolving patent disputes between manufacturers of licensed biologics and manufacturers of biosimilars. At issue is Amgen's filgrastim product, marketed under the name Neupogen®, and Sandoz's biosimilar product, for which Neupogen was the reference product. After receiving notification from the FDA that it had accepted Sandoz's application for review, Sandoz notified Amgen of its biosimilar application filing referencing Neupogen and its intent to launch its biosimilar product immediately upon FDA approval. Sandoz opted not to provide Amgen with its biosimilar application under the BPCIA notification provisions. Amgen sued Sandoz under 42 USC § 262(*l*)(9)(C) to require such disclosure, asserting violation of the BPCIA as well as claims of unfair competition, conversion and patent infringement. Sandoz counterclaimed for a declaratory judgment that its actions were permitted under the BPCIA and asserted in its answer as an affirmative defense that Amgen's state law claims were preempted by the BPCIA.

Ultimately, the dispute reached the Supreme Court, where the issues before the Court were (1) whether 42 USC § 262(*l*)(2)(A)'s requirement that an applicant provide the sponsor with its application and manufacturing information is enforceable by an injunction either under federal or state law, and (2) whether under § 262(*l*)(2)(A) a biosimilar applicant may provide notice of commercial marketing to the manufacturer before or after obtaining a license from the FDA (*IP Update*, Vol. 20, No. 6). The Supreme Court held that § 262(*l*)(2)(A)'s requirement that an applicant provide the sponsor with its application and manufacturing information is not enforceable by federal law, and remanded the issue of whether

California law would treat non-compliance with this regulation as "unlawful." The Supreme Court also held that a biosimilar applicant may provide notice of commercial marketing to the manufacturer before *or* after obtaining a license from the FDA.

On remand, the Federal Circuit was tasked to consider whether California law would treat non-compliance with § 262(*l*)(2)(A) as "unlawful," and if so, whether the BPCIA preempts any additional remedy available under state law for an applicant's failure to comply with § 262(*l*)(2)(A), as well as whether Sandoz had forfeited any preemption defense. Starting with the issue of preemption, the Court acknowledged that neither the district court nor the Federal Circuit in its prior decision had addressed preemption on the merits. Although there is a general rule that a federal appellate court does not consider an issue not considered below, appellate courts have discretion to decide when to deviate from this rule. The Federal Circuit deviation was warranted in this case because the issue of preemption is a significant factor in interpreting BPCIA. Further, the Court found that the issue of preemption was fully briefed, and the Supreme Court expressly invited the Federal Circuit to address the issue on remand.

The Federal Circuit analyzed whether BPCIA preempts state law claims predicated on a failure to comply with § 262(*l*)(2)(A). First, the Court found that BPCIA is a complex, comprehensive scheme that provides a full set of standards governing the exchange of information in biosimilar patent litigation, including penalties for non-compliance. The Court viewed the comprehensive nature of BPCIA as strong evidence that Congress did not intend to authorize other remedies that were not expressly incorporated, such as state law remedies. Second, because Amgen sought to impose penalties on Sandoz through state law claims not available under BPCIA, the Court found a conflict between the methods of enforcement provided by BPCIA and by state law, and affirmed the dismissal of Amgen's unfair competition and conversion claims, concluding that the state law claims were preempted on both field and conflict grounds.

DESIGN PATENTS

From the Depths of My Sole, the Claim Is Definite and Enabled

In a case relating to the sufficiency of the drawings of a design patent application, the US Court of Appeals for the Federal Circuit found compliance with the enablement and definiteness requirements of 35 USC §112 where the applicant presented only a two-dimensional view of the design. *In Re: Ron Maatita,* Case No. 17-2037 (Fed. Cir., Aug. 20, 2018) (Dyk, J).

Design patent claims are defined by the application drawings, and there is often little difference in the design patent context between the concepts of definiteness (whether the scope of the claim is clear with reasonable certainty) and enablement (whether the specification sufficiently describes the design to enable an average designer to make the design). In this case, the Federal Circuit addressed enablement and indefiniteness together as analogous to an inquiry into hypothetical infringement.

Maatita submitted an application for a design patent that included only a plan-view of the sole of a shoe as viewed from below. The examiner rejected the application as indefinite and non-enabling because the depth and direction of features disposed on the shoe bottom could not be ascertained from the two-dimensional image.

The Patent Trial and Appeal Board agreed, concluding that "because the single view does not adequately reveal the relative depths and three dimensionality between the surfaces provided," the specification was not enabling under § 112, ¶ 1, and that the resulting "lack of clarity" rendered the scope of the claim indefinite under § 112, ¶ 2. Maatita appealed.

The Federal Circuit, answering the question of "whether the disclosure sufficiently describes the design," explained that the standard for indefiniteness is connected to the standard for infringement. Citing its 2008 *en banc* decision in *Egyptian Goddess v. Swisa*, the Court explained that "[i]n the design patent context, one skilled in the art would look to the perspective of the ordinary observer since that is the perspective from which infringement is judged." As the Court observed, "so long as the scope of the invention is clear with reasonable certainty to an ordinary observer, a design patent can disclose multiple embodiments within its single claim and can use multiple drawings to do so." Here, where the design was that of an athletic shoe sole, the Court concluded that the ornamental design in question was capable of being disclosed and judged from a two-dimensional perspective.

Indeed, in the view of the Federal Circuit, the fact that Maatita submitted only a two-dimensional drawing demonstrated the perspective from which the shoe bottom should be viewed in terms of an infringement analysis. The Court concluded that because a potential infringer is essentially instructed to interpret the design from the plan-view image of the shoe, *i.e*., from directly below only and without regard to three-dimensional aspects of the sole, such a potential infringer should be capable of determining infringement.

However, the Federal Circuit cautioned that the result is largely driven by the two-dimensional nature of the athletic shoe sole and that designs that are "inherently three-dimensional could not be adequately disclosed with a single, plan- or planar- view drawing."

Practice Note: In design patents, a single plan-view drawing may provide adequate disclosure to meet definiteness and enablement requirements of § 112, instead affecting only the scope of the claim.

In the Doghouse: Prosecution History Estoppel, Design Claim Scope Are Different Inquiries

Addressing the intersection of claim scope and prosecution history estoppel for design patents, the US Court of Appeals for the Federal Circuit found that prosecution history estoppel does not preclude enforcing a broader claim against a competitor, even if narrower subject matter surrendered during prosecution may have been more applicable. *Advantek Mktg., Inc. v. Shanghai Walk-Long Tools Co*., 898 F.3d 1210 (Fed. Cir., 2018) (Newman, J).

Advantek owns a design patent directed to an octagonal-shaped portable animal kennel that Advantek sells with the mark "Pet Gazebo." During prosecution of the patent, the US Patent and Trademark Office issued a restriction requirement identifying two designs: a dog kennel without a cover and a dog kennel with a cover. Advantek noted disagreement with the restriction requirement, but complied by electing the dog kennel without a cover for prosecution. The drawings and photograph submitted with the design application show that a frame forming the dog kennel without a cover is the same frame defining the dog kennel with a cover. Ultimately, the design patent issued and was directed to a dog kennel without a cover.

Advantek sued its former manufacturer, Shanghai Walk-Long Tools, along with others, for infringement of the design patent. The complaint alleged that Walk-Long copied the Pet Gazebo and infringed the patent with its "Pet Companion" product, which is a dog kennel with a cover. Walk-Long filed a motion for judgment on the pleadings, arguing that since the Pet Companion included a cover, prosecution history estoppel precluded infringement. The district court granted the motion and dismissed the complaint, finding that Advantek had surrendered the proposed kennel with a cover to secure the patent by choosing the drawings of the design without a cover in response to the restriction requirement. Advantek appealed.

Advantek argued that Walk-Long's accused kennel fell outside any claim scope that it purportedly surrendered during prosecution since the elected design was the "skeletal structure design," and that design was present in the accused kennel, with or without a cover. Advantek also noted that the accused kennel as shipped, assembled and used did not have a cover unless or until the cover was placed on the kennel. Advantek also argued that the requirements of prosecution history estoppel were not met because the election during prosecution broadened its ability to prevent infringement of the skeletal design, whether the skeleton was used with or without a cover.

The Federal Circuit agreed with Advantek, finding that Advantek elected to patent the ornamental design of a kennel with a particular skeletal structure, and that a competitor that sells a kennel embodying the patented structural design infringes the patent, regardless of extra features—such as a cover—that might be added to the kennel. The Court thus concluded that Advantek was not estopped by the prosecution history from asserting the patent against Walk-Long's products.

Practice Note: Enforcement of a granted design patent of a non-elected narrow embodiment is not precluded by the election of a broader embodiment during prosecution.

IP & TAX

When Patent Royalties Are Not Capital Gains

Cooper v. Commissioner of Internal Revenue, 877 F.3d 1086 (9th Cir., Dec. 15, 2017) (Graber, J) (Kleinfeld, J, dissenting in part).

The US Court of Appeals for the Ninth Circuit held that patent royalties were not capital gains for tax purposes when the patentee retained effective control over the corporate recipient of the patents, since the patentee could retrieve the patent rights and had therefore not transferred "all substantial rights" to the patents.

James Cooper is an inventor of more than 75 US patents related to the transmission of audio and visual signals. His patents generated significant royalties, and Cooper sought favorable tax treatment on those royalties by transferring all formal rights in the patents to Technology Licensing Corporation (TLC).

Under 26 USC § 1235(a), if a patent holder transfers "all substantial rights" to a patent, then the resulting royalty payments qualify as capital gains. However, a patent holder that retains control over the recipient of the patents has not transferred "all substantial rights," and the resulting royalties are taxed as ordinary income, not as capital gains.

Cooper structured ownership of TLC in a way that eliminated his formal control over the patents. Cooper owned only 24 percent of TLC. In contrast, his sister-in-law, Lois Walters, and a long-time friend, Janet Coulter, together owned 76 percent of TLC. Neither had prior experience in patent licensing or patent commercialization. Each retained full-time jobs unrelated to TLC. Cooper then transferred to TLC all rights to certain patents in exchange for royalty payments. Cooper claimed that the royalty payments qualified as capital gains. The Internal Revenue Service Commissioner and the Tax Court (after litigation) disagreed. Cooper appealed.

The Ninth Circuit found that the patent royalties did not qualify as capital gains because Cooper retained effective control over TLC and therefore had not transferred "all substantial rights" to the patents. The Court agreed that Cooper did not have formal control over TLC but explained that a "bedrock principle of tax law" is that "substance controls over form." The real issue was whether there was an *actual* transfer of the patent rights.

Here, the Ninth Circuit determined there was no actual transfer. At TLC, Walters and Coulter followed Cooper's directions and did not exercise independent judgment. Cooper made all of the decisions regarding patent licensing, infringement and transfers. Cooper therefore retained effective—albeit informal—control over TLC.

A key factor in the Court's analysis was that Cooper retained the right to terminate the transfer at will. Cooper exercised this right for some of the transferred patents. TLC had returned certain patents to Cooper for no consideration, even though the patents had commercial value. The Court therefore affirmed the Tax Court's determination that the patent royalties were not entitled to capital gains treatment.

Waiver Leads to Double Tax Liability on Patent Royalties

Spireas v. Comm'r of Internal Revenue, 886 F.3d 315 (3d Cir., Mar. 26, 2018) (Hardiman, J) (Roth, J, dissenting).

Declining to address whether certain technology licensing royalties should be subject to taxation as income or capital gains, the US Court of Appeals for the Third Circuit found that the patentee-taxpayer had waived his claim on appeal, and affirmed the decision of the Tax Court that the royalties should be treated as income.

Spiridon Spireas is an inventor of a drug delivery technology that must be adapted to each drug sought to be delivered. In 1998, Spireas and a drug company entered into an agreement whereby the drug company would have the exclusive rights to utilize the drug delivery technology, but only to develop products that the company and Spireas would unanimously select. The drug company also received the exclusive rights to produce, market, sell, promote and distribute those products. Spireas was entitled to a 20 percent royalty on the gross profits the drug company earned.

In 2000, Spireas and the drug company agreed to use the technology to develop a generic version of a blood-pressure drug called felodipine. The development was successful, and, in 2007 and 2008, sales of the product generated royalties exceeding $40 million.

Spireas reported the royalties as capital gains on his 2007 and 2008 tax returns. In 2013, the Commissioner sent Spireas a notice of deficiency for 2007–2008, asserting that that the royalties should have been treated as ordinary income. Spireas petitioned the US Tax Court for a redetermination, arguing that capital gains treatment was appropriate because the 1998 and 2000 agreements combined to transfer to the drug company all of Spireas's rights in the particular formulation of felodipine. The Tax Court agreed with the Commissioner, reasoning that no transfer of rights could have taken place in 1998 with respect to the felodipine product because it had not yet been invented.

On appeal, Spireas claimed that the 1998 agreement prospectively assigned to the drug company the relevant rights to the felodipine product. The Third Circuit disagreed, explaining that Spireas's theory was inconsistent with his assertion in Tax Court that a transfer of rights took place sometime after the felodipine product was invented, between the end of 2000 and spring 2001. Finding that Spireas had failed to raise a prospective assignment argument in Tax Court, the Third Circuit held that Spireas had waived that argument.

In dissent, Judge Roth took the position that the arguments were sufficiently consistent to avoid waiver and would have found for Spireas on the merits.

Practice Note: The problem in this case arises from difficulty defining exactly the property right in which Spireas transferred all substantial rights. The Tax Court relied on the fact that Spireas failed to transfer all substantial rights to the drug delivery technology in general, but the Third Circuit acknowledged that a patentable invention (it was not disputed that the felodipine product was independently patentable) may be subject to capital gains treatment even without a patent or patent application. Precision in describing the transferred right(s)—and maintaining consistency regarding that issue—is likely to be instrumental when attempting to obtain favorable tax treatment.

When Patent Royalties Go to Tax Havens

Medtronic, Inc. v. Commissioner, 900 F.3d 610 (8th Cir. Aug. 16, 2018) (Wollman, J) (Shepherd, J, concurring).

Addressing the classic case of a US multinational shifting income to a tax haven, the US Court of Appeals for the Eighth Circuit vacated the US Tax Court's transfer pricing analysis because it failed to account for key differences between an intercompany patent license agreement and a settlement agreement for patent litigation.

The Internal Revenue Service (IRS) alleged that Medtronic improperly allocated taxable income to its affiliate in a "tax haven." Medtronic US had entered into various agreements with Medtronic Puerto Rico for the latter to manufacture certain medical devices. These intercompany agreements included IP licenses from Medtronic US to Medtronic Puerto Rico and payment terms related to those IP licenses. The IRS alleged that these payments improperly shifted taxable income to Puerto Rico (*IP Update*, Vol. 19, No. 7).

Taxable income is allocated properly between related entities when the intercompany agreements are on terms that the parties would have negotiated in an arm's length transaction. One method for determining the terms of an arm's length transaction is the comparable uncontrolled transactions (CUT) method. The CUT method finds a similar transaction and uses that transaction to determine the arm's length deal terms for the related entities.

Here, the Tax Court used the Pacesetter agreement as the CUT. The Pacesetter agreement was an agreement between Pacesetter and Medtronic US to settle lawsuits for patent infringement. This settlement agreement included a cross license to the parties' patents. Pacesetter's payment to Medtronic under the agreement included a lump sum and an ongoing royalty. The IRS appealed the Tax Court's use of the Pacesetter agreement under a CUT analysis and its calculation of the arm's length royalty.

The Eighth Circuit determined that the Tax Court failed to sufficiently justify its use of the Pacesetter agreement as a CUT, explaining that the Tax Court did not account for a fundamental difference between the Pacesetter agreement and the intercompany Medtronic Puerto Rico agreement. The Court noted that the Pacesetter agreement was an agreement to settle patent litigation, a situation where parties enter into settlement agreements in part to reduce future litigation costs. Also, settlement agreements reflect the parties' estimates about their chances of success in the litigation. These are not agreements entered into in the ordinary course of business, and are therefore less reliable as a CUT.

As the Eighth Circuit further explained, in order to qualify as a CUT, the comparable transaction must contain similar licensing and payment terms. While the Pacesetter agreement included a lump sum payment and a cross license, the Medtronic Puerto Rico agreement did not have either of these terms. The Pacesetter agreement also licensed only patents and excluded "intangibles," such as know-how and manufacturing processes. In contrast, the Medtronic Puerto Rico agreement included a license to intangibles. The Eighth Circuit concluded that the Tax Court failed to analyze how these differences affected the comparability between the two agreements.

Finally, the Eighth Circuit noted that the Tax Court failed to justify its allocation of risk between Medtronic US and Medtronic Puerto Rico. An arm's length transaction between Medtronic US and Medtronic Puerto Rico would account for the amount of risk and product liability expense borne by each party. Greater risk should result in an increased valuation. The Tax Court failed to make specific findings as to the amount of risk incurred by Medtronic Puerto Rico.

Because the Tax Court failed to adequately analyze these factors in determining whether the Pacesetter agreement was a CUT, the Eighth Circuit remanded the case for further consideration (pending).

INEQUITABLE CONDUCT / ENFORCEABILITY

No Rehearing on Inequitable Conduct

Regeneron Pharmaceuticals, Inc. v. Merus N.V., 878 F.3d 1041 (Fed. Cir., Dec. 26, 2017) (*per curiam*) (Newman, J, dissenting, joined by Reyna, J).

Over a vigorous dissent, the US Court of Appeals for the Federal Circuit issued a *per curiam* order denying a petition for panel rehearing and *en banc* rehearing of its earlier inequitable conduct decision.

The original panel majority decision affirmed the lower court's finding of inequitable conduct based not on prosecution counsel's proven deceptive intent, but on an adverse inference drawn as a sanction for litigation counsel's discovery misconduct (*IP Update*, Vol. 20, No. 8). The dissent argued that the court's initial opinion departed from controlling precedent and created a split in inequitable conduct jurisprudence.

Regeneron filed suit alleging that Merus infringed its patent directed to using large DNA vectors to target and modify endogenous genes and chromosomal loci in eukaryotic cells. Days before the US Patent and Trademark Office (PTO) issued a notice of allowance for the application that would mature into the asserted patent, a third party filed a submission in the parent application, disclosing three prior art references. Regeneron's in-house patent prosecution counsel, who was prosecuting the application, knew of the references submitted in the parent application but failed to cite them to the examiner. Merus contended before the district court that Regeneron's failure to cite those references constituted inequitable conduct. Regeneron countered that the in-house counsel did not have an obligation to disclose the references to the examiner because they were cumulative of other cited art and therefore not "but-for" material. Merus argued, however, that the withheld prior art taught the very thing that Regeneron's counsel claimed was missing from the prior art.

The district court scheduled a bench trial on Regeneron's inequitable conduct, bifurcating the trial to first address the materiality of the withheld references, and then later consider specific intent to deceive the PTO. Following the first part of the bench trial, the district court issued an opinion explaining why the withheld references were material. The district court never concluded the second part of the bench trial. Instead, the district court pointed to Regeneron's discovery misconduct, sanctioning Regeneron for that misconduct by drawing an adverse inference of specific intent to deceive the PTO during the earlier prosecution of the asserted patent. Ultimately, the district court held the patent unenforceable. Regeneron appealed.

In its initial decision on the merits (Judge Newman dissenting) the Federal Circuit panel majority concluded that under the broadest reasonable construction of the claims, the district court properly found that the withheld references were material. As for specific intent to deceive the PTO, the majority accepted the district court's sanctions, underscoring the extent and seriousness of Regeneron's litigation misconduct, in particular its "sword/shield" discovery tactics regarding the attorney-client privilege.

Dissenting from the denial of rehearing *en banc*, Judge Newman argued that the district court imposed its adverse inference of the finding of intent to deceive not because of the actions of prosecution counsel before the PTO, but improperly as a sanction for later litigation misconduct in the infringement suit. Citing *Therasense* (*IP Update*, Vol. 14, No. 6), Judge Newman explained that the Court's precedent requires that materiality and deceptive intent must both be proved, not inferred. In particular, the dissent noted the *Therasense* Court's instructions that "a district court may not infer intent solely from materiality. Instead, a court must weigh the evidence of intent to deceive independent of its analysis of materiality."

Judge Newman further looked to *Aptix*'s holding, cutting against the majority's acceptance of the district court's *nunc pro tunc* sanction: "neither the Supreme Court nor this court has ever declared a patent unenforceable due to litigation misbehavior. . . . [T]he remedies for litigation misconduct bar the malfeasant who committed the misconduct. The property right itself remains independent of the conduct of a litigant. Litigation misconduct, while serving as a basis to dismiss the wrongful litigant, does not infect, or even affect, the original grant of the property right." Ultimately concluding that *en banc* review was required, Judge Newman warned that "[t]he court's contrary holding, has produced an irreconcilable split in our jurisprudence, to the detriment of stability of law and practice."

Balm for Gilead: Unclean Hands Render Patents Unenforceable

Gilead Sciences, Inc. v. Merck & Co., Inc. et al., Case 888 F.3d 1231 (Fed. Cir., Apr. 25, 2018) (Taranto, J) (Cert. denied).

The US Court of Appeals for the Federal Circuit affirmed a district court finding of unenforceability, concluding that a patent owner's unclean hands can render patents unenforceable based on a materiality standard of conduct that had an "immediate and necessary relation to . . . the matter in litigation," which included conduct with the "objective potential" to affect the litigation.

The case involved two Merck patents related to Hepatitis C treatment. Gilead, which had developed its own Hepatitis C treatments, sought declaratory judgment that the Merck patents were invalid. Merck counterclaimed. The jury ruled for Merck and awarded damages. Thereafter, the district court held a bench trial on Gilead's equitable defenses, including unenforceability of the patents based on Merck's unclean hands. The district court ruled in favor of Gilead, concluding that both pre-litigation and litigation misconduct attributable to Merck rendered the patents unenforceable. Merck appealed.

The Federal Circuit affirmed, applying a deferential standard of review of the lower court's findings, and articulated the legal standard for unclean hands. The Court explained that "a determination of unclean hands may be reached when 'misconduct' of a party seeking relief has 'immediate and necessary relation to the equity that he seeks in respect of the matter in litigation.'"

The Court endorsed the lower court's identification of four instances of "misconduct"—two pre-litigation and two litigation business misconducts—and its finding that the conduct had immediate and necessary relationship to the equity that Merck sought to enforce its patents.

The two pre-litigation misconduct incidents stemmed from Merck's interaction with Pharmasset, which was later acquired by Gilead. Pharmasset had developed PSI-6130 (the compound that led to Sofosbuvir, the active ingredient in Gilead's Hepatitis C treatment). Pharmasset had agreed to allow Merck to evaluate PSI-6130 with the understanding that anyone involved in Merck's internal Hepatitis C virus program would be excluded from the review. Merck, however, sent its patent counsel, Dr. Durette, who was involved with Merck's Hepatitis C program, to attend a call discussing PSI-6130. After the call, Dr. Durette

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continued to prosecute Merck's patents, including the applications that became the asserted patents.

The Federal Circuit found Dr. Durette's participation in the call with Pharmasset and his continued prosecution of the asserted patents to be two instances of pre-litigation business misconduct attributable to Merck. The Court explained that the improperly acquired knowledge influenced Merck's decision to file narrower claims, with the attendant potential for expedited patent issuance and lowered invalidity risk, which led directly to the acquisition of the asserted patents and thus was immediately and necessarily related to the equity of patent enforcement relief sought by Merck.

The two instances of litigation misconduct arose from Dr. Durette's testimony and were found to be attributable to Merck. First, Dr. Durette testified during his deposition as Merck's corporate witness that he did not participate in the call with Pharmasset, which he later conceded was false and which the district court found to be intentional. Second, Dr. Durette downplayed the effect of the Clark application (Pharmasset's patent application containing PSI-6130's structure published after the Pharmasset call but before the narrowing amendment), which the district court found "not credible" and "false." The Federal Circuit explained that the district court had properly charged Merck with the consequences of Dr. Durette's false testimony and that the testimony was relevant to the invalidity issues (*i.e.*, whether the claimed inventions were derived from Pharmasset's Clark application) and had an immediate and necessary relation to the equity of patent enforcement relief sought by Merck.

Practice Note: Patent prosecutors should ensure that they do not violate any firewalls, protective orders or agreements, and further should not continue prosecuting patents in the same subject matter after inadvertent (or, of course, deliberate) access to the confidential business information of others.

ATTORNEYS' FEES

En Banc Federal Circuit: § 145 Appellants Do Not Have to Pay (Attorneys' Fees) to Play

NantKwest, Inc. v. Iancu, 898 F.3d 1177 (Fed. Cir., July 27, 2018) (*en banc*) (Stoll, J, joined by Newman, Lourie, Moore, O'Malley, Wallach and Taranto, JJ) (Prost, CJ, dissenting, joined by Dyk, Reyna and Hughes, JJ).

The *en banc* US Court of Appeals for the Federal Circuit held that a dissatisfied patent applicant that chooses to appeal from a decision of the Patent Trial and Appeal Board rejecting claims of a patent application can appeal to the US District Court of the Eastern District of Virginia without fear of being required to pay the prorated salaries of US Patent and Trademark Office (PTO) employees who work on the appeal, regardless of the outcome.

NantKwest filed a complaint against the director of the PTO in the Eastern District of Virginia pursuant to 35 USC § 145, appealing from the PTO's rejection of its patent claims. After the district court affirmed the PTO's decision, the PTO filed a motion for reimbursement of "[a]ll the expenses of the proceedings," including its attorneys' fees in the form of the prorated salaries of the PTO personnel who worked on the appeal. Section 145 states that "[a]ll the expenses of the proceedings shall be paid by the applicant." The district court denied the PTO's motion for attorneys' fees because the American Rule provides that each party should pay its own attorneys' fees. The PTO appealed the denial, and a divided Federal Circuit panel reversed the district court. The Federal Circuit panel held that § 145 was a deviation from the American Rule and attorneys' fees were included in "[a]ll the expenses of the proceedings" (*IP Update*, Vol. 20, No. 7). The Federal Circuit next issued a *sua sponte* order to hear the appeal *en banc* and vacated the panel decision.

Under § 141, dissatisfied applicants may appeal directly to the Federal Circuit, the most routinely used path for appeal. But applicants also may use § 145 and seek review in the Eastern District of Virginia through the filing of a civil action. In such an action, the parties can conduct discovery and introduce new evidence, including oral evidence that was not presented to the PTO during prosecution. These § 145 actions are resolved under the same methods as traditional district court proceedings, such as motion practice and a trial on the merits. Unlike § 141 appeals, in § 145 proceedings, the applicant must pay "[a]ll the expenses of the proceedings." Ever since the predecessor statute of § 145 was passed in the mid-1800s, these expenses have included travel, expert and court reporter fees, and document production costs—but never attorneys' fees.

The *en banc* Federal Circuit ruled that the American Rule applies and the language of § 145 is not specific and explicit enough to be interpreted as including attorneys' fees. The *en banc* Court held that "the American Rule prohibits courts from shifting attorneys' fees from one party to another absent a 'specific and explicit' directive from Congress. The phrase '[a]ll the expenses of the proceedings' falls short of this stringent standard."

Practice Note: This case may be heading to the Supreme Court of the United States (petition for *certiorari* filed December 21, 2018) because the decision in *NantKwest* creates a split between the Fourth Circuit and the Federal Circuit in the interpretation of similar statutes (15 USC § 1071 (b) and 35 USC § 145) as to whether the American Rule applies and what is included in "all the expenses of the proceeding(s)" for appeals to a district court. Compare *Shammas v. Focarino*, 784 F.3d 219, 223–24 (4th Cir. 2015) with the *NantKwest* decision.

A High Bar for Fee Awards Against the Bar

Gust, Inc. v. AlphaCap Ventures, LLC, 905 F.3d 1321 (Fed. Cir., Sept. 28, 2018) (Linn, J) (Wallach, J, dissenting).

Addressing the standard for imposing fee and cost awards against counsel, the US Court of Appeals for the Federal Circuit reversed the district court's award holding the patent owner's lawyers jointly and severally liable for litigating patents invalid under Alice. AlphaCap, a non-capitalized, non-practicing entity, secured counsel at Gutride Safier (GS) on a contingency basis and asserted three patents against 10 internet crowdfunding companies in January 2015, seven months after the Supreme Court of the United States decided Alice (*IP Update*, Vol. 17, No. 7). Nine defendants settled for less than $50,000, but Gust continued to litigate both infringement and invalidity.

A year and a half and a venue transfer (from the Eastern District of Texas to the Southern District of New York) later, the district court dismissed AlphaCap's claims. The district court awarded fees and costs under 35 USC § 285, concluding that the case was exceptional because Alice gave AlphaCap clear notice that its patents were invalid under § 101. The district court further found that AlphaCap brought the case only to "extract a nuisance settlement" and that an award was necessary "to deter AlphaCap's predatory patent enforcement practice."

The district court also awarded fees and costs under 28 USC § 1927, making GS jointly and severally liable for the attorneys' fee award of more than $492,000 and $16,000 in costs. The district court found that GS's actions had been unreasonable and in bad faith, highlighting GS's refusal to settle the case despite knowing that Alice would invalidate the asserted claims, its statement to AlphaCap that the case was "not worth litigating" (implying a low settlement amount), and its resistance to the motion to transfer from the Eastern District of Texas. On reconsideration, the district court noted that "Fees under Section 1927 were not awarded based on the filing of the litigation."

The court explained that the filing of what it considered to be frivolous litigation was nevertheless "not irrelevant to the decision to impose fees," because it "supported [the district court's earlier] finding that counsel acted in bad faith when it unreasonably and vexatiously multiplied the proceedings."

GS appealed, limiting its appeal to GS's joint and several liability for Gust's attorneys' fees under § 1927.

The Federal Circuit reversed. The Court applied the US Court of Appeals for the Second Circuit's "more exacting" standard than an ordinary abuse-of-discretion standard to evaluate the § 1927 award. Section 1927 authorizes awards against lawyers only where a lawyer "so multiplies the proceedings in any case unreasonably and vexatiously." In the Second Circuit, this standard requires that the lawyer's actions (1) were "entirely without color" and (2) "were brought in bad faith—that is, motivated by improper purposes."

First, the Federal Circuit addressed the "color" of the claims. The Court rejected the filing of a baseless complaint as support for a § 1927 award, noting that a baseless filing must be addressed under Fed. Rule of Civil Pro 11, not § 1927. The Court agreed with GS that AlphaCap's patent-eligibility position was colorable based on the "relative paucity" of § 101 cases decided between the Supreme Court's decision in Alice and the filing of AlphaCap's complaint, and throughout the pendency of the litigation. The Court recognized the importance of "allow[ing] attorneys the latitude necessary to challenge and thus solidify the legal rules without the chill of direct economic sanctions." Thus, where the law is unsettled, a finding that the lawyer's position lacked color should not rest on hindsight as to the state of the law.

Second, the Federal Circuit addressed GS's lack of bad faith. The Court rejected the district court's conclusion that GS knew that AlphaCap's patents were invalid, refusing to infer bad faith unless a lawyer's actions were "so completely without merit as to require" such a conclusion. The Court also refused to allow concerns about AlphaCap's business model as a non-capitalized, non-practicing entity pursuing quick settlements to support a § 1927 award, again leaving such concerns to Rule 11. Likewise, the Court rejected the selection of a proper venue (here, the Eastern District of Texas), even if ultimately found less convenient, as supporting such an award. Finally, it rejected the district court's reliance on a refusal to settle or grant a covenant not to sue to justify an award against a lawyer, because settlement is a decision in the client's purview.

Judge Wallach dissented, accusing the majority of substituting its own factual findings for those of the district court and concluding that the district court had not based its award on an erroneous view of the law or facts. Gust, Inc. filed a petition for rehearing *en banc*, which was denied on Dec. 19, 2018.

DAMAGES/ROYALTIES/LICENSING

Foreign Lost Profits for U.S. Manufactured Components Stay Afloat.

WesternGeco LLC v. ION Geophysical Corp., 138 S. Ct. 2129, 201 L. Ed. 2d 584 (June 22, 2018) (Gorsuch and Breyer dissenting)

The Supreme Court of the United States, reversing the US Court of Appeals for the Federal Circuit, held that WesternGeco's award for lost profits was a permissible domestic application of § 284 of the Patent Act, for infringement under 35 USC § 271(f).

Petitioner WesternGeco LLC owns patents for a system used to survey the ocean floor. Respondent ION Geophysical Corp. began selling a competing system that was built from components manufactured in the United States, shipped to companies abroad, and assembled there into a system indistinguishable from WesternGeco's. WesternGeco sued for patent infringement under 35 U.S.C. §§ 271(f)(1) and (f)(2) and was awarded lost profits on foreign sales. Ion appealed and the Federal Circuit reversed, reducing the extraterritorial damages, reasoning that § 271(f) does not allow patent owners to recover for lost foreign profits in light of *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S.Ct. 1923 (June 13, 2016).

The Supreme Court applied the 2-prong test set forth in *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090 (June 20, 2016) when analyzing 35 U.S.C.A. 284. Courts presume that federal statutes apply only within the territorial jurisdiction of the United States. The first step in deciding questions of extraterritoriality of a statute asks whether the presumption against extraterritoriality has been rebutted; it can be rebutted only if the text provides a clear indication of an extraterritorial application. If the presumption against extraterritoriality of a statute has not been rebutted, the second step of the framework for deciding questions of extraterritoriality asks whether the case involves a domestic application of the statute; courts make this determination by identifying the statute's focus and asking whether the conduct relevant to that focus occurred in United States territory (such as manufacturing of components). If the conduct relevant to the focus of a statute occurred in United States territory, then the case involves a permissible domestic application of the statute. The Supreme Court noted that courts have the discretion to begin at step two in appropriate cases, such as when addressing step one would require resolving difficult questions that do not change the outcome of the case, but could have far-reaching effects in future cases.

The Court reasoned that for purpose of deciding questions of extraterritorial application of Patent Act's damages provision, "the infringement" is the focus in 35 USC § 284. Ion's infringing conduct under 35 USCA § 271(f) was the domestic act of supplying infringing components it manufactured in the United States for export overseas, which were then to be assembled into systems indistinguishable from WesternGeco's patented systems.

Under Patent Act's damages provision, a patent owner is entitled to recover the difference between its pecuniary condition after the infringement, and what its condition would have been if the infringement had not occurred, which can include lost profits including lost foreign profits. Justices Gorsuch and Breyer dissented arguing that patent owners should not receive lost profits on foreign sales because U.S. patent law has no legal force in extraterritorial jurisdictions.

Practice note: The Supreme Court's ruling in WesternGeco established that patent owners are entitled to foreign lost profits when an infringer manufactures components in the U.S. and ships them oversees for sale.

Walk Carefully at This Intersection: Willful Infringement ≠ Enhanced Damages

Polara Engineering Inc. v. Campbell Company, 894 F.3d 1339 (Fed. Cir., July 10, 2018) (Lourie, J).

The US Court of Appeals for the Federal Circuit reversed an award of enhanced damages even while affirming a jury finding of willfulness (based on substantial evidence), explaining that the award was not adequately explained by the district court. The Court also found that substantial evidence of experimental use trumped any public use bar.

Polara sued Campbell for infringement of its patent directed to a two-wire, push-button control system for crosswalk stations for pedestrian use at signal-controlled intersections. Polara's Pedestrian Accessible Signal System (APS) produced visual, audible and tactile signals. Prior to the critical date, and subject to agreements with a municipality that did not include a confidentiality clause, Polara tested two prototypes that satisfied the limitations of the asserted claims. The early installation prototypes failed, and during the testing period, Polara made modifications to its system. A later prototype was installed in a Canadian municipality (subject to harsher weather conditions) pursuant to an agreement that did include confidentiality strictures. However, Polara witnesses testified that they did not tell anyone from the municipalities how the prototype worked, and that a person could not determine how the device worked once it was installed merely by looking at it.

After Campbell developed both a three-wire and two-wire APS, it consulted with patent counsel, who noted that at least one claim of the Polara patent was not limited to a two-wire system and that there were "areas of potential conflict" with the Polara patent.

At the district court, Campbell argued that the patent was invalid because Polara had tested prototypes prior to the critical date at public intersections. The jury found that the asserted claims were not invalid and that Campbell willfully infringed. The district court denied Campbell's post-trial motion for judgment as a matter of law on validity, concluding that the invention was not subject to the public use bar, and granted Polara's motion to enhance damages on the basis that five of the nine *Read* factors favored an award of enhanced damages, two of the factors weighed against enhancement, and two of the factors were neutral. Campbell appealed.

The Federal Circuit rejected Campbell's public use argument, noting first that the bar is triggered where, prior to the critical date, the invention is in public use and ready for patenting. However, the bar is not triggered where an inventor tests the claimed features to determine if the invention works for its intended purpose, even if the testing occurs in public. The Court, quoting extensively from the venerable 1877 Supreme Court of the United States decision in *City of Elizabeth v. American Nicholson Pavement*, found there was substantial evidence to support the jury's finding of experimental use because Polara needed to test the claimed features of the devices at actual crosswalks of different configurations to ensure they were safe.

The Federal Circuit also found that substantial evidence supported the jury's finding of willful infringement. However, citing the 2016 Supreme Court cases *Halo* (*IP Update*, Vol. 19, No. 6) and *WesternGeco*, the Federal Circuit explained that the district court erred by not adequately explaining its decision to enhance damages:

After *Halo* and under *Read*, the "closeness of the case" remains a relevant consideration for determining the appropriateness of enhancement. Here, the district court awarded almost the maximum amount of enhanced damages, but did not adequately explain its basis for doing so, and failed to even mention Campbell's public use defense, which presented a close question in this case.

The Federal Circuit reversed and remanded to the district court with instructions to provide a more complete explanation of its decision on whether to enhance damages, including a discussion of the public use defense. Polara satisfied its judgment obligations on November 19, 2018.

Entire Market Value Rule & Apportionment

Entire Market Value Rule: Patented Feature Must Be Sole Driver for Consumer Demand

Power Integrations, Inc. v. Fairchild Semiconductor International Inc., 894 F.3d 1258 (Fed. Cir., Jul. 3, 2018) (Dyk, J); *Power Integrations, Inc. v. Fairchild Semiconductor International Inc.*, 904 F.3d 965 (Fed. Cir., Sept. 20, 2018) (Dyk, J).

The US Court of Appeals for the Federal Circuit vacated a jury's damages award, finding that the entire market value rule could not be used to calculate damages since the patented feature did not drive demand for the product.

Power Integrations and Fairchild both manufacture power supply controller chips used in chargers for electronic devices, such as cellphones and laptops. Power Integrations owns a patent directed to switching regulators that direct power delivery and sued Fairchild asserting infringement of that patent. At trial, based on damages testimony that relied on the entire market value rule, a jury awarded Power Integrations approximately $140 million in damages. After trial, Fairchild moved for judgment as a matter of law, or in the alternative, a new trial, arguing that the damages award was not supported by substantial evidence and that the use of the entire market value rule was improper. The district court denied the motion. Fairchild appealed.

On appeal, Fairchild argued that the damages award should be vacated because it improperly used the entire controller chip, and not just the patented feature, as the royalty base. Power Integrations responded, arguing that its expert properly used the entire controller chip as the royalty base, thus satisfying the entire market rule since:

- The patented feature was essential to some customers.
- Some customers asked for the patented feature.
- Products with the patented feature outsold products without the patented feature.
- Technical marketing materials promoted the patented feature.

The Federal Circuit agreed with Fairchild, vacating the damages award and finding that when a product contains other valuable features, the patentee must prove that those other features did not influence purchasing decisions. The Court noted that both parties agreed that the accused products contained other valuable features, including technology that is the subject of a separate lawsuit over different patents. Given these other features, the Court concluded that Power Integrations "did not meet its burden to show that the patented feature was the sole driver of consumer demand, *i.e.* that it alone motivated consumers to buy the accused products." The Federal Circuit explained that "the entire market value rule is appropriate only when the patented feature is the sole driver of customer demand or substantially creates the value of the component parts."

After the original decision, Power Integrations filed for rehearing *en banc*, arguing that the Federal Circuit had announced a new test for the entire market value rule, which for the first time requires the patentee to prove a negative: "[w]hen a product contains other valuable features, the patentee must prove that those features did not influence purchasing decisions." Power Integrations argued that this test had never been stated previously by the Court, was not supported by precedent, and overruled the holdings of at least three prior panel decisions. Thus, Power Integrations requested en banc review to reconcile the panel split. Fairchild opposed the petition for rehearing en banc.

The Federal Circuit denied the petition for rehearing en banc but issued a modified opinion. The modifications address the concerns raised by Power Integrations by only requiring that the patent holder show that the non-patented features do not cause consumers to purchase the product. The specific changes to the opinion are as follows:

- "Where the accused infringer presents evidence that its accused product has other valuable features beyond the patented feature, the patent holder must establish that these features are not relevant to consumer choice do not cause consumers to purchase the product."
- "When the product contains other valuable features, the patentee must prove that those other features did not influence purchasing decisions do not cause consumers to purchase the product."

Practice Note: Given the stricter "sole driver of demand" requirement outlined in *Power Integrations*, district courts are likely to be increasingly wary of allowing entire products to be used as the royalty base. However, it might be possible to apportion damages through the royalty rate while still using the entire product as the royalty base, as suggested by the Federal Circuit in *Exmark Manufacturing Company Inc. v. Briggs & Stratton Power Products Group, LLC* (*IP Update,* Vol. 21, No. 2) and *Ericsson, Inc. v. D-Link Systems, Inc*.

Under the modified ruling, in order to satisfy the entire market value rule, patent holders must show that non-patented features do not cause consumers to purchase the product. This appears to be a less stringent standard than the holding in the original opinion, which required patent holders to prove that non-patented features did not influence purchasing decisions. Power Integrations filed a petition for writ of *certiorari* (currently pending) on Dec. 19, 2018.

Apportionment Must Reflect No More than Invention's Incremental Value

Finjan, Inc. v. Blue Coat Systems, Inc., 879 F.3d 1299 (Fed. Cir., Jan. 10, 2018) (Dyk, J).

The US Court of Appeals for the Federal Circuit reinforced its guidance on infringement damages, remanding in part a jury's award for further consideration of the proper apportionment. Finjan sued Blue Coat Systems for infringing four malware identification and protection patents. A jury found that Blue Coat infringed the patents, and awarded $39.5 million in reasonable royalty damages. Blue Coat appealed.

The Federal Circuit affirmed the jury's infringement finding for two of the three patents appealed, but concluded that Blue Coat was entitled to judgment as a matter of law of non-infringement for the third patent.

As for the damages award, Blue Coat argued that Finjan failed to appropriately apportion damages to the infringing functionality in the accused products when calculating the royalty base for the damages award for one of the asserted patents. Apportionment is required when the accused technology makes up only part of the accused product, since the ultimate combination of royalty base and royalty rate must reflect the value attributable to the infringing features of the product, and no more.

The Federal Circuit agreed with Blue Coat, finding that Finjan did not satisfy its burden of proving damages by a preponderance of the evidence for one of the patents. The Court found that despite establishing a royalty base from the "smallest, identifiable technical component," Finjan missed the essential requirement that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product. The Court remanded to the district court for consideration of apportionment, whether Finjan waived the right to establish reasonable royalty damages under a new theory, and whether to order a new trial on damages as appropriate. The parties subsequently settled, and the case was dismissed with prejudice.

Standard Essential Patent License

SEP Rights Holder Must License All Comers

Fed. Trade Comm'n v. Qualcomm Inc., No. 17-CV-00220-LHK, 2018 WL 5848999 (N.D. Cal. Nov. 6, 2018) (Koh, J).

A federal district court in California granted partial summary judgment for the Federal Trade Commission (FTC) and ordered a standard essential patent (SEP) holder to license its intellectual property for cellular communication standards to all willing applicants.

The decision requires Qualcomm to license its alleged SEPs to all comers, regardless of whether they make component products or end-devices, and represents a significant victory for the FTC in enforcing its view of an SEP holder's commitments to license patents on fair, reasonable and non-discriminatory (FRAND) terms.

The FTC sued Qualcomm in 2017, alleging that the company violated Section 5 of the FTC Act by refusing to license its alleged SEPs to other modem chip suppliers in violation of industry agreements, thus ensuring that customers had to rely on Qualcomm for their modem chip supply. Section 5 of the FTC Act prohibits "unfair methods of competition in or affecting commerce." 15 USC § 45(a)(1). According to the FTC, Qualcomm then used its position as a "dominant supplier" of modem chips to require customers to license Qualcomm's alleged SEPs for "elevated royalties." In August 2018, the FTC filed a motion for partial summary judgment to determine whether two agreements with industry standard-setting organizations (SSOs) required Qualcomm to license its alleged SEPs to all comers on FRAND terms.

Qualcomm holds patents that facilitate cellular connectivity through networks that implement cellular communication standards and that are alleged as SEPs. Industry SSOs develop and manage these standards and often incorporate patented technology into the standards they adopt. To avoid conferring market power on the patent holder, SSOs have intellectual property rights (IPR) policies that require members to make assurances that any SEPs incorporated into industry standards will be licensed to all applicants on FRAND terms. Qualcomm is a member of two telecommunications SSOs, both of which maintain IPR policies. The parties did not dispute that Qualcomm made several commitments to license SEPs on FRAND terms and that those commitments constituted binding contracts. Rather, Qualcomm asserted that the policies only required it to license its SEPs to suppliers of end-devices—not those that manufactured components.

The court considered Qualcomm's statements to the SSOs and the SSOs' IPR policies. The court rejected Qualcomm's contention that the policies contained limitations that did not require it to license its alleged SEPs to component manufacturers. Rather, the court found that the plain text of the policies required patent holders to license SEPs to "all applicants" or "any applicant" that commit(s) to paying a FRAND rate. The policies did not contain any limitations as to which entities could receive a license. Nor did the policies specify that only applicants that "practice" or "implement" *whole* standards could receive licenses. In fact, the policies contemplated that an applicant could receive a license to practice a portion of the standard or for the purpose of implementing a standard.

The court also analyzed companion guidelines that explained the intent behind the SSOs' IPR policies. The guidelines for one SSO explained that an SEP holder's FRAND commitments prevent an SEP holder from "securing a monopoly in *any* market" as a result of including patented technology in a standard. Thus, the court concluded that if a patent holder could discriminate against component suppliers, it could achieve a monopoly in the component market and limit competing implementations of those components. Moreover, the court found that Qualcomm had licensed its alleged SEPs to another component supplier and that Qualcomm itself had received licenses to supply components. Therefore, the SSO IPR policies required Qualcomm to license its alleged SEPs to component modem chip suppliers.

Practice Note: This decision may affect how SEP holders license their patents in the future. Going forward, SEP holders must review any FRAND commitment and ensure that they are adhering to their agreed willingness to license their SEPs to any potential implementer. The ruling may also affect royalty structures by restructuring licensing negotiations from the end-device (or integrator) level to the components level, resulting (subject to exhaustion, allocation and indirect infringement principles) in a proliferation of licenses from the SEP holder, *i.e.*, throughout the supply chain. Subject to exhaustion principles, integrators *and* component manufacturers will both have to ensure that they have sufficient SEP license scope so that their products (*i.e.*, either an integrated device or a component of it) will not be subject to attack by an SEP holder.

Failure to Disclose Patent Application to Standards Body May Create Implied Waiver Defense

Core Wireless Licensing S.A.R.L. v. Apple Inc., 899 F.3d 1356 (Fed. Cir., Aug. 16, 2018) (Bryson, J).

The US Court of Appeals for the Federal Circuit, in reversing (in part) a district court's rejection of an implied waiver defense, concluded that a patent may be unenforceable where the patent owner failed to disclose a prior patent application.

Core Wireless sued Apple for infringement of its patents related to improvements in the way mobile devices communicate with base stations. For one of the patents, Apple asserted that the patent was unenforceable due to an implied waiver. The trial court held a short supplemental bench trial to specifically address the issue.

In 1997 and 1998, European Telecommunications Standards Institute (ETSI), a global standards organization, developed technical proposals to address a problem of propagation delay in GPRS networks. The inventor of the patent, a Nokia employee, prepared an invention report for Nokia that described the invention's technical attributes. The invention report stated that the functionality in the patent was not yet stated in the GPRS specifications. The report asserted that Nokia's competitors would likely want to use the invention because it would be added to the GPRS specification. Nokia submitted the proposal to the ETSI working group. Ultimately, ETSI rejected Nokia's proposal in favor of another.

The same month Nokia submitted its proposal to ETSI, it filed a Finnish patent application based on the invention, to which the asserted US patent claims priority. The Finnish application was not disclosed to ETSI. Apple argued that Nokia had an obligation to disclose the Finnish patent application to ETSI when it advanced its proposed revision of the standard. Apple asserted that since the Finnish application was not disclosed to ETSI, Nokia waived its right to enforce the patent. Since Nokia waived its right, Apple asserted that Core Wireless, the successor-in-interest to the patent, had no right to sue.

The district court issued an order addressing the implied waiver issue in a single paragraph, finding that Nokia did not have a duty to disclose the Finnish application for two reasons: "(1) Nokia's proposal was rejected; and (2) the patent claims were not finalized until 2002. Nokia disclosed the patent in 2002, shortly after it could point to the contours of its [intellectual property rights] with specificity because the claims were allowed." The district court also noted that Apple presented no evidence that an ETSI member or other entity interpreted Nokia's failure to disclose the Finnish patent as evidence that Nokia relinquished its patent rights, and ultimately rejected Apple's theory of implied waiver. Apple appealed.

The Federal Circuit rejected the district court's finding that Nokia did not have a duty to disclose its patent application because its proposal was rejected as unsupported by the evidence. Rather, as the Court noted, "ETSI's intellectual property rights policy states that the disclosure requirement attaches to a member 'submitting a technical proposal' if that party has intellectual property that '*might*' be essential '*if* that proposal is adopted.'" As the Court noted, the "district court's interpretation of the policy would undermine the very purpose of disclosure," *i.e.*, to permit the standards-setting decision makers to make an informed choice about whether to adopt a particular proposal.

Rather, an ETSI member's duty to disclose a patent application on particular technology attaches at the time of the proposal and is not contingent on ETSI ultimately deciding to include that technology in an ETSI standard. The Federal Circuit further concluded that the district court erred in limiting the ETSI disclosure requirement to issued patents, finding that it expressly applied to applications as well.

Finally, the Federal Circuit found the district court's determination that there was no evidence that the ETSI members understood Nokia to have intended to waive its patent rights to be irrelevant: "there is no requirement under the implied waiver doctrine that a third party must interpret the patentee's conduct as constituting a waiver of its rights to enforce the patent; such analysis is more relevant to equitable estoppel."

The Federal Circuit remanded the matter back to the district court for it to consider whether Nokia benefited from the failure to disclose, noting that "in some circumstances courts have held that an equitable defense will not be recognized if the offending party did not gain a benefit from its wrongdoing." It also directed the court to consider the basic fairness of the equitable remedy in terms of whether Nokia/Core Wireless' conduct was sufficiently egregious to justify a finding of implied waiver. The remand is pending. 5:15-cv-05008 (N.D. Cal).

Non-Accused Products Are Not a Measure of Patent Damages

Enplas Display Device Corp. v. Seoul Semiconductor Co., Ltd., Case. No. 16-2599 (Fed. Cir., Nov. 19, 2018) (Stoll, J) (Newman, J, concurring-in-part and dissenting-in-part).

Addressing anticipation, inducement and reasonable royalty damages, the US Court of Appeals for the Federal Circuit upheld denials of the accused infringer's motions for judgment as a matter of law (JMOL) of anticipation and no inducement, but vacated the damages award because the patentee's damages theory considered non-accused products in the royalty base.

Seoul Semiconductor Company (SSC) owns two patents directed to providing uniform backlighting for display panels. SSC and Enplas Display Device (EDD) collaborated to make lenses for SSC's backlighting devices (light bars). SSC informed EDD that light bars including the lenses were covered by SSC's patents. Nonetheless, EDD sold the lenses to other light bar manufacturers, and some of the resulting light bars were incorporated in products that were sold in the United States. After SSC sent EDD a cease and desist letter, EDD filed an action for declaratory judgment that the SSC patents were invalid and not infringed. SCC counterclaimed for infringement and sought damages.

The first SSC patent claims a backlighting method involving, among other things, mounting plural light sources on the internal bottom wall of the device. The district court granted summary judgment that the first patent was not anticipated by prior art that disclosed a backlighting method involving light sources disposed around the periphery of the cavity.

The parties tried the issue of anticipation of the second patent. At trial, SSC's technical expert presented testimony that the alleged prior art did not disclose certain limitations of SSC's second patent. The jury subsequently returned a verdict that the second patent was not anticipated. EDD moved for JMOL of anticipation, which the district court denied. EDD appealed the summary judgment as to the first patent and the denial of JMOL as to the second.

The Federal Circuit unanimously affirmed both judgments. Regarding the first patent, EDD argued that the prior art permitted the light sources to be disposed around the periphery of the internal bottom wall as opposed to the side walls of the cavity, but the Court characterized this as a modification of the prior art that might support an obviousness theory but could not support anticipation. As to the second patent, the Court determined that SSC's expert testimony constituted substantial evidence supporting the jury verdict.

At trial, SSC presented evidence that, among other things, EDD was aware of SSC's patents and aware that it had a 50 percent global market share, including substantial sales in the United States. The jury found that EDD had induced infringement of SSC's patents. EDD moved for JMOL, which the district court denied. On appeal, EDD argued that its foreign sales of lenses could not evince a specific intent to infringe SSC's patents in the United States. Unpersuaded, the Federal Circuit unanimously found that EDD's awareness of its US market share, combined with the other evidence presented, was sufficient evidence—even if circumstantial—for the jury to find that EDD had the requisite specific intent to create direct infringement in the United States. Accordingly, the Court affirmed the denial of JMOL as to inducement.

SSC's lump-sum reasonably royalties theory was based on the argument that, because EDD sold or might sell potentially infringing (but non-accused) devices, EDD would have sought a freedom-to-operate license for all actually and potentially infringing devices in order to avoid future uncertainty and potential further litigation. According to SSC's damages expert, the reasonable royalty for the accused devices alone would have amounted to a lump sum of $570 million, but SCC would have paid a premium to secure a freedom-to-operate license, bringing the total sum to between $2 million and $4 million, depending on the volume of potentially infringing devices. EDD brought a *Daubert* challenge on which the district court deferred judgment, instructing EDD to instead file a motion in *limine*. EDD moved in *limine*, but the district court denied the motion. SSC's expert presented her theory at trial, and the jury returned a damages award of $4 million. EDD moved for JMOL that the award was excessive, which the district court denied. EDD appealed the issue.

On appeal, the majority of the Federal Circuit panel held that SSC's damages theory was impermissible because it included non-accused products in the royalty base. Thus, the Court held that substantial evidence did not support the jury's damages award, which the Court vacated.

In dissent, Judge Newman characterized EDD's appeal of the denial of JMOL (reviewed *de novo*) as a disguised appeal of the district court's evidentiary rulings (reviewed for abuse of discretion) and therefore improper. In *dicta*, Judge Newman further described SSC's damages theory as a proper reflection of real-world business considerations, which may be considered in the hypothetical negotiation.

Seoul Semiconductor filed a petition for rehearing en banc with the Court of Appeals on December 19, 2018. In it, they argue that their expert's reliance on revenue from non-*accused* products is acceptable and not the same as expert reliance on revenue from non-*infringing* products (which is prohibited under *AstraZeneca AB v. Apotex Corp.*, 782 F.3d 1324 (Fed. Cir., 2015)). They also argue that the court improperly ruled on admissibility of evidence on appeal rather than the substantiality of evidence and this contradicts *Versata Software, Inc. v. SAP Am., Inc.*, 717 F.3d 1255 (Fed. Cir., 2013). This petition is currently pending.

Practice Note: It is unclear whether *Enplas* signals the Court's willingness to consider the propriety of damages theories under the *de novo* standard. Counsel deciding whether to appeal a district court's evidentiary rulings or denial of JMOL should balance the risk of being seen to improperly challenge the wrong issue with the reward of appellate review under a more favorable standard.

COPYRIGHTS

DMCA

Innocent Until Proven Knowledgeable

Stevens v. CoreLogic, Inc., 899 F.3d 666 (9th Cir. 2018) (Berzon, J).

The US Court of Appeals for the Ninth Circuit clarified the requirements of § 1202 of the Digital Millennium Copyright Act, particularly with respect to copyright management information (CMI), holding that this section was specifically drafted to limit liability to actors who "know or have reason to know that [their] acts 'will induce, enable, facilitate or conceal'" infringement.

Copyright law restricts the removal or alteration of CMI, which includes information such as the title, author, copyright owner, terms and conditions for use of the work, and other identifying information set forth in a copyright notice or conveyed in connection with the work. 17 USC § 1202(b)-(c).

This case involves Exchangeable Image File Format (EXIF) and IPTC metadata, both of which can contain CMI under the copyright statute. Most digital cameras use EXIF metadata to store information about when the photograph was taken and under what technical conditions (*e.g.*, shutter speed, aperture). IPTC metadata is added manually, either by programming the camera or by adding the information after taking the picture using photo editing software, and can include the title of the image, a caption or description, keywords, information about the photographer and copyright restrictions. Fields such as Author/Creator, Copyright and Caption/Description can exist in both EXIF and IPTC formats.

The plaintiffs are two professional real estate photographers who take photographs of listed properties and license these photographs to real estate agents, who in turn upload the photographs to Multiple Listing Services (MLS), a computerized database of listed properties. The plaintiffs sued CoreLogic, a company that develops and provides software to MLS, alleging that CoreLogic removed CMI from their photographs and distributed the altered photographs in violation of § 1202(b)(1)-(3). Because of the size of image files, CoreLogic's MLS software resizes images to reduce storage size and to improve upload speed on webpages, using software that is unable to read or write EXIF data. Thus, this process results in the loss of metadata attached to images. The suit does not relate to *visible* CMI, such as digital watermarks, which CoreLogic's software does not remove from the photographs. Rather, the case is limited to removal of metadata. Following a grant of summary judgment by the district court, plaintiffs appealed.

On appeal, the Ninth Circuit focused its analysis on the knowledge requirement of § 1202, which provides: "No person shall, without the authority of the copyright owner or the law . . . intentionally remove or alter any copyright information . . . *knowing, or . . . having reasonable grounds to know, that it will induce, enable, facilitate, or conceal an infringement* of any" copyright. § 1202(b)(1) (emphasis added). Similarly, § 1202(b)(3) provides: "No person shall, without the authority of the copyright owner or the law . . . distribute, import for distribution, or publicly perform works, copies of works, or phonorecords, knowing that copyright management information has been removed or altered without authority of the copyright owner or the law, knowing, or . . . *having reasonable grounds to know, that it will induce, enable, facilitate, or conceal an infringement* of any" copyright (emphasis added).

The legislative history of § 1202 demonstrates that the provision was drafted to specifically limit liability to actors who "know or have reason to know that [their] acts 'will induce, enable, facilitate or conceal" infringement. Thus, the Ninth Circuit found that a plaintiff bringing a claim under this section must make an affirmative showing, such as by demonstrating a past "pattern of conduct" or "modus operandi," that the defendant was aware of the probable future impact of its actions.

The Court found that plaintiffs failed to offer any evidence to satisfy the mental state requirement in § 1202. Instead, the photographers merely alleged that, because one method of identifying an infringing photograph had been impaired, someone *might* be able to use their photographs undetected. Lacking any specific evidence that removal of CMI metadata from the real estate photographs would impair the plaintiffs' policing of infringement, thus making future infringement likely to occur as a result of the removal or alternation of the CMI, the Ninth Circuit affirmed the grant of summary judgment.

Pornography Dispute Sheds Light on DMCA Safe Harbor Defense

Ventura Content, LTD. v. Motherless, Inc. and Joshua Lange, 885 F.3d 597 (9th Cir. 2018) (Kleinfeld, J) (Rawlinson, J, dissenting).

In a dispute pertaining to copyright infringement of pornographic films created by the plaintiff, the US Court of Appeals for the Ninth Circuit affirmed the district court's grant of summary judgment in favor of a defendant website that displays pornographic images and videos uploaded by the site's users, finding that defendant qualified for the safe harbor defense to copyright infringement under § 512(c) of the Digital Millennium Copyright Act (DMCA).

Ventura Content creates and distributes pornographic films. Ventura sued Motherless for copyright infringement when 33 clips from Ventura's films were posted to Motherless.com by the site's users. Motherless.com's terms of use prohibit certain user uploads, including copyright-infringing material. The terms of use also invite copyright owners to submit takedown notices for infringing content that appears on Motherless.com, and offer the ability to remove infringing content directly through a software tool provided by Motherless.

Ventura did not utilize takedown notices or the Motherless direct removal software before filing suit against Motherless for copyright infringement and requesting an injunction and damages. After being served with the lawsuit, Motherless deleted the infringing clips from its website once it obtained a list of the applicable URLs from Ventura, thus making the injunction claim moot. The district court granted summary judgment in favor of Motherless on the federal copyright claim under the safe harbor provision of the DMCA.

Section 512(c) of the DMCA provides a safe harbor provision that protects website service providers from liability for unintentional copyright infringement due to the service providers' storage and hosting of copyrighted material posted "at the direction of" a third-party user so long as the service providers follow the notice and takedown requirements as set forth in the Act, including expeditious takedown of known infringement and termination of repeat infringers. On appeal, Ventura challenged Motherless's compliance with various requirements of the statute to argue that Motherless was not eligible for safe harbor protection.

First, Ventura argued that content at Motherless was made available "at the direction" of Motherless itself, and not its users. Citing § 512(m) of the DMCA, as well as its 2013 decision in *UMG Recordings, Inc. v. Shelter Capital Partners LLC* (*IP Update*, Vol.16, No.4), the Ninth Circuit disagreed and concluded that material at Motherless is in fact posted at the direction of users, and that Motherless did not forfeit safe harbor protection by screening for and removing illegal content, such as child pornography, or by organizing content into various categories, including "Most Popular."

The Ninth Circuit again cited *UMG* when rejecting Ventura's claims that Motherless had actual or apparent knowledge of infringing content on the website, stating that "hosting material capable of copyright protection, with the general knowledge that the site could be used to share infringing material is not enough to impute knowledge." Despite the fact that Motherless reviewed user uploads before posting them, the court determined that because the Ventura clips had no copyright ownership notice or any other indication that Ventura owned the copyright, it would not be obvious to a reasonable person that the Ventura clips were infringing to impart such actual or apparent knowledge of infringement. Moreover, the Court found that Motherless's removal of the Ventura content after being served with the lawsuit was sufficiently "expeditious" to comply with the safe harbor requirements.

The Ninth Circuit also quickly dismissed Ventura's claims that Motherless had the "right and ability" to control the infringing activity and received a financial benefit "directly attributable" to the infringing activity, finding no evidence that Motherless made any money directly from the Ventura clips. The Court also determined that the record included evidence that Motherless adopted and reasonably implemented a policy of terminating repeat infringers, despite having no written "details of the termination policy" and no employees to share the details with. Ultimately, the Court concluded that Motherless qualified for the DMCA safe harbor defense to copyright infringement, and affirmed the grant of summary judgment in favor of Motherless.

Judge Rawlinson issued a dissent, stating that there were triable issues of material fact as to whether Motherless properly complied with the requirements under the statute regarding the existence of a repeat infringer policy and the reasonableness of actions taken by Motherless to terminate repeat infringers. Petition for writ of *certiorari* to the United States Court of Appeals for the Ninth Circuit was denied on October 29, 2018.

INFRINGEMENT

IP Address Subscriber Not Liable for Copyright Infringement

Cobbler Nevada, LLC v. Thomas Gonzales, 901 F.3d 1142 (9th Cir. 2018) (McKeown, J).

In a case involving the infringing download and distribution of plaintiff's film through peer-to-peer BitTorrent networks, the US Court of Appeals for the Ninth Circuit affirmed a district court's dismissal of plaintiff's infringement claim under the Copyright Act, holding that the bare allegation that the defendant was the registrant of an Internet Protocol (IP) address associated with infringing downloads was insufficient to state a claim for direct or contributory infringement.

Cobbler Nevada traced infringing downloads of its copyrighted film, *The Cobbler*, to the IP address of an adult foster care home. During its investigation of the downloads, Cobbler learned that the foster home's internet service provided through its IP address is available to both residents and visitors. Yet Cobbler filed suit against the foster home's operator, Thomas Gonzales, as the listed registrant of the IP address.

The district court dismissed Cobbler's claims, holding that Gonzales's status as a registered subscriber of an infringing IP address did not alone create a reasonable inference that he was also the infringer, since multiple devices and individuals were able to connect via the single IP address. The district court also rejected Cobbler's claims of contributory infringement because there were no allegations of intentional encouragement or inducement of infringement.

On appeal, in holding that the district court properly dismissed Cobbler's claim of direct copyright infringement, the Ninth Circuit affirmed that simply establishing an account for an IP address does not mean the subscriber is even accessing the internet. The Court stated that it recognized Cobbler's challenge in naming the correct defendant, but this did not change Cobbler's burden to plead facts that created a reasonable inference that Gonzales was the infringer. The Court further noted that this outcome should not come as a surprise to Cobbler, since Cobbler acknowledged that its independent investigation did not identify a specific party likely to be the infringer.

As to Cobbler's claim of contributory infringement, the court observed that the claim was improperly premised on a "bare allegation" that Gonzales failed to police his internet service. The Court then outlined its jurisprudence on the issue of contributory infringement through its decisions in the *Sony* and *Grokster* cases, and explained that in the absence of evidence of intent, it could not find liability for contributory infringement based only on the failure to prevent infringement if the device at issue was otherwise capable of "substantial noninfringing uses."

On the first prong of the test, the Court found that Cobbler's complaint did not show that Gonzales actively encouraged or induced infringement through intentional acts. For the second prong, the court held that providing internet access does not equate to distribution of a product or service that is "not capable of substantial . . . or commercially significant noninfringing uses." Thus, the court refused to impose a precedent that creates an affirmative duty for internet subscribers to actively monitor their internet service for infringement.

Finally, the Ninth Circuit found that the district court did not abuse its discretion by awarding attorneys' fees for Gonzales, noting that Cobbler's decision to name Gonzales in the complaint even after concluding that he was not a regular occupant of the foster home residence or a likely infringer was unreasonable and therefore justified the imposition of the fees. Thus, the copyright infringement complaint was dismissed and the fee award upheld.

Blurred Lines Songwriters Have Got to Give It Up for the Gaye Family

Pharrell Williams, et al. v. Frankie Christian Gaye, et al., 895 F.3d 1106 (9th Cir. 2018) (Smith, J) (Nguyen, J, dissenting).

The US Court of Appeals for the Ninth Circuit affirmed in part and reversed in part a district court's judgment after a jury trial, ruling that the song "Blurred Lines" infringed Marvin Gaye's 1970s song "Got To Give It Up."

In 2012, Pharrell Williams and Robin Thicke wrote and recorded "Blurred Lines." After hearing the song, Marvin Gaye's family members, who had inherited the copyrights to Marvin's musical compositions, made an infringement demand on Williams and Thicke. Negotiations failed, and Williams and Thicke, along with Clifford Harris, Jr., who separately wrote and recorded a rap verse for "Blurred Lines," filed for a declaratory judgment of non-infringement. The Gayes counterclaimed alleging copyright infringement. The Gayes added UMG Recordings, Inc., its subsidiaries, and other publishing companies and record labels as third-party defendants, asserting that they were liable for their manufacture and distribution of the song. After the trial court denied Williams and Thicke's motion for summary judgment, the case went to trial.

The jury found that Williams and Thicke infringed the Gayes' copyright, but found Harris, the record labels and publishers not liable for infringement. The jury awarded the Gayes $7.3 million in actual damages and infringer's profits. After the trial, the district court denied Williams and Thicke's motion for judgment as a matter of law and for a new trial. The district court overturned the part of the jury verdict finding that Harris and the record labels should not be liable for infringement, and reduced the award to $5.3 million while adding royalties of 50 percent for future revenues received by Williams, Thicke and Harris. All parties appealed.

The Ninth Circuit addressed five issues on appeal. First, the Court rejected Williams and Thicke's challenge to the district court's denial of their motion for summary judgment. The Court stated that according to the 2011 Supreme Court of the United States case *Ortiz v. Jordan*, a party may not appeal an order denying summary judgment after a full trial on the merits. Second, the Court upheld the district court's damages award, finding that the royalty rate of 50 percent was not unduly speculative because it was based on the testimony of an expert with deep industry knowledge. Third, the court rejected the Gayes' challenge to the district court's denial of attorneys' fees, finding that the district court properly analyzed the discretionary factors as defined by the Supreme Court in its 2016 decision in *Kirtsaeng v. John Wiley & Sons, Inc.* (*IP Update*, Vol. 19, No. 7).

Fourth, in addressing Williams and Thicke's challenge of the district court's denial of their motion for a new trial, the Ninth Circuit found none of their arguments persuasive. Williams argued that the jury instructions regarding extrinsic similarity in terms of comparing the accused and copyrighted works were erroneous. The Court detected no defect, noting that the instructions on the whole made it clear that the jury could consider only elements in the sheet music deposit copy and that copying does not require deliberate or intentional copying. Rather, the Court explained that copying is usually proven thorough circumstantial evidence and substantial similarity. The Court found that it was proper for the jury to be instructed that it need not find all of the musical elements identified by the Gayes' expert witness to find infringement.

Williams further argued that the district court erred in admitting portions of the Gayes' expert testimony based on unprotectable elements of the Marvin Gaye song. The Ninth Circuit panel majority disagreed, finding that the district court properly allowed the experts to present their interpretations of sound recordings containing only what was included in the sheet music as required by the Copyright Act of 1909, to which the 1970s copyright was subject.

Finally, the Ninth Circuit reversed the part of the district court's holding overturning the jury and finding Harris and the other third-party defendants not liable, finding waiver because the defendants had failed to make a motion for judgment as a matter of law before the case was submitted to the jury as required under Rule 50(a). The defendants thus waived any consistency challenge in terms of the jury's general verdicts.

Judge Nguyen issued a strong dissent, stating that the decision allowed the Gayes to accomplish what no one has before: copyrighting a musical style. In her view, the two works were not objectively similar as a matter of law under the extrinsic test because they differed in melody, harmony and rhythm. She believed the majority established a dangerous precedent that strikes a devastating blow to future musicians and composers everywhere.

Foreign Broadcaster Infringed US Copyright Through Online Streaming

Spanski Enterprises v. Telewizja Polska, S.A., 883 F.3d 904 (DC Cir. 2018) (Tatel, J).

Addressing for the first time the issue of whether the US Copyright Act governs a performance that originated abroad but is accessible by viewers in the United States, the US Court of Appeals for the District of Columbia held that it does, affirming the district court's liability finding and its damages award of more than $3 million.

Telewizja Polska, S.A. (TV Polska), a Polish television broadcaster and owner, operator and creator of the television episodes at issue in this case (TVP Polonia Content), entered into a license granting Spanski Enterprises, Inc., the exclusive right to perform the TVP Polonia Content in North and South America, including via the internet. In accordance with this agreement, TV Polska used geoblocking technology to ensure that internet users in North and South America could not access TVP Polonia Content through its video-on-demand website. Spanski discovered, however, that some of the content (specifically, 51 episodes that Spanski had registered with the US Copyright Office) was not effectively geoblocked and was therefore accessible in North and South America via TV Polska's streaming website.

Spanski sued for copyright infringement, alleging that TV Polska violated Spanski's exclusive public performance rights in the 51 episodes. The district court found that TV Polska infringed Spanski's copyrights and awarded damages of $60,000 per infringed episode ($3.06 million total), doubling the statutory damages cap of $30,000 per infringed work based in part on its finding that TV Polska acted willfully to infringe Spanski's copyrights and had made it impossible to determine the actual damages by deleting certain records and altering evidence. TV Polska appealed.

TV Polska challenged the district court's finding that its employees intentionally removed the geoblocking technology and argued that, regardless, it would be the viewer(s) (and not TV Polska) that were liable for any infringement. Alternatively, TV Polska argued that the Copyright Act did not apply extraterritorially to conduct that occurred in Poland, and thus any liability finding would be an impermissible extension of US copyright law.

The DC Circuit rejected TV Polska's arguments, citing the Supreme Court of the United States case *American Broadcasting Cos. v. Aereo, Inc.* (2014) (*IP Update*, Vol. 17, No. 7) for the principle that both the broadcaster and the viewer "publically perform" the copyrighted work and can both be liable for copyright infringement. Further, the Court determined that the US Copyright Act applied because "the conduct relevant to the statute's focus occurred in the United States . . . even if other conduct occurred abroad." The Copyright Act aims to protect copyright holders' exclusive rights, including the public performance right. Accordingly, the US Copyright Act governed the performance of the TVP Polonia Content episodes, because the performance(s) occurred on US screens via online streaming, regardless of the fact that the content was uploaded in Poland. "Given the ease of transnational internet transmissions," to hold otherwise "would leave the door open to widespread infringement, rendering copyright in works capable of online transmission largely nugatory," the Court reasoned.

The Court likewise rejected TV Polska's challenge to the damages award, finding no basis to disrupt the district court's conclusion as to the number of episodes infringed or that the conduct was willful.

VALIDITY / DEFECTIVE REGISTRATION

"Everyday I'm Hustlin'" to Ensure Valid Registrations

Roberts, II v. Gordy, et al., 877 F.3d 1024 (11th Cir. 2017) (Titus, J, sitting by designation).

Addressing for the first time the 2008 amendment to the Copyright Act's effect on the standard for invalidating a copyright registration, the US Court of Appeals for the 11th Circuit held that a copyright registration may only be invalidated with a showing that the registration contained material inaccuracies and that the applicant had the "required scienter of intentional purposeful concealment."

Following a district court's dismissal of appellants' copyright infringement for lack of standing, an appeal was filed arguing that the copyright registrations were improperly invalidated under 17 USC § 411 because there was no showing of *scienter* for nullification of a copyright registration. Because the district court misapplied the test for invalidating copyright registrations by failing to assess *scienter*, the 11th Circuit reversed and remanded the district court's dismissal of the copyright infringement claim.

This action arose from a dispute between the authors of "Hustlin'," the classic rap song by Rick Ross (aka Mr. Roberts II), and Stegan and Skyler Gordy (collectively, the music group LMFAO). Specifically, appellants alleged that LMFAO's use of the line "everyday I'm shufflin'" in its song "Party Rock

Anthem" infringes on the lyric "everyday I'm hustlin'" from "Hustlin'." The present appeal focuses on three separate copyright registrations by the appellants, each of which is defective in some way.

As a result, the district court *sua sponte* raised the issue of ownership, even though LMFAO did not include this defense in its answer nor did it ever contest ownership. The 11th Circuit initially took issue with the district court's decision to assess the copyright registration's validity because the assessment of whether to invalidate the defective copyright registrations was an impermissible attempt by the district court to raise an affirmative defense that was likely waived by LMFAO.

In reversing the district court's finding that the copyright registrations were invalid, the 11th Circuit found that the district court misapplied the test for invalidity by not assessing the applicant's intent. To support this test, the Court cited to *St. Luke's v. Sanderson*, which cited to a 2008 amendment to the Copyright Act and to *Original Appalachian Artworks v. Toy Lot* to reaffirm that "intentional or purposeful concealment of relevant information" is required to invalidate copyright registration. The Court found the minor inconsistencies between the copyright registrations insufficient to show intent to deceive the Copyright Office. Therefore, the Court concluded that Rick Ross was "hustled" out of court on an improper basis of invalidity, and as such, he should be "shufflin'" back to have his day in district court. On remand, the district court applied the rebuttable presumption of copyright ownership that attends a valid copyright registration and granted summary judgment in part for the defendants on the ruling that the plaintiffs presented no evidence of beneficial ownership.

Supreme Court to Clarify Meaning of Registration under Copyright Act

Fourth Estate Public Benefit Corporation v. Wall-Street.com, 17-571 (Supr. Ct. Mar. 4 2019)

The US Supreme Court granted Fourth Estate Public Benefit Corporation's petition for *certiorari*. The question presented is:

> Whether the "registration of [a] copyright claim has been made" within the meaning of 17 U.S.C. § 411(a) when the copyright holder delivers the required application, deposit, and fee to the Copyright Office, as the U.S. Courts of Appeal for the 5th and 9th Circuits have held, or only once the Copyright Office acts on that application, as the U.S. Courts of Appeals for the 10th and, in the decision below, the 11th Circuits have held.

Fourth Estate is a news organization that produces online journalism, licensing articles to websites but retaining the copyright to the articles. Wall-Street.com, a news website, obtained licenses to a number of articles produced by Fourth Estate. The license agreement required Wall-Street to remove all of the content produced by Fourth Estate from its website before Wall-Street cancelled its account. However, when Wall-Street cancelled its account, it continued to display the articles produced by Fourth Estate. Fourth Estate filed a copyright infringement claim, alleging the suit was proper because Fourth Estate had filed applications to register the articles. Wall-Street moved to dismiss the complaint, arguing that the Copyright Act permits a suit for copyright infringement only after the Copyright Office approves or denies the application to register the copyright and simply filing an application does not permit the suit. The district court agreed, dismissing the complaint without prejudice and the Court of Appeals for the Eleventh Circuit affirmed the district court's decision. On *certiorari* in March 2019, the Supreme Court affirmed holding that registration of a copyright claim occurs, and a copyright claimant may commence an infringement suit, when the Copyright Office registers a copyright, not when a copyright owner submits the application, materials, and registration fee to the Copyright Office.

LICENSE SCOPE & AGENCY

Great Minds Don't Always Think Alike: License Limitations Must Be Explicit

Great Minds v. FedEx Office and Print Services Inc., 886 F.3d 91 (2d Cir. 2018) (Carney, J).

In addressing whether a non-exclusive copyright licensee was permitted to use a commercial printing service in furtherance of its "non-commercial" rights granted by a public license, the US Court of Appeals for the Second Circuit affirmed a Fed. R. Civ. Pro. 12(b)(6) dismissal, explaining that principles of agency law require express prohibitions in a license in order to restrict a non-exclusive licensee's use of commercial services in the exercise of its license.

Great Minds offers royalty-free licenses of its education materials to the public for non-commercial purposes. Great Minds asserts that its licenses should be read as including an explicit limitation against the employment of commercial print shops by the non-commercial licensees. Instead, Great Minds requires any commercial actor (*e.g.*, a commercial print shop) to seek its own negotiated license.

Great Minds sued FedEx, which had been printing the copyrighted materials subject to several school districts' non-commercial licenses and at the direction of the school districts in the exercise their non-commercial rights. It is not disputed that the licensed school districts only use FedEx commercial print services in furtherance of their educational (*i.e.*, non-commercial) activities. On FedEx's motion, the district court dismissed Great Minds' action for copyright infringement. Great Minds appealed, seeking *de novo* review.

In affirming the district court, the Second Circuit explained that "[a]pplying well-established agency principles, we conclude that licensees may use third-party assistance in exercising their rights under non-exclusive copyright licenses unless the license clearly states otherwise." Specifically, the Court focused on three aspects: (1) the text of the license, (2) the "downstream recipients" provision and (3) the reservation of rights.

First, the Court found that the license itself was not explicit as to the permissibility of employing third-party commercial services. The license terms simply allowed the licensee to "share" the material with "the public by any means or process that requires permission under the licensed rights." As construed by the Court, "the term 'share' encompasses the various types of reproduction and dissemination activities that require permission from the copyright holder; [but] does not expressly describe a right to enlist the services of third parties in performing those activities."

Next, the Second Circuit looked at the "downstream recipients" provision, which made each recipient of licensed materials capable of obtaining an identical license themselves, and found the clause unpersuasive in clearly prohibiting school districts from seeking FedEx's services because it failed to account for the *sine qua non* in a world of corporate entities—agency relationships. Under Great Minds' theory, not only would the downstream provisions purport to make each teacher and administrator its own independent licensee, it would also make an independent licensee out of other non-affiliated corporate entities and their respective individual employees. As the Court put it, "Great Minds fails to account for the mundane ubiquity of lawful agency relationships, in which 'one person, to one degree or another . . . , acts as a representative of or otherwise acts on behalf of another person.'" The Court found that such a radical deviation from the generally understood meaning of the license grant must be stated more explicitly.

Lastly, the Second Circuit looked to the catch-all reservation of rights provision in the license, noting "the unambiguous import of this provision is to reserve [Great Minds'] right to collect royalties from a licensee if the *licensee* exceeds the scope of a license by, for example, selling copies of the Materials" (emphasis in original). The Court found the argument that the licensee exceeded the scope of the license to have "little persuasive force, as it merely begs the question whether FedEx should properly be considered a licensee or an agent of the licensee school districts."

Accordingly, finding no explicit prohibition against the use of third-party commercial printing services in furtherance of the school district's non-commercial rights, the Second Circuit affirmed the district court's dismissal.

DERIVATION AND ORIGINALITY

No New Copyright for Digital Remasters

ABS Entertainment, Inc. v. CBS Corporation et al., 908 F.3d 405 (9th Cir. 2018) (Linn, J, sitting by designation).

The US Court of Appeals for the Ninth Circuit, in reversing a grant of summary judgment in favor of defendants, found that digitally remastered pre-1972 sound recordings were not entitled to protection under federal law as new copyrighted songs.

ABS owned several pre-1972 analog recordings of classic songs. It hired remastering engineers to remaster the songs onto digital formats using standard technical processes to create accurate reproductions of the analog recordings. CBS played the remastered songs through terrestrial radio broadcasts and digital internet streams without permission. For all of its broadcast content, CBS paid a royalty to the owner of the underlying musical composition. For the digitally streamed content, CBS paid the compulsory license fee under the Sound Recording Act to Sound Exchange. For content delivered by terrestrial radio, CBS paid no license fee.

As background to the legal issues presented, for many years sound recordings were not covered by federal copyright law. The compositions (music and lyrics) were covered under federal copyright law, but the actual recordings were not. In view of this gap in protection, many states created their own laws protecting sound recordings. In 1971, the Copyright Act was updated, and sound recordings were accorded protection, but only for songs recorded in 1972 or later. That left all songs recorded before 1972 protected only by a patchwork of state laws.

ABS filed a class action lawsuit, alleging that CBS was publicly performing pre-1972 songs in violation of California state law. CBS argued that the digitally remastered recordings were authorized original derivative works, subject only to federal copyright law and not protected under state law. The issue was whether a sound engineer's remastering, which involved subjectively and artistically altering the work's timbre, spatial imagery, sound balance and loudness range, but otherwise leaving the work unedited, was entitled to federal copyright protection.

CBS's expert posited that the remastering process involved originality and aesthetic judgment. ABS's expert testified that the remastered recordings embodied the same performance as the analog recording. The district court excluded ABS's expert testimony as "unscientific" and "irrelevant." Considering only CBS's expert testimony, the district court found no genuine issue of fact in dispute, determined that the remastered recordings were authorized derivative works governed only by federal copyright law, and granted summary judgment. ABS appealed.

The Ninth Circuit stated that a derivative work is copyrightable when it meets two criteria under the test set forth in *Durham Indus. v. Tomy*. The test asks "whether the derivative work is original to the author and non-trivial" and requires that the work does not hinder the original copyright owner's ability to exercise its rights. The Court analyzed case law from the 10th and Second Circuits and guidance from the Copyright Office before concluding that "it should be evident that a remastered sound recording is not eligible for independent copyright protection as a derivative work unless its essential character and identity reflect a level of independent sound recording authorship that makes it a variation distinguishable from the underlying work."

The Ninth Circuit noted that a digital file that does not add or remove sounds from the underlying recording, does not change the sequence of the sounds, and does not remix or otherwise alter the sounds in sequence or character, is likely to be nothing more than a copy—devoid of the authorship required for copyright protection.

The Ninth Circuit concluded that here, the district court applied an incorrect test for copyrightability and in doing so placed critical reliance on the testimony of CBS's expert. The Court noted that the purpose and effect of the remastering in this case was similar to a technical improvement and did not amount to a change in the essential character and identity of the sound recording. Rather, as the Court explained, a derivative sound recording identifiable solely by the changes incident to the change in medium generally does not exhibit the minimum level of originality to be copyrightable.

INJUNCTIVE RELIEF

Declaratory Judgment Action for Copyright Infringement Can Proceed Even If Defendant Doesn't Own Registration

Fastcase, Inc. v. Lawriter, LLC, 907 F.3d 1335 (11th Cir. 2018) (Tjoflat, J).

The US Court of Appeals for the 11th Circuit held that federal courts have jurisdiction to hear a declaratory judgment action for injunctive relief involving the Copyright Act even where the defendant does not have a copyright registration.

The 11th Circuit's opinion extends the Supreme Court of the United States' 2010 decision in *Reed Elsevier v. Muchnick* that the Copyright Act's § 411(a) registration requirement, which mandates that a plaintiff own a registration for the asserted copyright before filing a lawsuit, "does not restrict a federal court's subject-matter jurisdiction" (IP Update, Vol. 13, No. 3).

This was a dispute between two legal publication service companies over the right to re-publish the Georgia Regulations. Lawriter has an exclusive contract with the Georgia Secretary of State to publish Georgia Regulations on the Secretary's website and make them freely available to the public. Fastcase has a contract with the Georgia State Bar to provide a database of Georgia law, including the Georgia Regulations, to the Bar's members. Fastcase keeps its publication of the Regulations current by pulling updated content from the Secretary's website multiple times a week.

Lawriter sent Fastcase a letter alleging that Fastcase violated Lawriter's exclusive rights by pulling the Regulations from the Secretary's website and providing them as part of a fee-based service. Fastcase then filed a declaratory judgment action in the US District Court for the Northern District of Georgia, seeking a declaration that Lawriter had no enforceable copyright or contract rights in the Regulations. The district court dismissed the case, holding that it had no federal jurisdiction because Lawriter did not own a copyright registration in the Regulations. The district court also found that Fastcase had not met the $75,000 amount-in-controversy minimum for diversity jurisdiction.

Thereafter, Lawriter updated the terms of the Secretary's website to state that unauthorized re-publication of the Regulations would result in liquidated damages of $20,000 per instance. Fastcase again filed its declaratory judgment action, and the district court dismissed on the same grounds.

The 11th Circuit reversed the dismissal, relying on the Supreme Court's holding in *Reed Elsevier* and its own 2017 decision *Fourth Estate Pub. Benefit v. Wall-Street.com* (*IP Update*, Vol. 20, No. 6). The Court explained that "§ 411(a) is no longer a jurisdictional bar," and "while a complaint claiming infringement of an unregistered copyright can be dismissed for failure to state a claim, it cannot be dismissed for lack of jurisdiction." The Court assumed without analysis that Lawriter's purported claims against Fastcase would be based in the Copyright Act, or at least preempted by the Copyright Act. Because the Copyright Act was implicated, and because § 411(a) was not a jurisdictional bar, the district court erred in dismissing the declaratory judgment action.

The 11th Circuit also reversed the district court's finding that Fastcase failed to meet the amount-in-controversy requirement for diversity jurisdiction. The Court explained that the liquidated damages provision meant that Fastcase would be liable for $20,000 each time that it pulled the Regulations from the Secretary's website, which was multiple times per week: "Because violating these terms as few as four times would subject Fastcase to a threat of liability in excess of $75,000, we conclude that Fastcase' s potential liability was not too speculative to satisfy the amount-in-controversy requirement."

STANDING

Ninth Circuit to PETA: Stop Monkeying Around with Copyright Claims

Naruto v. David John Slater, et. al., 888 F.3d 418 (9th Cir. 2018) (Bea, J) (Smith, J, concurring in part).

The US Court of Appeals for the Ninth Circuit issued a decision in the so-called "Monkey Selfies" case affirming the district court's dismissal of claims brought by Naruto, a crested macaque, holding that the animal lacked statutory standing to claim copyright infringement of photographs or "selfies" alleged to have been taken by Naruto, because the Copyright Act does not expressly authorize animals to file copyright infringement suits.

In 2011, Naruto—a then-seven-year-old crested macaque living in a reserve on the island of Sulawesi, Indonesia—encountered the unattended camera of wildlife photographer, David Slater, and allegedly used Slater's camera to take several photographs of himself (the Monkey Selfies). In 2014, Slater and his publishing partners published the Monkey Selfies in a photography book. Throughout the book, Slater included admissions that Naruto took the Monkey Selfies, describing how Naruto pressed the shutter button on the camera and posed to take his own photos.

In 2015, People for the Ethical Treatment of Animals (PETA) filed a complaint for copyright infringement against Slater and his publishers as "next friend" on Naruto's behalf, asserting that Naruto was the photographer and owner of the resulting Monkey Selfies. The district court granted Slater's motions to dismiss, concluding that Naruto failed to establish statutory standing under the Copyright Act. PETA appealed as Naruto's next friend.

Before delving into Naruto's standing under Article III and the Copyright Act, the Ninth Circuit devoted some time to its denial of PETA's next-friend standing. The Court first noted that PETA failed to meet the requirement to show a "significant relationship" with Naruto, and in a rather scathing footnote challenged PETA's motivations on the monkey's behalf, referring to Naruto as an "unwitting pawn in [PETA's] ideological goals." Moreover, citing Supreme Court of the United States precedent in *Whitmore v. Arkansas*, the Court declined to expand next-friend standing beyond what is permitted by the asserted statute. The Court noted, however, that Naruto's lack of a next friend does not destroy his standing to sue as having a "case or controversy" under Article III.

Turning to Article III standing, the Ninth Circuit cited its own decision in *Cetacean Community*, wherein all of the world's whales, dolphins and porpoises, through a self-appointed lawyer, alleged facts to establish a case or controversy under Article III (with the court eventually dismissing the *Cetacean* case on lack of statutory standing). In Naruto's case, because the complaint alleged that Naruto was the author and owner of the Monkey Selfies and suffered "concrete and particularized economic harm" as the result of the claimed copyright infringement, the Court found that Naruto established Article III standing.

Naruto did not fare so well as to the requisite statutory standing under the Copyright Act, however. Again citing *Cetacean*, the Ninth Circuit explained that an Act of Congress must plainly state that animals have standing to sue under a particular statute. Since the Copyright Act does not expressly authorize animals to file copyright infringement suits, and given the statute's "text as a whole," which uses terms that imply humanity, marriage and heirs, the Ninth Circuit's precedent required the Court to interpret the statute to exclude animals and thus determine that Naruto lacked the necessary statutory standing.

Affirming the district court's dismissal of claims for copyright infringement, the Ninth Circuit also granted Slater's request for appellate attorneys' fees and remanded to the district court for a determination of those fees.

Judge Smith concurred in part, agreeing that the appeal should be dismissed because the federal courts lacked jurisdiction to hear the case, but disagreeing with the majority's conclusion that next-friend standing is non-jurisdictional. He instead opined that PETA's failure to meet the next-friend standing was the reason for the court's lack of jurisdiction.

FAIR USE

Next Up, Damages – Federal Circuit Finds Google's Use of Java Was Not Fair

Oracle America, Inc. v. Google LLC, 886 F.3d 1179 (Fed. Cir., 2018) (Alsup, J).

In a case that attracted 20 *amici* briefs, the US Court of Appeals for the Federal Circuit issued a blockbuster decision in the years-long battle between Oracle and Google over Google's Android platform. The Court concluded that Google's use of Oracle's Java application programing interface (API) packages in its Android operating system did not qualify as fair use as a matter of law. In doing so, the Federal Circuit reversed the district court's denial of Oracle's motions for judgment as a matter of law (JMOL) and remanded for a trial on damages.

The Federal Circuit's decision comes after a second jury trial in the dispute. Oracle originally filed suit against Google for patent and copyright infringement with respect to 37 Java API packages, which can be described as pre-written computer source code programs, used in the Google Android operating system for smartphones and tablets. The first trial resulted in a district court judgment for Google, ruling that the API packages were not copyrightable as a matter of law. Oracle appealed, which resulted in the Federal Circuit finding that the Java API packages were entitled to copyright protection given the "declaring code and the structure, sequence, and organization" of the APIs. The Federal Circuit remanded for further proceedings on Google's copyright infringement defense of fair use.

The second jury trial resulted in a favorable ruling for Google. The jury found fair use of the copyrighted API packages, and the district court denied Oracle's motions for JMOL and a new trial. Oracle appealed.

The Federal Circuit has exclusive jurisdiction over all appeals in actions involving patent claims, even where an appeal raises only non-patent issues, as in this dispute. Because copyright law is not within the court's exclusive jurisdiction, however, it applied the law of the Ninth Circuit in the appeal to decide whether Google's copying of Oracle's API packages was fair use. Considering that fair use is a mixed question of law and fact, the Federal Circuit presented a lengthy discussion on the applicable standard of review, concluding that the fair use inquiry is a question to be reviewed *de novo*. The Court then presented a detailed assessment of the four non-exclusive fair use factors set forth in § 107 of the Copyright Act.

The Purpose and Character of the Use

The first fair use factor has two components, which look at whether use of the copied work is commercial in nature rather than for education or public interest purposes, and whether the new work is transformative or simply replaces the original copyrighted work. The Federal Circuit was quick to note that the free and open source nature of Android does not qualify the use of the API packages as "non-commercial." Instead, the Court looked to whether Google stood to profit from exploitation of the copyrighted material "without paying the customary price," and found that Google's commercial use of the API packages weighed against a finding of fair use.

On the transformative use component, which requires the infringing work to "add something new" to the original, giving it new purpose, character, expression, meaning or message, Google argued that the application of the APIs to mobile smartphone platforms—instead of the typical use for desktops and servers—was transformative. The Court disagreed, stating that the format change to smartphones did not qualify as transformative use given the verbatim copying of the APIs for an identical function and purpose. Thus, the "highly commercial and non-transformative nature of the use" led the Court to conclude that the first factor weighed against finding fair use.

Nature of the Copyrighted Work

This factor turns on whether the work is more informational or creative, and the Federal Circuit concluded that this factor favored Google's claim of fair use given the "substantial and important" functional considerations of the API packages. Nevertheless, the Court also noted that the Ninth Circuit has determined that this second factor is not particularly significant in the overall fair use balancing exercise.

Amount and Substantiality of the Portion of the Work Used

The Federal Circuit found that, in terms of the fair use analysis, this factor was neutral at best and arguably weighed against a finding of fair use. The Court stated that even if Google copied only a small portion of Java, it was not qualitatively insignificant, since Google largely conceded that the APIs were important to the creation of the Android platform.

Effect on the Potential Market

This factor looks at whether the copying materially affects the marketability of the work that was copied. Citing the 1985 Supreme Court of the United States case *Harper & Row Publishers, Inc. v. Nation Enters.*, the Federal Circuit explained that this factor is the single most important element of fair use (while still requiring an overall balancing of the four factors). Considering both potential and actual market harm, the Court found that the evidence showed that Oracle intended to license Java in smartphones, and that Google's conduct would adversely affect the potential market for the original APIs and their derivatives. This factor thus weighed "heavily" in favor of Oracle.

Balancing the analysis of all four factors, and noting that factors one and four weighed greatly against a finding of fair use, the Federal Circuit concluded that Google's use of the 37 API packages was not fair as a matter of law, and remanded for a trial on damages. Petition for *certiorari* was filed January 25, 2019.

ATTORNEYS' FEES

Plaintiffs Walk Out in Shame After Attorneys' Fees Award Affirmed

Shame on You Productions, Inc. v. Banks, 893 F.3d 661 (9th Cir. 2018) (Smith, J).

Addressing the proper analysis for awarding attorneys' fees and costs under the Copyright Act in the wake of the Supreme Court of the United States' ruling in *Kirtsaeng v. John Wiley & Sons*, the US Court of Appeals for the Ninth Circuit upheld a fee award to the defendants where the copyright claim was objectively unreasonable.

In May 2014, actor Elizabeth Banks and others (collectively, Banks) released a film titled *Walk of Shame*. Just prior to the movie's release, Shame on You Productions, Inc., (SOYP) sent Banks letters claiming that her film copied elements from SOYP president David Rosen's screenplay, titled "Darci's Walk of Shame." According to Rosen, he had previously sent the screenplay to Banks and even met with the actor in 2007 in the hope that she might star in his movie, although nothing came of the meeting. When Banks failed to produce the documents requested in SOYP's letters, SOYP sued for copyright infringement.

After protracted discovery disputes, the district court ultimately granted Banks's motion for judgment on the pleadings, finding that "as a matter of law there was no substantial similarity between the two works." Thereafter, Banks filed a motion for attorneys' fees and costs, which the district court granted, awarding Banks approximately $319,000. SOYP appealed.

On appeal, SOYP argued that the district court, in assessing whether to award attorneys' fees, had failed to consider the Supreme Court's ruling in *Kirtsaeng v. John Wiley & Sons* (*IP Update*, Vol. 19, No. 6), which had issued only two months prior to the district court decision. The Ninth Circuit disagreed, further noting that "*Kirtsaeng* did not effect a significant change in the law."

Typically, courts in the Ninth Circuit consider the following nonexclusive factors when determining whether to award attorneys' fees and costs under the Copyright Act: "(1) the degree of success obtained, (2) frivolousness, (3) motivation, (4) reasonableness of losing party's legal and factual arguments, and (5) the need to advance considerations of compensation and deterrence." The shift post-*Kirtsaeng* merely requires that courts give "substantial weight to the fourth factor," the Court said.

In this case, the district court's determination of objective unreasonableness was based on the lack of similarities between the works. The district court found that "the two works at issue tell fundamentally different stories with different plots, themes, dialogues, moods, settings, paces, and characters." Although *Kirtsaeng* dictates that substantial weight should be given to the fourth factor—the reasonableness of the losing party's claim (or lack thereof)—the remaining factors should still be taken into account. In this particular case, the other factors "do not combine to outweigh the objective unreasonableness of SOYP's claim," according to the Ninth Circuit.

The Ninth Circuit further concluded that (1) the district court did not err in declining to apportion fees because the Copyright Act claim and state law claim for breach of an implied contract were interrelated, (2) the fee award was reasonable, and (3) the motion for fees and costs had been timely filed.

ROYALTY RATES

Copyright Board's Royalty Rates for Streaming Services Can Play On

SoundExchange, Inc. v. Copyright Royalty Board and Librarian of Congress, 904 F.3d 41 (DC Cir. 2018) (Srinivasan, J).

The US Court of Appeals for the District of Columbia Circuit sustained statutory royalty rates set by the Copyright Royalty Board for certain web streaming services following a challenge to the rates by an independent singer/songwriter and a collective organization representing holders of copyrights in sound recordings.

In 2016, the Copyright Royalty Board, a group of three judges appointed by the Librarian of Congress, undertook its responsibility of setting the rates and terms of statutory copyright licenses, including for "noninteractive" webcasting services (*i.e.*, services that select the songs they play for listeners), for the following five-year period. In a hearing before the Board, SoundExchange opposed the Board's use of real-world negotiated agreements from certain third-party noninteractive webcasters (among other market factors) to establish "benchmarks" for reasonable statutory royalty rates intended to reflect the private market, or the rates that "would have been negotiated in the marketplace between a willing buyer and a willing seller," as required by the Copyright Act.

The Board rejected SoundExchange's concerns and used the third-party agreements to form the basis of the 2016–2020 statutory royalty rates. The Board noted that the alternative agreements proposed by SoundExchange for benchmark rate setting were not "effectively competitive" because they focused on subscription-based interactive webcasting services (*i.e.*, services that allow a user to select the songs to be played), as opposed to the noninteractive services at issue.

SoundExchange and independent singer/songwriter George Johnson moved for a rehearing of the Board's royalty rate determination and were denied. The parties appealed.

Applying a deferential standard of review given the "highly technical" nature of the Board's royalty rate-setting process, the DC Circuit sustained the denial of appellants' challenges. In upholding the Board's royalty rates, the Court rejected SoundExchange's argument that the Board's acceptance of the third-party benchmark agreements were "arbitrary and capricious" and instead found that the Board has "broad discretion" to select, reject and/or adjust rate benchmarks based on the terms of the benchmark agreements, predictive judgments about the music marketplace, and/or in comparison to other market factors.

SoundExchange also challenged the Board's adoption of an effective-competition standard when determining the statutory rates and terms that would have been negotiated "between a willing buyer and a willing seller," arguing that such an approach was foreclosed by the Copyright Act. Under *Chevron* review, the DC Circuit disagreed and noted an inherent ambiguity in the Act's "willing buyer and a willing seller" standard. Instead, and in line with its decision in *Intercollegiate Broadcasting System*, the Court confirmed that the statute does not compel any particular level of competitiveness in the market, such that the Board is entitled to its discretion in identifying "relevant characteristics of competitiveness" to determine an "effectively competitive market" when assessing the suitability of a party's proposed benchmarks under the statutory framework.

The DC Circuit also supported the Board's decision to set different statutory rates for ad-based and subscription-based noninteractive webcasters. On this point, the Court noted that the Copyright Act specifically contemplates the Board's ability to set different rates for distinct market segments, noting a "sharp dichotomy" between listeners willing to pay for subscription services and those that use only free ad-based services.

The final issue disputed by SoundExchange was copyright owners' ability to audit webcasters' royalty payments. In the rate resetting hearing, the Board tightened up the audit provision, requiring that any auditor must be a certified public accountant licensed in the jurisdiction in which it seeks to conduct the verification. The DC Circuit nonetheless found the requirement reasonable since, as the Board explained, the auditor would be held accountable to the local governance in the jurisdiction in which it operates.

The DC Circuit also examined the issue raised by George Johnson, who complained that the low royalty rates set by the Board equated to an unconstitutional taking of a copyright holder's property rights in his or her intellectual property. Here, the Court explained that the Board's extensive adversarial hearing process in determining such rates was sufficient due process, and that the royalty rate-setting process required by the Copyright Act was thus appropriate and constitutional. Therefore, the Court affirmed the Board's rate determination.

EXCLUSIVE RIGHTS / STANDING TO SUE

A Picture Is Worth a Thousand Words, but Owning a Piece of the Bundle Is Priceless.

John Wiley & Sons, Inc. v. DRK Photo, 882 F.3d 394 (2d Cir. 2018) (Carney, J) (Parker, J, dissenting).

In a case where a licensee granted the right to sue was bounced by the district court for lack of standing, the US Court of Appeals for the Second Circuit ruled that under § 501(b) of the Copyright Act, assignees of the bare right to sue for infringement lack statutory standing where they neither have nor ever have had "legal or beneficial" ownership "of an exclusive right."

DRK maintains a collection of stock photographs that it licenses from copyright holders and in turn licenses to textbook publishers for a fee. One such publisher was John Wiley & Son. The license between DRK and Wiley authorized a limited number of uses for each image. The standing issue arose as a consequence of a 2011 declaratory judgment action by Wiley and DRK's infringement counterclaim based on John Wiley's alleged production of textbooks in excess of the agreed amount.

DRK is not the copyright holder of the photographs in question. Rather, it is a party to two separate agreements with the photographers. The first, a "Representation Agreement," established a non-exclusive agency relationship. The second, a "Copyright Assignment, Registration, and Accrued Causes of Action Agreement," included two clauses that were in issue in this case. The first clause granted all copyright and legal title to DRK up until DRK registers the image's copyright, at which point DRK agrees to reassign all rights and title back to the photographer. The second clause granted DRK all rights in any accrued or later accrued causes of action to enforce the image's copyright.

On summary judgment, the district court granted John Wiley's motion and dismissed DRK's infringement claims for the images where DRK was a non-exclusive licensee. After finding that neither the Representation Agreement nor the Assignment Agreement conferred any legal title in the photographs to DRK, the district court concluded that the authorizing suit on a copyright holder's behalf was insufficient to convey statutory standing. DRK appealed.

The Second Circuit panel majority interpreted the durational limitation in § 501(b) (requiring ownership of at least one exclusive right during the time when infringement of that right allegedly occurred) as evidencing congressional intent to "carefully circumscribe the boundaries of statutory standing." The Court further relied on the joinder provision of § 501(b), which permits joinder of those whose rights "may be affected" (*i.e.*, non-exclusive licensees), as evidence that Congress did not intend to authorize standing by virtue of bare assignments of the right to sue.

The Second Circuit also addressed whether DRK was, or had ever been, a legal or beneficial owner of an exclusive right by virtue of either of the two agreements. The Court found neither agreement conferred in DRK legal or beneficial ownership of any exclusive rights. The Court dismissed the Representation Agreement as a non-exclusive license incapable of transferring ownership of any exclusive right. Further, even though the Granting Clause of the Assignment Agreement purported to transfer legal ownership of all exclusive rights, the Court explained that applicable state law permitted introduction of parole evidence. Upon consideration of communications from DRK to photographers that stated "there is no 'rights grab' going on," the Court concluded that the clause should not be interpreted as transferring legal ownership. Lastly, the Court dismissed DRK's argument of beneficial ownership because, at most, a person may become a beneficial owner when receiving an equitable interest in an *exclusive* right—not equity in the right to sue as DRK argued.

In dissent, Judge Parker argued that the Copyright Act authorizes statutory standing to those holding bare assignments of the right to sue: "[b]ecause I conclude that nothing in the Copyright Act precludes DRK from prosecuting claims on its non-exclusive licenses as an assignee of a bare right to sue, I would reverse on this ground alone and would not reach the question of whether DRK had beneficial ownership of a copyright interest." The dissent also argued that it was error to admit parole evidence to interpret a clause plainly clear on its face, especially as the Assignment Agreement had no choice of laws provision. Parker would have found that the Granting Clause transferred ownership of the exclusive rights: "the critical provision of the Assignment Agreements states that '[t]he undersigned photographer . . . hereby grants to DRK all copyrights and complete legal title in the Images.'. . . By any reasonable calculus this statement is unambiguous." Petition for writ of *certiorari* to the United States Court of Appeals for the Second Circuit was denied October 1, 2018.

RENEWAL TERM

Sly Slick & Wicked Revived

Wilson, et al. v. Dynatone, et al., 892 F.3d 112 (2d Cir. 2018) (Leval, J).

The US Court of Appeals for the Second Circuit affirmed a dismissal of the plaintiffs' state law claim for failure to allege a fiduciary duty, and vacated and remanded a judgment on a motion to dismiss as to the plaintiffs' renewal term copyright claims for being time barred, finding no obligation for the band to have earlier sued the publisher in order to maintain its right to the renewal term.

The predicate timeline is complicated. John Wilson, Charles Still and Terrance Stubbs are former members of the band Sly Slick & Wicked. In 1973, while traveling with the band, Wilson wrote the song "Sho' Nuff." The band promptly (on May 12, 1973) registered the composition and sound recording with the US Copyright Office. A month later, the promoter filed a registration with BMI listing Perrell

Music, Belinda Music and Dynatone Music as the publishers. Approximately a year later, Chappell & Co. filed a registration of the song with the Copyright Office listing the band as the writers and Dynatone as the claimant. Then, on November 19, 2015, the band filed a renewal registration with the Copyright Office, asserting ownership of the renewal term for the song. The band had not executed any agreement with the prior publishers transferring interests in the renewal term.

The band made a sound recording of the song with People Records, which modified the recording with the addition of strings and bells. In June 1973, Polydor, successor to People Records, registered a copyright in the sound recording, claiming the recording was a work for hire. The band, however, never executed an agreement with People Records that included a work for hire provision and never transferred its renewal terms. On December 21, 2001, Universal Music Group (UMG) registered a renewal term copyright in the sound recording with the Copyright Office.

In 2013, "Sho' Nuff" was sampled by Justin Timberlake in the song "Suit & Tie" and by J. Cole in "Chaining Day." The band members sued Dynatone, UMG and Unichappell Music, asserting that they owned the copyrights in the song and the sound recording, and sought an accounting of the defendants' profits from their use of the song in the preceding three years. The district court granted defendants' motion to dismiss pursuant to Rule 12(b)(6), reasoning that the claims were time-barred because the defendants had repudiated plaintiffs' claims of copyright ownership many years earlier, during the initial copyright terms. The band appealed.

The Second Circuit explained that while the publishers may have repudiated the band's claims to the initial copyright terms in the song and sound recording in the 1970s, they did not repudiate the band's ownership of the renewal terms. The Court explained that as the authors of the song and sound recording, the band members were entitled to the renewal terms regardless of whether they abandoned their rights to the initial terms. The Court stated that the renewal terms automatically vested with them.

The Second Circuit found no facts supporting UMG's argument that the action was time barred, concluding that UMG's 2001 registration of the renewal term did not trigger an obligation on the band to sue. The Court pointed out that if the mere registration of a copyright triggered the accrual of a copyright ownership claim, then owners would be forced to maintain constant vigilance over new registrations. In this case, Justin Timberlake's sampling began on January 15, 2013, and the plaintiffs filed their complaint on January 6, 2016, within the three-year statute of limitations.

The Second Circuit agreed with the lower court's finding that the complaint failed to allege that the defendants owed the band a fiduciary duty, which is a requirement for the accounting claim. The Court noted, however, that its affirmance did not bar the plaintiffs from employing discovery to learn of revenues collected by the defendants and seeking an award under their copyright claims. Petition for rehearing was denied November 14, 2018.

TRADEMARKS

GENERICNESS & ACQUIRED DISTINCTIVENESS

Federal Circuit Zeros in on Genericness and Acquired Distinctiveness

Addressing the proper analysis for assessing genericness and acquired distinctiveness of a trademark, the US Court of Appeals for the Federal Circuit vacated a US Trademark Trial and Appeal Board (TTAB) decision denying an opposition to applications filed by one soft drink company against the applications of another to register various trademarks containing the word ZERO. *Royal Crown Co., Inc. v. The Coca-Cola Co.*, 892 F.3d 1358 (Fed. Cir., 2018) (O'Malley, J).

Royal Crown makes and distributes beverages under various trademarks, including the marks DIET RITE PURE ZERO and PURE ZERO. Royal Crown applied to register these two trademarks and disclaimed the word ZERO. Coca-Cola also makes and distributes beverages under various trademarks that include the word ZERO, such as COKE ZERO. Coca-Cola also applied to register many of its ZERO trademarks. The US Patent and Trademark Office (PTO) issued an office action asking Coca-Cola to disclaim the word ZERO because the term merely describes the calorie or carbohydrate content of the goods. In response, Coca-Cola argued that its various ZERO marks had acquired distinctiveness, and refused to disclaim ZERO. The PTO accepted Coca-Cola's evidence of acquired distinctiveness and published Coca-Cola's various ZERO applications without a disclaimer of the word ZERO.

Royal Crown opposed Coca-Cola's various ZERO applications, contending that (1) ZERO was generic when applied to certain beverages, and (2) ZERO was merely descriptive and could not indicate the source of Coca-Cola's products. Rather than arguing that Coca-Cola's applications should all be refused, Royal Crown only sought to require Coca-Cola to disclaim ZERO in its applications. The TTAB rejected Royal Crown's arguments on both points, and Royal Crown appealed.

On appeal, the Federal Circuit criticized the TTAB's genericness analysis. The proper test for assessing whether a term is generic asks:

- What is the genus for the goods or services at issue?
- Is the term sought to be registered understood by the relevant public to primarily refer to that genus of goods or services?

The TTAB found that the relevant genus was soft drinks, sport drinks and energy drinks, but failed to consider that the relevant genus included a subcategory of zero-calorie or zero-carbohydrate beverages. The Court cited its decision in *In re Cordua* (*IP Update*, Vol. 19, No. 6) and stated that a term is generic if the relevant public understands the term to refer to *part* of the claimed genus or services, even if the public does not understand the term to refer to the broad genus as a whole. The Court explained that the TTAB also failed to consider whether ZERO would be generic for a subcategory of the genus of soft drinks, sport drinks and energy drinks—zero-calorie or zero-carbohydrate beverages. The Court vacated the TTAB's decision and ordered the TTAB to consider whether ZERO refers to a key aspect of zero-calorie or zero-carbohydrate beverages.

The Federal Circuit also considered whether the TTAB erred in determining that Coca-Cola had proven that its various ZERO marks had acquired distinctiveness. On this issue, the Court found that the TTAB had committed a significant flaw by failing to determine whether Coca-Cola's ZERO marks were highly descriptive or merely descriptive. The more descriptive a mark is, the more evidence is necessary to demonstrate that a mark has acquired distinctiveness. As the Court explained, the TTAB failed to specify the evidentiary burden Coca-Cola needed to meet to show that its ZERO marks were eligible for registration.

In reviewing the TTAB's examination of Coca-Cola's evidence of acquired distinctiveness, the Federal Circuit noted the TTAB's reliance on a survey from 2008 and a reference to Coca-Cola's "family" of ZERO marks. The Court noted that acquired distinctiveness was a time-related concept and questioned the probative value of a survey conducted more than five years before the close of testimony before the TTAB. The Court also doubted that the family of marks doctrine would help demonstrate the acquired distinctiveness necessary to support registration of Coca-Cola's ZERO marks, given the fact that Coca-Cola would still need to demonstrate that the shared feature of the family of marks—ZERO—was distinctive.

DESCRIPTIVE AND GENERIC MARKS

THINS – Not All They're Crackered Up to Be

On appeal from two oppositions, the US Court of Appeals for the Federal Circuit affirmed a Trademark Trial and Appeal Board (TTAB) refusal to register marks for CORN THINS and RICE THINS for snack cakes, finding that the marks were highly descriptive and had not acquired distinctiveness. *Real Foods Pty Ltd. v. Frito-Lay N. Am., Inc.*, 906 F.3d 965 (Fed. Cir., 2018) (Wallach). The Court also vacated the TTAB's decision dismissing a claim that the marks were generic, and remanded the issue back to the TTAB to determine the proper genus of the snack cakes covered by the marks and to conduct a new genericness analysis in light of the proper genus.

Real Foods sought registration of two marks:

- CORN THINS, for "crispbread slices predominantly of corn, namely popped corn cakes"
- RICE THINS, for "crispbread slices primarily made of rice, namely rice cakes"

The popped corn cakes and rice cakes are shown below:

Frito-Lay opposed the registrations, arguing that the proposed marks should be refused as either generic or descriptive without having acquired distinctiveness. The TTAB refused registration of Real Foods' applied-for marks, finding that the marks were "merely descriptive and have not acquired distinctiveness," but dismissed Frito-Lay's genericness claim. Both parties appealed.

The Federal Circuit found that substantial evidence supported the finding that the marks were descriptive because the main ingredients in Real Foods' snack cakes are corn and rice. The Court found that Real Foods' disclaimer of the right to use "corn" and "rice" apart from the marks further substantiated their descriptive nature. Noting that third parties used the word "thins" to describe their snack cakes, the Federal Circuit further found that "thins" described the physical appearance of Real Foods' snack cakes, because they were thinner than other similar cakes. The Court also found that viewing the marks as composites (i.e., "CORN THINS" and "RICE THINS") did not make them any less descriptive because they immediately conveyed a quality or characteristic of the snack cakes—the main ingredient and thickness. Finally, the Court found that the evidence showed that not only did Real Foods use the

Marks to describe its snack cakes, but consumers also used “corn,” “rice” and “thins” to describe Real Foods’ snack cakes and not their source.

Real Foods argued that its marks were suggestive because they were really a “double entendre” conveying the low calorie and “diet friendly” characteristics of the snack cakes. The Federal Circuit found that the TTAB correctly rejected this argument given that the word “thins” is often used to describe snack products (such as cookies and chocolate covered pretzels) that are physically thin but not low in calories.

The Court also found that Real Foods failed to establish that the marks were protectable because they had acquired distinctiveness. The evidence showed that little money was spent on marketing and advertising the snack cakes, and the overall sales figures were not high. Moreover, research conducted on behalf of Real Foods found that consumers had little loyalty to CORN THINS and RICE THINS and a low preference for Real Foods’ snack cakes compared to those of its competitors. A Frito-Lay survey found that only 10 percent of consumers associated CORN THINS and RICE THINS with a particular source, and of those 10 percent, half associated the snack cakes with a source other than Real Foods. The Federal Circuit also acknowledged that while continuous use of a trademark for five years may establish acquired distinctiveness, Real Foods’ continuous use of the marks failed to do so because the marks were so highly descriptive.

Finally, the Federal Circuit addressed the TTAB’s dismissal of Frito-Lay’s claims that the Marks were generic. The Court found that the TTAB improperly relied on the amended and narrowed scope of goods for the Marks when determining that the genus for CORN THINS was popped corn cakes and for RICE THINS, rice cakes. Accordingly, the Court vacated the dismissal of Frio-Lay’s genericness claim and remanded the issue to the TTAB for a proper determination of the genus.

INHERENT DISTINCTIVENESS

Perchville Trademark: Fishy or Fanciful?

The US Court of Appeals for the Sixth Circuit concluded that PERCHVILLE, the name of a winter festival, was inherently distinctive and protectable as a fanciful mark or at the very least as a suggestive mark. *Ausable River Trading Post, LLC v. Dovetail Sols., Inc.*, 902 F.3d 567 (6th Cir. 2018) (Sutton, J).

For several decades, the town of Tawas, Michigan, has held a Perchville winter festival. The founders created the Perchville name in 1949 for the sole purpose of identifying the festival. The Tawas Chamber of Commerce (TCC) organizes the yearly festival and owns a federal trademark registration for the PERCHVILLE mark for use on apparel and other goods. TCC dues-paying members may use the PERCHVILLE mark, but third parties are required to pay a $750 licensing fee. AuSable River Trading Post began selling T-shirts bearing the PERCHVILLE mark, but was not a TCC member and did not pay the licensing fee. The TCC sought and received a state court injunction against an AuSable employee for selling PERCHVILLE T-shirts. In response, AuSable sued the TCC to invalidate the PERCHVILLE registration. The district court granted the TCC’s motion for summary judgment, holding that the PERCHVILLE mark was inherently distinctive and protectable. AuSable appealed.

The Sixth Circuit affirmed the district court’s decision. Before reaching the merits of the case, the Court explained the different types of marks and their levels of protectability: inherently distinctive trademarks (fanciful, arbitrary and suggestive) are the most protectable, and generic marks are not protectable at all. The Court held that PERCHVILLE was “almost certainly” a fanciful mark and at the very least was a suggestive mark because it was coined to identify the festival, it does not have an independent meaning, and it cannot be found in the dictionary. Alternatively, the Court held that the combination of perch (referring to a fish) and -ville (referring to a fictitious place or concept with particular characteristics) to create PERCHVILLE may suggest a gathering of fisherman, but even that meaning requires imagination and perception—the hallmarks of a suggestive mark.

In support of its quest to invalidate the mark, AuSable argued that PERCHVILLE is an unprotectable generic mark because people associate the mark with the festival and not the TCC. The 1984 Amendment to the Lanham Act, however, precludes this argument: a mark cannot be generic simply because it is used as the name of, or to identify, a unique product or service.

AuSable next argued that PERCHVILLE was a generic word, like thermos or trampoline, because it was part of the general lexicon of Tawas residents. The Court rejected this analogy, holding that PERCHVILLE refers to a single event that has one source, unlike the word thermos, which refers to a general class of containers for holding hot beverages made by many different companies. AuSable also argued that PERCHVILLE is not fanciful because it consists of two words commonly found in the dictionary, which when combined, suggest a city with a certain type of fish. The Court found that by conceding that the mark suggests an imaginative city, AuSable defeated its own argument.

Finally, AuSable argued that the TCC abandoned the PERCHVILLE mark when it allowed others to use the mark and allowed the registration to lapse in 2013. The Court held that use of a trademark by others does not mean the trademark owner has abandoned the mark, especially when the owner licenses the mark and actually uses the PERCHVILLE mark on buttons, as here. Moreover, the Court found that the fact that the TCC accidentally let the PERCHVILLE registration lapse did not constitute abandonment because the TCC immediately filed a new application for the mark.

SECONDARY MEANING

An All Star Trademark Opinion

Addressing core issues of trademark law, including evidentiary presumptions afforded to registered trademarks and considerations in determining whether trademarks have acquired secondary meaning, the US Court of Appeals for the Federal Circuit issued an important opinion vacating and remanding a US International Trade Commission (ITC) decision concerning trade dress for sneakers. *Converse, Inc. v. Int'l Trade Comm'n Skechers U.S.A., Inc.*, 909 F.3d 1110 (Fed. Cir., 2018) (Dyk, J) (O'Malley, concurring in part, dissenting part).

Converse filed a complaint with the ITC against various respondents for importing shoes that purported to infringe its trade dress in its All Star shoes. The trade dress at issue was the "mid-sole" of Converse's shoe, consisting of the striped design, toe cap and diamond pattern on the toe bumper, among other elements (All Star Trade Dress). Converse's claimed first use of this trade dress dated back decades, but Converse did not apply to register the All Star Trade Dress until 2012 and did not secure its registration until 2013. Many of the accused infringers had imported the products at issue before Converse secured its registration.

The ITC administrative law judge (ALJ) determined that the "registered" All Star Trade Dress (*i.e.*, from September 8, 2013, forward) was valid and had been infringed, relying on the evidentiary presumption of secondary meaning afforded to registered marks under 15 USC § 1115(a), but held that Converse had failed to establish that its "unregistered" All Star Trade Dress (*i.e.*, prior to September 8, 2013) had acquired secondary meaning and thus was entitled to trade dress protection.

In its final determination, the ITC reversed the ALJ's finding and held that the registered All Star Trade Dress was invalid because the mark had not acquired secondary meaning. The ITC agreed with the ALJ, however, that Converse had failed to prove secondary meaning in the unregistered All Star Trade Dress. Converse appealed.

The Federal Circuit found the ITC's final determination flawed in several respects, including its parsing of "registered" and "unregistered" All Star Trade Dress. As the Court observed, the trade dress is the same, with different rights attaching at different times.

The Federal Circuit found that the ITC erred by failing to distinguish between those who had begun infringing use before the All Star Trade Dress was registered and those who began after the registration. The trademark owner claiming infringement must show that its mark had acquired secondary meaning before the alleged infringer began use. For infringement *after* a mark has registered, the trademark owner has the benefit of a presumption that its mark has acquired secondary meaning. However, there is no presumption of secondary meaning afforded to registered marks *before* registration. Thus, when claiming infringement that began before registration, the trademark owner bears the burden of proving that its mark had acquired secondary meaning before the alleged infringer's first use. Because the ITC erred in this analysis, the Court remanded for a determination of whether the All Star Trade Dress had acquired secondary meaning before each of the alleged infringers had begun use.

The Federal Circuit also found that the ITC had applied the wrong legal standard in determining whether the All Star Trade Dress had acquired secondary meaning. Using a multi-factor test, the ITC found that the All Star Trade Dress had not acquired secondary meaning because Converse had not shown exclusive use of the trade dress and there was no survey evidence demonstrating that the public associated the All Star Trade Dress with Converse. In its review, the Court clarified that a proper secondary meaning assessment should consider six factors:

- Association of the trade dress with a particular source by actual purchasers (usually shown by customer surveys)
- Length, degree and exclusivity of use
- Amount and manner of advertising
- Amount of sales and number of customers
- Intentional copying
- Unsolicited media coverage of the product embodying the mark

The Federal Circuit explained that exclusivity should not be considered in isolation, but rather together with the trademark owner's length and degree of use. The Court concluded that the ITC had erred in finding that Converse had not made exclusive use of the All Star Trade Dress. Per the Court, the ITC placed too much weight on uses significantly predating the infringing uses at issue, and relied on products that were not substantially similar to the All Star Trade Dress. The Court suggested that exclusivity of use should be evaluated in the five years preceding the first infringing use, and should only consider use that was "substantially similar" to the owner's claimed trade dress.

The Federal Circuit also faulted the ITC for relying too heavily on the 2015 survey submitted in support of the alleged infringers, which showed that only approximately 20 percent of respondents associated the All Star Trade Dress with a single source. That survey is only relevant to the extent it measured whether the All Star Trade Dress had acquired secondary meaning prior to the beginning of each alleged infringing use. Some of the alleged infringing uses took place almost 10 years before the survey. The Court observed that surveys conducted within five years of the first infringing use may be relevant in assessing secondary meaning.

While Judge O'Malley agreed with the panel's application of the evidentiary presumption afforded to registered marks, she criticized the expansiveness of its opinion. Judge O'Malley reasoned that a decision on the validity of the All Star Trade Dress registration was unnecessary to resolve this case because either (1) certain of the infringers in the proceeding had defaulted and thus never challenged the validity of Converse's trade dress, or (2) all other infringers had commenced use before the All Star Trade Dress was registered, meaning that they could not be liable for the infringement of a registered mark. In O'Malley's opinion, the only relevant question was whether Converse could establish acquired distinctiveness as of each first alleged infringing use.

Practice Note: This opinion has wide-ranging implications for trademark law. Under the reasoning of this opinion, in trademark or trade dress infringement litigation, the owner of a registered trademark does not have the benefit of any of the evidentiary presumptions of a registration where the infringer's use commenced before that registration. Thus, for example, a plaintiff would need to prove that its trade dress was not functional if the alleged infringement occurred before plaintiff secured a registration.

FAIR USE

When Your Business Address Is a Trademark: Description of Historical Location Is Fair Use

The US Court of Appeals for the Sixth Circuit found that the defendant's use of the names "Old Taylor" and "the Former Old Taylor Distillery" (collectively, the Old Taylor names) to refer to its property and future bourbon distillery located on the site of the original 1887 distillery of the same name qualifies as fair use and does not infringe on the OLD TAYLOR and COLONEL E.H. TAYLOR trademarks. *Sazerac Brands, LLC v. Peristyle, LLC*, 892 F.3d 853 (6th Cir. 2018) (Sutton, J).

Judge Sutton's opinion opens with a love note to the state of Kentucky and its "richly preserved history of bourbon making." The opinion explains that Colonel Edmund Haynes Taylor is considered the founder of the modern bourbon industry and built the Old Taylor Distillery in Woodford County, Kentucky, in 1887. The building, which resembled a medieval limestone castle, eventually fell into disrepair and decay, and bourbon production at the facility ended in 1972.

In 2014, a team of Kentucky natives formed Peristyle and purchased the Old Taylor Distillery with plans to renovate the castle and resume bourbon production. Peristyle renamed the property "Castle & Key." In four years, when its first batch of bourbon will be available for sale, the company plans to sell the product under the CASTLE & KEY trademark.

During renovation of the distillery, Peristyle released marketing posters, advertisements and social media posts referring to its location as "the Former Old Taylor Distillery" or "Old Taylor," which prompted a lawsuit by Sazerac, a distiller that bought the rights to the OLD TAYLOR and COLONEL E.H. TAYLOR trademarks in 2009. The district court granted summary judgment to Peristyle on Sazerac's claims of trademark infringement, unfair competition and passing-off, finding that Peristyle used the Old Taylor names descriptively and in good faith under the Lanham Act's affirmative defense of fair use. Sazerac appealed.

The Sixth Circuit explained that the fair use defense applies when "the use of the name, term, or device charged to being an infringement is a use, otherwise than as a mark . . . of a term or device which is descriptive of and used fairly only to describe the goods or services of such party, or their geographic origin." Thus, the two elements of fair use require that the defendant (1) use a name or term in a descriptive or geographic sense, and (2) do so fairly and in good faith.

The Sixth Circuit found that Peristyle satisfied both elements, noting that Peristyle used the Old Taylor names only to identify the historic location where it would be producing its CASTLE & KEY bourbon, and that it did so in good faith, since the record established that Peristyle continually recognized that the OLD TAYLOR trademarks belong to Sazerac and thus selected its own brand for its eventual bourbon product.

The Sixth Circuit also dismissed Sazerac's arguments alleging that Peristyle infringed the OLD TAYLOR trademarks by displaying "Old Taylor Distillery" signs on the building and using the property for commercial activities, such as hosting a wedding and renting out barrel-aging warehouse space. The Court noted that both signs in question adorned the building before Peristyle purchased it, which the Court considered confirmation that the company did not put them there or otherwise use them in bad faith. On the issue of "commercial activities," the Court clarified that what matters is not commercial or non-commercial activity, but whether Peristyle used the Old Taylor names descriptively or non-descriptively.

Finding that Peristyle's use of the Old Taylor names to describe the location of its events or services was "fair use at each turn," the Sixth Circuit confirmed that Peristyle's commercial activity did not equate to non-descriptive trademark use. Thus, the Court affirmed the district court's summary judgment grant for Peristyle holding that the company's use of the distillery name "finds shelter under the Lanham Act's fair use defense."

COMMON LAW TRADEMARKS

Keep Your Claws Off the Krusty Krab

The US Court of Appeals for the Fifth Circuit affirmed a grant of summary judgment finding that a specific element from a television series—in this case, The Krusty Krab restaurant from *SpongeBob SquarePants*—can receive trademark protection, and that a real-life seafood restaurant by the name of The Krusty Krab would cause confusion with Viacom's common law rights in The Krusty Krab trademark. *Viacom International, Incorporated v. IJR Capital Investments, L.L.C.*, Case No. 17-20334 (5th Cir, May 22, 2018) (Owen, J).

Viacom's *SpongeBob SquarePants* cartoon series has run since 1999 and features a talking sea sponge who lives in an underwater pineapple and works at a fictional undersea burger joint called The Krusty Krab. This restaurant plays a central role in the animated series, as well as in two *SpongeBob SquarePants* feature films, a popular Broadway musical and various licensed products, including playsets, t-shirts, stickers, a video game and aquarium accessories. In 2016, Viacom sued IJR Capital Investments in district court after IJR filed an intent-to-use trademark application for the mark The Krusty Krab in connection with restaurant services and developed a business plan for potential investors in its planned Cajun seafood restaurant.

The district court granted Viacom's motion for summary judgment on its common law trademark infringement and Lanham Act unfair competition claims, finding that IJR's proposed use of The Krusty Krab would likely cause consumer confusion. IJR appealed, claiming genuine issues of fact. Applying *de novo* review, the US Court of Appeals for the Fifth Circuit examined whether Viacom properly established that it owns a legally protected trademark in The Krusty Krab, and whether there was a likelihood of confusion between the parties' respective The Krusty Krab trademarks.

The Fifth Circuit explained that, absent a US federal registration, in order to show that it owns legally protectable trademark rights in The Krusty Krab mark, Viacom must establish that (1) the fictional restaurant name is used as a source indicator of goods and services, and (2) the fictional name is sufficiently distinctive to qualify as a trademark. Before delving into these two issues, the Court set forth a threshold question of whether elements from within a television series—as opposed to the title itself—can even receive trademark protection.

Answering the threshold question in the affirmative, the Fifth Circuit noted that it had never looked at the precise issue at hand, but cited a prior Fifth Circuit decision suggesting a grant of trademark rights in an element of a TV show, with the key inquiry being whether the particular show element plays such a central role in the franchise that it becomes an indicator of origin as to goods or services. Moreover, the Court cited Second and Seventh Circuit precedent extending trademark protection to the General Lee, a fictional automobile from the popular *Dukes of Hazard* television series.

With this as a foundation, the Fifth Circuit determined that Viacom uses The Krusty Krab as a source-identifying trademark given that the fictional restaurant is integral to the *SpongeBob SquarePants* show by appearing in more than 80 percent of the episodes, in the films and the Broadway show, and in licensed products, thus generating millions of dollars in revenue for Viacom. The Court also agreed with the district court's finding that The Krusty Krab trademark has acquired distinctiveness through secondary meaning. Specifically, the Fifth Circuit found that four of the seven "secondary meaning" factors weighed in Viacom's favor: the length and manner of use of the trademark given the show's run for over 18 years; the volume of sales of licensed products and films, which have grossed $470 million; the amount and manner of advertising surrounding The Krusty Krab mark in particular; and the nature and use of the mark in media.

Turning to likelihood of confusion between the two The Krusty Krab trademarks, the Fifth Circuit found that Viacom met its burden of proving that, as a matter of law, IJR's intended use of The Krusty Krab for a real-life restaurant was likely to create confusion as to "source, affiliation, or sponsorship." On this point, the Court examined the applicable likelihood of confusion factors and found that:

- Viacom owns a strong mark given its secondary meaning.
- The two marks are so similar as to be "indistinguishable."
- The parties have similar products and services in that both marks identify restaurants and, more importantly, Viacom could "naturally develop a real The Krusty Krab restaurant based on the fictional eatery" (as Viacom's subsidiary company did when licensing the Bubba Gump Shrimp Co. restaurant based on the fictional business in the film *Forrest Gump*).
- Viacom was able to show instances of actual consumer confusion via a consumer survey.

Thus, the Fifth Circuit concluded that "[b]y creating a connection in the consumer's mind between IJR's restaurant-in-development and The Krusty Krab from *SpongeBob SquarePants*, there is an impermissible likelihood of confusion as to source, affiliation, or sponsorship."

PRIMARILY MERELY A SURNAME

Surname or Suds? SCHLAFLY Mark Has Acquired Distinctiveness

The US Court of Appeals for the Federal Circuit affirmed a Trademark Trial and Appeal Board (TTAB) decision that the SCHLAFLY mark had acquired secondary meaning and met the requirements for registration. *Bruce S. Schlafly and Phyllis Schlafly Revocable Trust, Successor-in-Interest to Phyllis Schlafly v. Saint Louis Brewery, LLC*, Case No. 17-1468 (Fed. Cir., Nov. 26, 2018) (Newman, J).

St. Louis Brewery sells 60 types of craft beers through 14,000 retail locations, all with the SCHLAFLY mark on the label. The brewery sold more than 75 million units of SCHLAFLY beer from 2009 to 2014, not including restaurant sales. St. Louis Brewery spent more than $1 million in advertising SCHLAFLY beer in radio, print publications, billboards, social media and events. The brewery applied to register the SCHLAFLY word mark in standard character format for beer, stating that the mark had acquired distinctiveness as a result of substantially exclusive and continuous use with its goods for at least five years immediately prior to the application.

Two oppositions were filed. The estate for Phyllis Schlafly filed an opposition asserting that she was a known conservative icon and her surname is primarily associated with her and the traditional values she represented. Bruce Schlafly, Phyllis' son and a doctor, argued that he had used his name in his medical practice since 1986.

The TTAB found that the SCHLAFLY mark, as used in connection with beer, had acquired distinctiveness because of the long continuous use of the mark; the geographic scope of the use; the variety of products with the mark in commerce; the prominent placement of the mark on the brewery's products; the large sales volume of SCHLAFLY craft beer; the marketing types, expenditures and revenue of Saint Louis Brewery; and the significant ranking and awards won by SCHLAFLY beer. The TTAB found that it did not need to address whether the mark was a surname if it had acquired distinctiveness. The TTAB also found sufficient evidence that the mark had acquired distinctiveness and rejected the opposers' argument that the brewery was required to submit a customer survey. The opposers had requested reconsideration, asserting that it was improper to register a mark based on distinctiveness without a survey of secondary meaning. The TTAB denied reconsideration, and the opposers appealed.

Section 2(f) of the Lanham Act permits registration of marks that have acquired distinctiveness. The statute provides that if there is proof of substantially exclusive and continuous use of the mark for five years immediately preceding the application, the TTAB may accept such proof as *prima facie* evidence that a mark has become distinctive as used on or in connection with the applicant's goods in commerce. The Federal Circuit found that Saint Louis Brewery presented 15 different forms of evidence to the TTAB, which the TTAB evaluated before reaching its conclusion. The brewery provided evidence of the commercial success of the SCHLAFLY branded beer, as well as media coverage in local and national outlets, including the *Washington Post* and the *Wall Street Journal*. The brewery also demonstrated more than 25 years of continuous use of the SCHLAFLY mark.

The opposers, citing the Federal Circuit's 1985 decision in *In re Etablissements Darty et Fils*, argued that the Court should adopt a new test, one they called a "change in significance" test, where a surname cannot be registered as a trademark without showing a change in significance to the public, *i.e.*, from the surname to the identifying mark for specified goods. The Court disagreed, finding *Darty* to be distinguishable from the facts in this case. The issue in that case was whether Darty was primarily merely a surname, whereas here, the TTAB found that SCHLAFLY had acquired secondary meaning for use in connection with beer products.

The opposers further argued that § 1052(e) of the Lanham Act prohibited the registration of marks that are primarily merely a surname. The Federal Circuit pointed out that the TTAB correctly stated that the trademark statute provides that words that are primarily merely a surname can be registered as trademarks if they have acquired secondary meaning in trademark use. Because the TTAB found that the SCHLAFLY mark for beers had acquired secondary meaning, § 1052(e) did not bar the registration. The Court thus affirmed the TTAB's decision.

SCANDALOUS AND IMMORAL MARKS

Federal Circuit Bleeps Lanham Act Ban on Immoral or Scandalous Marks

Following the Supreme Court of the United States' 2017 decision in *Matal v. Tam* (*i.e.*, the Slants case) finding the proscription on the registration of disparaging trademarks under § 2(a) of the Lanham Act to be an unconstitutional restriction on free speech (*IP Update*, Vol. 20, No. 6), the US Court of Appeals for the Federal Circuit took up a similar constitutionality question with respect to the bar on registration of trademarks comprised of immoral or scandalous matter under § 2(a). The Federal Circuit differed somewhat from the Supreme Court's underlying rationale in the Slants case and concluded that the Lanham Act's bar on registering immoral or scandalous marks is an unconstitutional restriction on free speech. The Federal Circuit therefore reversed the Trademark Trial and Appeal Board's (TTAB's) holding that the appellant's application for the mark FUCT as used in connection with various apparel items was unregistrable. *In re: Erik Brunetti*, Case No. 15-1109 (Fed. Cir., Dec. 15, 2017) (Moore, J) (Dyk, J, concurring).

Section 2(a) of the Lanham Act provides that the US Patent and Trademark Office (PTO) may refuse to register a trademark that "[c]onsists or comprises immoral, deceptive or scandalous matter." To issue a refusal of a trademark application under this provision of the Trademark Act, the PTO looks to whether a "substantial composite of the general public" would find the mark scandalous in the context of contemporary attitudes and in the context of the marketplace as applied to the goods or services listed in the trademark application. The PTO and subsequently the TTAB refused registration of Erik Brunetti's trademark application for the mark FUCT, under reasoning that the general public would find the mark to be phonetically identical to the past tense of the verb "fuck," and thus vulgar and scandalous. Brunetti appealed.

Brunetti's arguments to the Federal Circuit were multi-pronged. He argued that substantial evidence does not support the TTAB's finding that the FUCT mark is vulgar. Brunetti also argued that even if the mark was vulgar, § 2(a) makes no express prohibition on the registration of vulgar marks. In the alternative, Brunetti also challenged the constitutionality of § 2(a)'s bar on immoral or scandalous marks.

The Court quickly did away with Brunetti's first set of claims, finding that substantial evidence relating to the FUCT mark, including dictionary definitions and evidence of sexual and misogynistic imagery associated with the mark and the FUCT goods, supported the TTAB's finding that the mark was vulgar. In addition, the Federal Circuit cited prior case law holding that the PTO may prove scandalousness of a mark by establishing that the mark is vulgar.

Turning to the constitutionality question, the court distinguished its holding from the Slants case, where the Supreme Court found the § 2(a) disparagement ban to qualify as an unconstitutional viewpoint restriction. Here, the Federal Circuit concluded that the ban on immoral or scandalous trademarks impermissibly discriminates based on content in violation of the First Amendment, and does not survive strict or intermediate scrutiny.

The PTO conceded that § 2(a)'s ban on registering immoral or scandalous marks is a content-based restriction. It argued, however, that the ban survives strict scrutiny review because trademark registrations qualify as either a government subsidy program or a limited public forum, and thus do not implicate the First Amendment. In the alternative, the PTO argued that trademarks are commercial speech implicating only an intermediate level of scrutiny under *Central Hudson*. The Federal Circuit rejected each of these arguments.

On the issue of trademarks as government subsidies, the Court swiftly pointed out that its own *en banc* decision in the Slants case (*IP Update*, Vol. 19, No. 1) rejected that argument, and held that the government's involvement in processing and issuing trademarks does not transform the registration scheme into a government subsidy or equivalent thereof—noting that the valuable benefits of a trademark registration are not analogous to Congress' grant of federal funds. The Court also rejected the PTO's claim that trademark registrations constitute a limited public forum, such that the government may restrict speech consistent with the limited purpose for which the public forum has been opened. In essence, the Court found that the PTO failed to articulate a reason why a database of registered trademarks creates a limited public forum, and warned against the dangers of implicating other databases, including DMV or marriage records, as limited public forums allowing for government speech restrictions.

Thus, the Federal Circuit determined that the PTO's rejection of trademarks under § 2(a)'s bar on immoral or scandalous marks targets expressive messages and is therefore subject to strict scrutiny, which it cannot survive. For good measure, the Court also explained that the immoral or scandalous bar is unconstitutional even if treated as regulation of commercial speech to be reviewed under the intermediate scrutiny framework of *Central Hudson*. After applying the four-part test applicable to commercial speech, the Court determined that all of the government's proffered interests in regulating speech via trademarks point to permitting burdens on speech that the government finds to be offensive. As such, the Court determined that the bar on immoral or scandalous marks under § 2(a) does not advance the government's asserted interests in a narrowly tailored manner.

Finally, addressing the concurrence written by Judge Dyk, which advocated for a narrow interpretation of § 2(a) as banning obscene speech, which would preserve the constitutionality of the statute, the majority of the Court noted that it cannot "stand in the shoes of the legislature and rewrite the statute," such that the words "immoral" and "scandalous" cannot be read to be limited only to trademarks of a sexual nature. Thus, while the Court lamented the potential proliferation of offensive trademarks in the marketplace, it held that the bar in § 2(a) against immoral or scandalous marks is unconstitutional because it violates the First Amendment, and reversed the TTAB's ruling that Brunetti's mark is unregistrable under § 2(a).

The USPTO later filed a petition for a rehearing, which was denied. It also filed a writ of *certiorari* which is currently pending at the Supreme Court.

REVERSE PASSING OFF

Tread Lightly: Tire Company's Use of Competitor's Mold Is Reverse Passing Off

Addressing a jury verdict concerning reverse passing off, fraud on the US Patent and Trademark Office (PTO), and trade dress validity and pleading, the US Court of Appeals for the Ninth Circuit affirmed the district court's judgment in a case involving sellers of industrial tires, finding that defendant's use of a competitor's tire mold to make its own tires created a likelihood of confusion. *OTR Wheel Eng'g v. West Worldwide Servs.*, Case Nos. 16-35897, -35936 (9th Cir. July 24, 2018) (Clifton, J).

OTR sold an industrial tire known as Outrigger and owned registered trade dress for the Outrigger tire tread design. West also sold industrial tires. West contacted OTR's manufacturer about making a 355-size tire, and OTR's manufacturer informed West that it would take months to complete a mold. West then asked OTR's manufacturer to make 355-tires for it using OTR's mold, but to buff out any identifying information. OTR's manufacturer ultimately agreed to West's proposal, and West sold tires made by using OTR's mold. As a result, one customer stopped purchasing 355-tires from OTR and started buying them from West.

OTR sued West for reverse passing off, trade dress infringement and trade dress counterfeiting under the Lanham Act. At trial, the jury found West liable for reverse passing off, but not liable for trade dress infringement or trade dress counterfeiting. The jury also found that OTR's tire tread trade dress was invalid and obtained through fraud on the PTO. The district court set aside the jury's determination that OTR had obtained its trade dress registration through fraud, but otherwise entered judgment based on the jury's verdict and ordered the PTO to cancel OTR's trade dress registration. West appealed, and OTR cross-appealed.

Reverse passing off occurs when a manufacturer or seller of goods or services misrepresents someone else's goods or services as its own. West argued that it could not be liable for reverse passing off because, under the Supreme Court of the United States *Dastar* decision, it merely copied OTR's tire rather than passing it off as its own. The Ninth Circuit rejected that argument, relying on West's requests to OTR's manufacturer to use OTR's tire mold and then West's sale of those tires as its own. Given the substantial similarities between the two tires, the Ninth Circuit also found that the jury's finding of a likelihood of confusion was supported by substantial evidence.

West argued that the district court wrongly set aside the jury's finding that OTR committed fraud on the PTO in securing a trade dress registration for the Outrigger tire's tread pattern. West pointed to two pieces of evidence to support its claim: a declaration from OTR submitted to the PTO showing that the Outrigger tire tread pattern had acquired distinctiveness, and an internal email touting the tire tread's self-cleaning ability, indicating that the Outrigger tire tread was functional and not eligible for trade dress registration (or protection). The Ninth Circuit found that the declaration did not constitute fraud because, even if the statements in the declaration were unsupported, the PTO did not rely on the declaration registering OTR's trade dress. With respect to the email suggesting the functionality of OTR's trade dress, the Ninth Circuit rejected the argument that OTR had omitted any material facts from the PTO—indeed, OTR had already informed the PTO that the tread design made the tires self-cleaning and was only seeking to protect the angle of the tread with its registration. The Ninth Circuit thus agreed that the district court properly set aside the jury's verdict on this claim.

The Ninth Circuit also affirmed the jury's finding that OTR's tire tread trade dress was invalid because it was functional or not distinctive. OTR argued that the jury found its trade dress invalid solely because the jury had found that OTR had committed fraud on the PTO, which was later set aside by the district court. The Ninth Circuit disagreed, finding there was substantial evidence to support the jury's finding based on functionality.

Finally, the Court addressed OTR's argument that the district court erred in refusing to instruct the jury on unregistered trade dress because OTR had failed to plead an unregistered trade dress claim. OTR argued that it had sufficiently pleaded such a claim by citing Section 43(a) of the Lanham Act (15 USC § 1125(a)), but the Ninth Circuit disagreed. Section 43(a) applies to registered and unregistered marks and trade dress, and the Court found that OTR had failed to put West on sufficient notice of its unregistered trade dress claim. The Ninth Circuit clarified that OTR's unregistered trade dress claim was only barred to the extent it was broader than OTR's registered trade dress claim.

PERMANENT INJUNCTIONS

Former Band Member Must Sail On Down the Line

The US Court of Appeals for the 11th Circuit upheld a permanent injunction precluding a musician from using the trademarks of his former band. *Commodores Entertainment Corp. v. Thomas McClary*, Case No. 16-15794 (11th Cir., Jan. 9, 2018) (Marcus, J). The Court further found that because the band members only owned the band's trademarks jointly, the trademark registration was not defective and the injunction was not overbroad.

This action began following two email blast advertisements by Thomas McClary, former member of the Commodores, a Grammy-Award-winning rhythm and blues, funk and soul band. The advertisements promoted McClary's new band with the phrase "'COMMODORES' founder Thomas McClary." In August 2014, the Commodores Entertainment Corporation (CEC), run by two original Commodores members who remain active with the band, sued for trademark infringement, false advertisement and trademark dilution, seeking damages and an injunction.

McClary was an original member of the Commodores but "split from the band" in 1984 to strike out on his own. He later formed a musical group that performed as "The 2014 Commodores" and "The Commodores Featuring Thomas McClary."

The district court granted CEC a preliminary injunction and enjoined McClary from using the marks. A panel of the 11th Circuit affirmed. After a full trial, the district court granted judgment as a matter of law to CEC and converted the preliminary injunction into a permanent one. McClary appealed the injunction order and the district court's oral ruling denying his motion to dismiss for failure to join an indispensable party.

Before addressing the injunction, the 11th Circuit addressed whether it had jurisdiction to review the denial of McClary's motion to dismiss for failure to join an indispensable party. The Court concluded that denials of motions to dismiss are not final orders reviewable on appeal, and declined to exercise pendant jurisdiction since resolution of the issues relating to the injunction did not depend on resolution of the motion to dismiss.

The 11th Circuit affirmed the permanent injunction order, concluding that McClary had no rights to "The Commodores" trademark because he left the group more than 30 years ago and abandoned his rights to the trademark once he departed from the group. The group, not the individual members, maintained joint ownership of the band's marks. In accordance with the band members' contracts with CEC, band members retained zero trademark ownership after departing from the band. McClary's lack of control over the group and its business decisions also supported the determination that McClary's trademark rights were extinguished when he left the group.

The Court found that the injunction was not overly broad since it does not preclude McClary from holding himself out as a former member and founder of the Commodores. The only limitations in the injunction were the prohibitions on McClary using the names "The 2014 Commodores" or "The Commodores featuring Thomas McClary," because such names are likely to cause confusion with the current members of the CEC. The Court also found the extraterritorial reach of the permanent injunction not to be overly broad because the foreign infringing activity was likely to have a substantial effect in the United States, and exercising jurisdiction would not affect the rights of other sovereign nations.

In this case, a petition for rehearing was denied at the Court of Appeals, and a writ of *certiorari* was denied at the Supreme Court.

McDermott
Will & Emery

PRELIMINARY INJUNCTION (IRREPARABLE HARM)

The Other Shoe Drops in Sneaker Trademark Case

Addressing the evidentiary standard for irreparable harm in a Lanham Act case, the US Court of Appeals for the Ninth Circuit affirmed the district court's grant of a preliminary injunction preventing a sneaker company from selling an allegedly infringing tennis shoe, but reversed the preliminary injunction on another shoe because although plaintiff established a likelihood of success on the merits, it failed to establish irreparable harm. *Adidas Am., Inc. v. Skechers USA, Inc.*, 890 F.3d 747 (9th Cir. 2018) (Nguyen, J) (Clifton, J, concurring in part and dissenting in part).

In just one chapter of what the Ninth Circuit called the parties' "history of trademark litigation," Adidas sued Skechers alleging that Skechers' Onix shoe infringed Adidas's unregistered trade dress for its Stan Smith shoe, and that Skechers' Cross Court shoe infringed and diluted Adidas's Three-Stripe trademark.

The Stan Smith Trade Dress

The Skechers "Onix"

Skechers Relaxed Fit Cross Court TR

The district court granted Adidas preliminary injunctions barring Skechers from selling either shoe, finding that Adidas established that (1) it was likely to succeed on the merits, (2) it was likely to suffer irreparable harm, and (3) the balance of equities tipped in its favor. Skechers appealed.

On appeal, Skechers challenged elements (1) and (2) of the preliminary injunction factors. The Ninth Circuit found that the district court had not abused its discretion in finding that Adidas had shown it was likely to succeed on the merits with respect to both sneakers for which preliminary injunction was sought. Likewise, the Court agreed that Adidas had shown it was likely to suffer irreparable harm if Skechers was not barred from selling the Onix shoe. The Court disagreed, however, with the district court's finding that Adidas was likely to suffer irreparable harm if the preliminary injunction was not granted barring Skechers' sale of the Cross Court shoe.

"The extensive and targeted advertising and unsolicited media, along with tight control of the supply of Stan Smiths, demonstrate that Adidas has built a specific reputation around the Stan Smith with 'intangible benefits.'" Further, Adidas's consumer surveys—which showed that approximately 20 percent of surveyed consumers believed that Skechers' Onix shoe was somehow affiliated with Adidas—"demonstrate that those intangible benefits will be harmed if the Onix stays on the market." Comparatively, Adidas's "narrow argument of irreparable harm as to the Cross Court: that Skechers harmed Adidas's ability to control its brand image because consumers who see others wearing Cross Court shoes associate the allegedly lesser-quality Cross Courts with Adidas and its Three-Stripe mark," fell short.

The Court specifically took issue with Adidas's evidence (or lack thereof) that Skechers has a "lower-quality, discount brand" reputation. Additionally, the Court noted that Adidas's theory of harm conflicted with its post-sale theory of consumer confusion:

If a consumer viewed a shoe from such a distance that she could not notice its Skechers logos, it is unlikely she would be able to reasonably assess the quality of the shoes. And the consumer could not conflate adidas's brand with Skechers supposedly "discount" reputation if she did not know the price of the shoe and was too far away to tell whether the shoe might a Skechers to begin with.

The "post-sale confusion from afar" would still cause irreparable harm to the Stan Smith shoes, however, because it would "harm the value Adidas derives from the scarcity and exclusivity of the Stan Smith brand."

Judge Clifton dissented in part, arguing that both preliminary injunctions should have been affirmed: "If a shoe bearing a mark that looks like the Three Stripes cannot reliably be identified as being an Adidas shoe, available at Adidas prices, and made to satisfy the quality standards of Adidas, then that Three-Stripe mark will lose some of its value and Adidas will be harmed."

ATTORNEYS' FEES

Second Circuit Joins Majority in Applying *Octane Fitness* to Lanham Act

In a fight involving sales of mattresses and alleged trash talking pertaining to those mattresses, the US Court of Appeals for the Second Circuit joined the Third, Fourth, Fifth, Sixth, Ninth and Federal Circuits in holding that the Supreme Court of the United States' decision in *Octane Fitness*—the case setting the standard for determining whether an award of attorneys' fees under the Patent Act is permissible (*IP Update*, Vol. 18, No. 8)—also applies to the Lanham Act. *Sleepy's LLC v. Select Comfort Wholesale Corp., et. al.*, Case Nos. 15-3560; 16-3595 (2d Cir. Nov. 27, 2018) (Sack, J).

Sleepy's, a mattress retailer, entered into a retail partnership with mattress manufacturer and retailer Select Comfort, to sell Select Comfort's "Personal Preference" line of "Sleep Number" beds. During the arrangement, Select Comfort retained an exclusive right to sell its "core" line of the Sleep Number beds. Not long into the relationship, Sleepy's became dissatisfied with its poor sales of the Personal Preference line, and started to suspect that the poor performance was due to Select Comfort's disparagement of Sleepy's stores and the Personal Preference mattress line sold by Sleepy's.

Sleepy's suspicions were confirmed through secret shopping efforts during which Select Comfort salespeople made statements to Sleepy's secret shoppers stating that the Personal Preference line was inferior to Select Comfort's core line in certain respects and was not protected by warranty. Sleepy's then brought a lawsuit against Select Comfort alleging:

- Breach of contract
- Breach of good faith and fair dealing
- Unfair competition
- Slander *per se*
- Fraudulent inducement
- Violation of the Lanham Act due to false and misleading descriptions of Sleepy's products

The district court decided in favor of Select Comfort and granted an award of attorneys' fees to Select Comfort under the "exceptional case" provision of the Lanham Act, finding "overtones" indicating that plaintiff's case was filed as a "competitive ploy." Sleepy's appealed.

On appeal, Sleepy's argued that the district court improperly dismissed each of its claims and that attorneys' fees should not have been granted. Out of the six theories of liability alleged, the Second Circuit found that the district court erred only in dismissing the slander cause of action and remanded the slander claims for the district court to determine whether

Sleepy's consented to the allegedly defamatory statements. The Court also vacated the fee award judgment on grounds that the *Octane Fitness* standard should have been applied in determining whether the fees were, in fact, warranted. The Court noted that, on remand, the district court must also provide adequate justification for its apportionment of the fees.

With respect to the slander claims, the Second Circuit agreed with Sleepy's that the district court erroneously determined that the publication element of the slander cause of action could not be satisfied under New York law if the defamatory statement was made only to the defamed company's representatives. Instead, the Court concluded that Select Comfort's statements could meet the publication element despite the fact that they were made to Sleepy's representatives. However, the Court instructed that the district court should consider on remand whether Sleepy's consented to the defamatory statements by eliciting them largely for the purpose of enabling the lawsuit.

Finally, the Second Circuit concluded that the district court erred in its fee determination, both as to whether the fees were warranted as an "exceptional" Lanham Act case and as to the amount. While the district court relied on older Second Circuit cases in granting the fee award, the 2014 decision by the Supreme Court in *Octane Fitness* ruled that an "exceptional case" under the Patent Act's attorneys' fees provision is one that stands out from others with respect to the substantive strength of a party's litigating position or the unreasonable manner in which the case was litigated. Joining the majority of the circuits, the Court held that *Octane Fitness* also applies to the Lanham's Act identically worded attorneys' fees provision, and thus remanded the issue to the district court for a new determination under the *Octane Fitness* standard. The Court noted that if the district court again decided that the case was "exceptional" under the Lanham Act and thus warranted attorneys' fees, it must properly apportion the fees specific to only the Lanham Act claims. In particular, the Second Circuit noted that the district court's initial decision failed to provide a rationale for its prior apportionment to enable a reviewing court to determine whether the apportionment properly aligned with the Lanham Act claims alleged.

In sum, the Second Circuit affirmed the majority of the district court's rulings, but nevertheless vacated and remanded the issues of slander *per se* and the award of attorneys' fees under the Lanham Act.

BANKRUPTCY

Rejecting Trademarks and Exclusive Distribution Rights in Bankruptcy

The US Court of Appeals for the First Circuit concluded that a debtor in bankruptcy is entitled to reject grants of trademark licenses and exclusive distribution rights. Although Chapter 11 of the Bankruptcy Code protects a licensee's rights to intellectual property when the licensor seeks reorganization, trademark licenses and exclusive distribution rights are not "intellectual property" that qualifies for this protection. *In re Tempnology, LLC*, 879 F.3d 389 (1st Cir.) (Kayatta, J) (Torruella, J, concurring in part, dissenting in part).

Tempnology made clothing and accessories (such as towels, socks and headbands) designed to remain cool even during exercise. Tempnology marketed these products under the brands "Coolcore" and "Dr. Cool," and protected its products and brand names using patents, trademarks and other intellectual property rights. Tempnology's business suffered heavy losses, so it sought reorganization under Chapter 11 and to reject some of its contracts that were still in effect.

One of those contracts was a "Co-Marketing and Distribution Agreement" between Tempnology and Mission. The agreement contained three provisions relevant to the Court's analysis, in which Tempnology granted to Mission:

- An exclusive right to distribute certain Tempnology products
- A non-exclusive license to Tempnology intellectual property other than trademarks
- A non-exclusive license to certain Tempnology trademarks

The trademark license was accompanied by standard restrictions designed to ensure quality control for Mission's use of the Tempnology trademarks.

Under Chapter 11 of the Bankruptcy Code, a debtor may "reject" executory contracts, which results in the other party losing the ability to compel the debtor's performance. Section 365(n) contains an exception: when the debtor is a licensor of intellectual property rights, the licensee may retain its rights to the intellectual property. The parties disagreed on whether § 365(n) allowed Mission to retain its exclusive distribution rights and its trademark license.

The Court determined that § 365(n) does not protect exclusive distribution rights. An exclusive distribution right is simply a restriction on a right to sell certain products and is distinct from an intellectual property license. Mission could have this exclusive distribution right even if it did not have an intellectual property license. Section 365(n) does not protect an exclusive right to sell merely because the right appears in an agreement that also contains an intellectual property license.

The Court also determined that § 365(n) does not allow a licensee to retain rights under a trademark license. The definition of "intellectual property" in § 365(n) lists six types of intellectual property, none of which are trademarks. The purpose of a debtor's ability to reject executory contracts is to allow the debtor to free itself of certain obligations and achieve a successful reorganization. A trademark license might impede such a result, because trademark license agreements generally require the licensor to maintain quality control over products bearing the licensed trademark. Such obligations existed in the Tempnology-Mission agreement, including standard obligations prohibiting Mission from using the trademarks in a disparaging way, requiring Mission to use the trademarks in compliance with Tempnology's trademark usage guidelines, and giving Tempnology the right to review and approve Mission's use of the marks. Allowing Mission to retain its trademark license would be contrary to the purpose of freeing Tempnology of obligations in its executory contracts.

On October 26, 2018, the Supreme Court granted the writ of *certiorari* to decide whether an agreement to use a licensed trademark can be terminated under 11 U.S.C. § 365(n). Arguments were heard on February 20, 2019 and a final decision is pending.

TRADE DRESS

Boat Company's Trade Dress, Trade Secrets Claims Spring a Leak

Addressing a fishing boat company's claim for trade dress infringement and misappropriation of trade secrets, the US Court of Appeals for the 11th Circuit affirmed a grant of summary judgment for the defendant, a rival company, where there was no likelihood of confusion or protectable trade secret. *Yellowfin Yachts, Inc. v. Barker Boatworks, LLC*, 898 F.3d 1279 (11th Cir. 2018) (Tjoflat, J).

Yellowfin Yachts manufactures high-end, center-consoled fishing boats that, according to Yellowfin, all feature unique trade dress described as "the same swept sheer line, meaning a gently sloped 's'-shaped line that runs upward from the point at which a boat's hull intersects with the deck to the boat's lofted bow." In 2006, Kevin Barker began working for Yellowfin as vice president of sales. In 2014 he left to start his own boat manufacturing company, Barker Boatworks. While working for Yellowfin, Barker never signed an employment agreement, and on his last day, Barker downloaded files from Yellowfin's computer server detailing consumer purchasing history and manufacturing information, including drawings. When Yellowfin discovered that Barker's competing boats also featured a sheer line, it sued Barker Boatworks for trade dress infringement and violation of Florida's Trade Secret Act.

The district court granted Barker's motion for summary judgment on all claims, finding that (1) "Yellowfin did not adequately describe any distinctive feature of its sheer line," (2) "its sheer line is functional and thus not protectable as trade dress," and (3) "no reasonable jury could conclude that a potential buyer would likely confuse a Barker boat for a Yellowfin." Furthermore, the district court found that Yellowfin had not identified a protectable trade secret, and that even if it could, Yellowfin did not make "reasonable efforts" to protect those trade secrets. Yellowfin appealed.

Yellowfin needed to prove three elements to prevail on the trade dress claim:

- Its unique trade dress is inherently distinctive (or has acquired secondary meaning).
- The trade dress is not functional.
- The defendant's trade dress is such that it is likely to cause confusion with Yellowfin's.

In this case, the Court found that the third factor was dispositive, and it therefore did not analyze the other two requirements.

Yellowfin argued that the likelihood of confusion occurred after the sale of the product, *i.e.*, post-sale confusion. The Court found that many boats utilized the "sweeping sheer line," however, and that Yellowfin's trade dress was therefore relatively weak. Moreover, it was "unreasonable" to assume that the relevant sophisticated and "discerning" consumers would confuse a Yellowfin boat with a Barker boat given the prominent and distinct logos on the boats and the differences in the overall design, including the boat hull.

For its trade secrets claim, Yellowfin contended that its relevant trade secrets were the "source information" (the identity of and contracts with various sources) and "customer information" (information about past customers, including contact information and previous order specifications) that Barker took with him on his last day. The Florida Uniform Trade Secrets Act defines a trade secret as (1) information that (2) derives economic value from not being generally known by parties that could use it for financial gain, and (3) is subject to efforts to maintain its secrecy. The Court affirmed the district court's decision based on Yellowfin's failure to protect these alleged trade secrets. Specifically, the Court noted that Yellowfin let Barker keep the customer information on his personal laptop and phone (and did not ask him to delete this information when he left the company) and had failed to label the information as "confidential."

Guiding Light in Copyright and Trademark Dispute

Addressing the denial of a motion to amend a complaint, the US Court of Appeals for the Eighth Circuit affirmed the district court's dismissal of trade dress infringement, fraud and tortious interference claims as futile, but reversed the district court's dismissal of a trademark infringement claim. *Munro v. Lucy Activewear, Inc*., 899 F.3d 585 (8th Cir. 2018) (Shepherd, J).

Bruce Munro is known around the world for designing and installing large-scale outdoor light exhibitions, two of which are entitled "Field of Light" and "Forest of Light." Lucy Activewear contacted Munro and proposed featuring one of his light exhibitions in an advertising campaign in Boston. Munro provided Lucy with confidential information relating to his light exhibitions, including attendance numbers, online and social media traffic, and promotional methods for his exhibitions. Munro also informed Lucy that he was in separate discussions with the city of Boston for an exhibition.

In 2013, Lucy launched "Light Forest," an interactive light exhibition in Boston and a multi-media advertising campaign featuring the exhibition. Munro filed suit against Lucy in Texas state court in 2015 alleging trademark infringement, trade dress infringement and usurpation of a prospective business opportunity. In 2016 the case was transferred to the district court in Minnesota, where Munro moved to a file an amended complaint, and Lucy renewed a Rule 12(b)(6) motion to dismiss for failure to state a claim. The district court denied Munro's motion to amend his complaint as futile and granted Lucy's motion to dismiss. Munro appealed.

Munro argued that the district court erred when it denied his motion to amend his claims for trade dress and trademark infringement, fraud and tortious interference. Starting with the trade dress claims, the Eighth Circuit found that Munro's trade dress claim sought to protect his creative designs for light exhibitions from being "knocked off." However, copyright law, not trademark law, protects creative designs. As a result, Munro's trade dress allegations were improper, and amending the complaint would not salvage the claim.

The Eighth Circuit next addressed the fraud claim, noting that in order to withstand a motion to dismiss, fraud allegations must be pleaded with specificity. Munro alleged that Lucy made promises to keep the information he provided during their discussions confidential, but made those promises knowing that it would use the information for its own light exhibition. Munro made general allegations in the amended complaint relating to the time of the promises, the person making the promises and the substance of the promises. The Court concluded that the amended complaint did not provide sufficient facts to support the allegations that Lucy intended to defraud Munro when it made the promises. Therefore, it found the proposed amendment relating to fraud futile.

Turning to the tortious interference claims, the Eighth Circuit did not address the merits of the claim, but rather analyzed whether copyright law preempted the claim. The Copyright Act preempts state law claims if the work at issue is copyrightable subject matter and the state law rights are equivalent to rights granted under the Copyright Act. The Court held that Munro's light exhibitions were sculptural works, which clearly fall within the scope of copyrightable subject matter. The Court further held that Munro's state law claim was based on Lucy's copying or reproduction of Munro's light exhibitions, which is within the general scope of, or equivalent to, rights granted under copyright law. As a result, Munro's tortious interference claim was preempted by copyright law, and the denial of the motion to amend the complaint was proper.

Addressing the trademark infringement claim, the Eighth Circuit noted that the district court had rejected the claim for trademark infringement because Munro failed to allege facts that the names of his exhibitions, "Field of Light" and "Forest of Light," served as source identifiers for goods or services. On this claim the Eighth Circuit reversed, finding that Munro was the source of the goods, and "Field of Light" and "Forest of Light" were capable of identifying Munro as the source of his light exhibitions. Therefore, Munro stated a viable claim for trademark infringement.

RIGHT OF PUBLICITY

NO PENALTY: FANTASY FOOTBALL DOES NOT VIOLATE PLAYERS' RIGHT OF PUBLICITY

The US Court of Appeals for the Seventh Circuit affirmed a district court's dismissal of a right of publicity complaint, finding that the fantasy sports operators' use of player information fell within the "newsworthy value" exception. *Daniels v. FanDuel, Inc.*, Case No. 17-3051. (7th Cir., Nov. 29, 2018) (Easterbrook, J).

Three former college football players sued fantasy football organizations FanDuel and DraftKings claiming that the use of their names, images and statistics on FanDuel and DraftKings' websites violated their right of publicity under Indiana law. The fantasy football organizations argued that their use was protected under two Indiana right of publicity law exceptions: the newsworthy value exception and the public interest exception. The district court agreed and dismissed the claims. The former college football players appealed.

The Seventh Circuit certified a question to the Indiana Supreme Court, asking whether, under Indiana law, fantasy sports organizations that receive payment to play and then pay cash prizes to customers must obtain the consent of sports players whose names, pictures and statistics they use. The Indiana Supreme Court responded that the use of college athletes' names, pictures and statistics by fantasy sports operators does not violate Indiana right of publicity law because the use falls under the newsworthy value exception since these players' names, images and statistics are published in newspapers and websites nationwide, and it would not be sound law to prevent fantasy sports operators from using such publicly available information. The Indiana Supreme Court noted, however, that any implication that a player is commercially endorsing the fantasy games would not fit under an exception. While the Indiana Supreme Court did not decide whether there was commercial endorsement in this case, it stated that it was unlikely, given that fantasy sports include all players, which generally does not create an impression that one particular player is endorsing the organization. The Indiana Supreme Court did not decide whether use of an athlete's name, likeness and statistics falls into the public interest exception.

The Seventh Circuit affirmed the district court finding, basing its decision predominately on the Indiana Supreme Court's answer that fantasy sports operators' use of player information falls within the newsworthy value exception. The Court noted that the Indiana Supreme Court did not decide whether fantasy sports amount to gambling, or whether gambling would make such organizations ineligible for these exceptions, but stated that such questions should not be decided by the district courts and that therefore there were no further issues for the federal courts to decide.

TRADE SECRETS / NEVADA UTSA

SLOT MACHINE HOLDS ARE NOT TRADE SECRETS

MEI-GSR Holdings, LLC v. Peppermill Casinos, Inc., 416 P.3d 249 (Supr. Ct. Nev. 2018) (*en banc*) (Cherry, J).

The Supreme Court of Nevada ruled that the Nevada trade secret law does not preclude a defendant from demonstrating that information is readily ascertainable and therefore not a trade secret even when the defendant acquired the information by improper means.

The issue arose when Ryan Tor, a Peppermill employee, went to the Grand Sierra Resort owned by MEI-GSR Holdings and was caught using a slot machine key to access several of GSR's slot machines. The Nevada Gaming Control Board investigated the matter and found that Tor had accessed the machines to obtain their "par value." A par value is a gaming industry term for the theoretical percentage that the casino should retain. The information for a single machine at any point in time is essentially worthless, but the par value of an entire casino floor can be very useful to a competitor.

After the investigation, the Gaming Board found no evidence that Peppermill used the information to adjust its own machines. GSR then sued Tor and Peppermill for violating the Nevada Trade Secret Act. The Nevada statute defines a trade secret as information that "[d]erives independent economic value, actual or potential, from not being generally known to, and *not being readily ascertainable by proper means by the public or any other persons* who can obtain commercial or economic value from its disclosure or use."

Peppermill admitted to improperly obtaining GSR's par values. Prior to the commencement of the jury trial, GSR proposed a jury instruction that under the Nevada statute, a trade secret is not "readily ascertainable" under the statute when the means of acquiring the information falls below the generally accepted standards of commercial morality and reasonable conduct, even if means of obtaining the information violated no government standard, did not breach any confidential relation, and did not involve any fraudulent or illegal conduct. Even if the information that is asserted to be a trade secret could have been duplicated by other proper means, the information is not "readily ascertainable" if in fact it was acquired by improper means.

The district court disagreed and instead instructed the jury that (1) if information is obtained through reverse engineering, the actor is not liable because the information has not been acquired improperly, and (2) a trade secret may not be readily ascertainable by proper means, including by reverse engineering. Ultimately the jury was not convinced that par values were trade secrets. GSR appealed.

The Nevada Supreme Court affirmed the jury instruction, finding that Nevada's trade secret law does not preclude a defendant in a misappropriation of trade secrets lawsuit from showing that certain information is readily ascertainable and thus not a trade secret, even though the defendant "acquired the information through improper means." The Court reasoned that although a defendant's acquisition of information by proper means is a relevant consideration in determining whether information is a trade secret, a defendant's acquisition of information by improper means does not preclude a defendant from demonstrating that the information is readily ascertainable by others and thus not a trade secret.

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