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# 2017 Intellectual Property Law Year in Review

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## INTRODUCTION

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In a year where politics dominated the headlines, intellectual property law still captured a share of the nation's spotlight. 2016 brought big changes in the law and its application. In fact, the US Supreme Court, with only eight justices, decided three patent-related cases this year, and has already granted *certiorari* for three cases coming up in 2017. From foreclosing appellate review in most *inter partes* review proceedings, to affirming a broader claim construction standard to be applied by the US Patent Trial and Appeal Board (the Board), and finally, to leaving the decision to award enhanced damages at the discretion of the district courts and approving an apportionment analysis for design patent damages, the Supreme Court has affected litigators' strategy, both at the Patent Trial and Appeals Board and in the district courts. Additionally, ever since the Supreme Court's *Alice* decision in 2014, the Federal Circuit has been busy trying to interpret subject matter eligibility in software patents, and 2016 was no exception. Other areas of intellectual property, such as copyrights, trademarks and trade secrets, have also had an active year, both at the district court and appellate court levels.

### **Looking Back at 2016**

Three major topics took over the intellectual property headlines in 2016, including patent subject matter eligibility, *inter partes* review institution and appeal and design patent damages. After the Supreme Court's 2014 decision in *Alice Corp. Pty. v. CLS Bank Int'l*, 134 S. Ct. 2347, setting forth the standard that abstract ideas implemented using a computer are not patent eligible, the district courts and the Federal Circuit have been grappling with various software claims ultimately delivering multiple pro-eligibility rulings. See, e.g., *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327 (Fed. Cir. 2016) (Hughes, J), *BASCOM Global Internet Servs., Inc. v. AT&T Mobility LLC*, 827 F.3d 1341 (Fed. Cir. 2016) (Chen, J) (Newman, J, concurring), *reh'g en banc denied*, (Aug. 11, 2016), and *McRO, Inc. v. Bandai Namco Games America Inc., et al.*, 837 F.3d 1299 (Fed. Cir. 2016) (Reyna, J). These decisions interpreting software patents in the wake of *Alice* showed that not every software patent claims an abstract idea, and even those that do might have been saved if an inventive concept is involved. Essentially, the Federal Circuit is developing an evolving standard when analyzing software patents, giving patent owners a clearer definition of what is required for patent eligibility.

Regarding *inter partes* review (IPR) institution and appeals, the Federal Circuit confirmed that the Board has the authority to institute IPR on some but not all claims challenged in a petition. *Synopsys, Inc. v. Mentor Graphics Corp.* 814 F.3d 1309 (Fed. Cir. 2016) (Dyk, J) (Newman, J, dissenting). Furthermore, the Supreme Court addressed the standards for both claim construction at the Board and appeals from it, finding that (1) the broadest reasonable interpretation standard should be used to construe claims, rather than the narrower standard used in district courts, and (2) Board decisions regarding IPR institution cannot be appealed unless the Board exceeds its authority. *Cuozzo Speed Techs., LLC v. Lee*, 136 S.Ct. 2131 (2016). Under this ruling, the Supreme Court made it much harder to challenge IPR institution. The Supreme Court has, however, left the door open for challenges to the Board's authority in deciding to institute.

Finally, the Supreme Court unanimously overturned a \$400 million verdict in holding that apportionment applies to design patent damages. *Samsung Elecs. Co. v. Apple, Inc.*, 137 S.Ct. 429 (2016). Writing for the Court, Justice Sotomayor elaborated that under Section 289 of the Patent Act, the definition of the relevant "article of manufacture" on which design patent infringement damages are based encompasses not only the end product sold to the consumer, but also simple components of that product.

### **Looking Ahead to 2017**

The election of Donald Trump means changes for the US Patent and Trademark Office, including who will ultimately be the new director and how they will approach patents and innovation. Another big question that remains to be answered is who will fill the vacancy left on the Supreme Court by the late Justice Antonin Scalia, and what that substitution will mean for intellectual property law.

Regarding patent subject matter eligibility since the Supreme Court's decision in *Alice*, a clear understanding or definitive test for determining what is an "abstract idea" has been left unanswered. The Federal Circuit has however fleshed out some of the details in 2016, leading patent owners to a clearer understanding of what is required for patent validity. It is likely, therefore, that 2017 will see more software patents backed by stronger arguments of patent eligibility.

2016 also confirmed the popularity of using *inter partes* review and covered business method review proceedings to challenge the validity of patents before the USPTO Appeals Board. These proceedings will likely continue to grow in 2017. Recently published statistics confirm that in the month of October, the number of IPRs filed increased approximately 40 percent compared to those filed in October 2015. The Supreme Court decision in *Cuozzo* that *inter partes* review institution decisions “shall be final and nonappealable,” is consistent with the general trend of increasing patent challenges. However, while the Court foreclosed most legal and factual challenges to decisions on institutions, constitutional challenges remain, and we will likely see those constitutional questions tested in 2017. Furthermore, the Supreme Court’s affirmation of the “broadest reasonable construction” standard for claim construction by the Board preserves that forum’s advantage for defendants over district court. Thus, in 2017, *inter partes* reviews will continue to be an effective option for accused infringers to prove that a patent is invalid and should never have issued.

Finally, under the Supreme Court’s holding in *Samsung*, design patent holders will likely attempt to define the article of manufacture as broadly as possible to ensure the maximum damages award. As the Supreme Court has left open the appropriate method to define the relevant article of manufacture, the Federal Circuit is likely to face the question in 2017.

With three cases already slated for oral argument in 2017, deciding questions of patent exhaustion, the relation between the patent venue statute (§1400(b)) and the general venue statute (§1391), and the registrability of disparaging trademarks, it looks as though the Supreme Court will continue to shape the law of intellectual property in a very active way again in the New Year.

## TABLE OF CONTENTS

INTRODUCTION .....	2
<b>PATENTS</b>	
ANTITRUST .....	10
<i>TransWeb, LLC v. 3M Innovative Properties Co.</i> , 812 F.3d 1295 (Fed. Cir. 2016) .....	10
<i>Apotex Inc., et al. v. Acorda Therapeutics, Inc.</i> , 823 F.3d 51 (2d Cir. 2016) .....	11
<i>In Re: Nexium (Esomeprazole) Antitrust Litigation</i> , Case Nos. 15-2005, -2006, -2007. (1st Cir., Nov. 21, 2016) .....	12
BIOSIMILARS .....	13
<i>Amgen, Inc. v. Apotex, Inc.</i> , 827 F.3d 1052 (Fed. Cir. 2016) .....	13
CLAIM CONSTRUCTION .....	14
<i>Eon Corp. IP Holdings LLC v. Silver Spring Networks, Inc.</i> , 815 F.3d 1314 (Fed. Cir. 2016) .....	14
<i>David Netzer Consulting Engineering LLC v. Shell Oil Co.</i> , 824 F.3d 989 (Fed. Cir. 2016) .....	15
<i>Sport Dimension, Inc. v. The Coleman Company, Inc.</i> , 820 F.3d 1316 (Fed. Cir. 2016) .....	16
<i>LifeNet Health v. LifeCell Corp.</i> , 837 F.3d 1316 (Fed. Cir. 2016) .....	17
DAMAGES .....	19
<i>Commonwealth Scientific and Industrial Research Organisation v. Cisco Systems, Inc.</i> , 809 F.3d 1295 (Fed. Cir. 2015) .....	19
<i>Apple Inc. v. Samsung Elecs. Co.</i> , 809 F.3d 633 (Fed. Cir. 2015) .....	20
<i>Rosebud LMS Inc. v. Adobe Systems Inc.</i> , 812 F.3d 1070 (Fed. Cir. 2016) .....	22
<i>Samsung Elecs. Co. v. Apple, Inc.</i> , 137 S.Ct. 429 (2016) .....	23
DIVIDED INFRINGEMENT .....	25
<i>Mankes v. Vivid Seats Ltd.</i> , 822 F.3d 1302 (Fed. Cir. 2016) .....	25
EQUITABLE ESTOPPEL .....	26
<i>High Point SARL v. Sprint Nextel Corp.</i> , 817 F.3d 1325 (Fed. Cir. 2016) .....	26
EU COMPETITION LAW .....	27
<i>Sanofi-Aventis v. Genentech</i> , Case C-567/14 (CJEU, Mar. 17, 2016) .....	27
EXHAUSTION .....	29
<i>Lexmark Int'l, Inc., v. Impression Products, Inc.</i> , 816 F.3d 721 (Fed. Cir. 2016) .....	29
INDEFINITENESS .....	31
<i>The Dow Chemical Co. v. Nova Chemicals Corp. et al.</i> , 809 F.3d 1223 (Fed. Cir. 2015) .....	31
<i>Cox Communications, Inc. v. Sprint Communication Co.</i> , 838 F.3d 1224 (Fed. Cir. 2016) .....	32
INDIRECT INFRINGEMENT .....	33
<i>Warsaw Orthopedic, Inc., et al. v. NuVasive, Inc.</i> , Case Nos. 13-1576; -1577 (Fed. Cir., June 3, 2016) .....	33
<i>Life Technologies Corporation v. Promega Corporation</i> , Case No. 14-1583 (US, June 27, 2016) .....	34
INVENTORSHIP .....	35
<i>Vapor Point LLC v. Moorhead</i> , Case Nos. 15-1801; -2003 (Fed. Cir., Aug. 10, 2016) .....	35
<i>Lismont v. Alexander Binzel Corp.</i> , Case No. 14-1846 (Fed. Cir., Feb. 16, 2016) .....	37
ITC .....	39

<i>ClearCorrect Operating, LLC, et al. v. Int'l Trade Comm'n</i> , Case No. 14-1527 (Fed. Cir., Mar. 31, 2016).....	39
<b>JURISDICTION</b> .....	<b>40</b>
<i>Acorda Therapeutics Inc. v. Mylan Pharm. Inc.</i> , 817 F.3d 755 (Fed. Cir. 2016).....	40
<i>Microsoft Corp. v. GeoTag, Inc.</i> , 817 F.3d 1305 (Fed. Cir. 2016) .....	41
<i>In Re: TC Heartland LLC</i> , 821 F.3d 1338 (Fed. Cir. 2016) .....	42
<i>Asia Vital Components Co., Ltd. v. Asetek Danmark A/S</i> , 837 F.3d 1249 (Fed. Cir. 2016) .....	43
<i>In re Rearden LLC</i> , 841 F.3d 1327 (Fed. Cir. 2016) .....	44
<b>LACHES</b> .....	<b>45</b>
<i>SCA Hygiene Products v. First Quality Baby Products</i> , Case No. 15-927 (Supr. Ct., May 2, 2016) .....	45
<b>LICENSING</b> .....	<b>46</b>
<i>JP Morgan Chase Bank, N.A. v. DataTreasury Corp.</i> , Case No. 15-40905 (5th Cir., May 19, 2016).....	46
<i>Medtronic, Inc. v. Commissioner, TC Memo. 2016-112</i> (Tax, June 9, 2016) .....	47
<b>OBVIOUSNESS</b> .....	<b>48</b>
<i>Purdue Pharma L.P., et al. v. Epic Pharma, LLC, et al.</i> , Case Nos. 14-1294, -1296, -1306, -1307, -1311, -1312, -1313, -1314 (Fed. Cir., Feb. 1, 2016) .....	48
<i>Intelligent Bio-systems Inc. v. Illumina Cambridge LTD</i> , Case No. 15-1693 (Fed. Cir., May 9, 2016) .....	50
<i>Arendi SARL v. Apple Inc., et al.</i> , Case No. 15-2073 (Fed. Cir., Aug. 10, 2016).....	51
<i>ClassCo, Inc. v Apple, Inc.</i> , Case No. 15-1853 (Fed. Cir., Sept. 22, 2016).....	52
<b>PATENTABILITY / ON-SALE BAR</b> .....	<b>53</b>
<i>Ariosa Diagnostics, Inc., et al. v. Sequenom, Inc., et al.</i> , 809 F.3d 1282 (Fed. Cir. 2015) .....	53
<i>Merck &amp; CIE v. Watson Labs., Inc.</i> , 822 F.3d 1347 (Fed. Cir. 2016) .....	54
<i>The Medicines Co. v. Hospira, Inc.</i> , 827 F.3d 1363 (Fed. Cir. 2016) .....	55
<b>PRIVILEGE</b> .....	<b>56</b>
<i>In Re Queen's University at Kingston, PARTEQ Research and Development</i> , 820 F.3d 1287 (Fed. Cir. 2016).....	56
<i>In re Silver</i> , Case No. 05-16-00774 (Tex. App., Aug. 17, 2016).....	58
<b>PROSECUTION</b> .....	<b>59</b>
<i>Immersion Corp. v. HTC Corp.</i> , Case No. 15-1574 (Fed. Cir., June 21, 2016).....	59
Post-Prosecution Pilot (P3).....	60
After Final Consideration Pilot 2.0 and Quick Path Information Statement Pilot Programs.....	61
<b>PTAB PROCEDURE</b> .....	<b>62</b>
<i>Ethicon Endo-Surgery, Inc. v. Covidien LP</i> , Case No. 14-1771 (Fed. Cir., Jan. 13, 2016) .....	62
<b>STANDARD OF REVIEW</b> .....	<b>63</b>
<i>Apple Inc. v. Samsung Elecs. Co., Ltd. et al.</i> , Case Nos. 15-1171; -1195; -1994 (Fed. Cir., Oct. 7, 2016).....	63
<b>SUBJECT MATTER ELIGIBILITY</b> .....	<b>64</b>
<i>Enfish, LLC v. Microsoft Corp.</i> , 822 F.3d 1327 (Fed. Cir. 2016) (Hughes, J); <i>In re TLI Comm's LLC Pat. Lit.</i> , 823 F.3d 607 (Fed. Cir. 2016) (Hughes, J); <i>Ahold USA Inc. v. Advanced Marketing Systems, LLC</i> , Case No. CBM2016-00013, Paper 6 (May 26, 2016) (Giannetti, APJ) .....	64
<i>BASCOM Global Internet Servs., Inc. v. AT&amp;T Mobility LLC</i> , 827 F.3d 1341 (Fed. Cir. 2016) .....	65
<i>Rapid Litigation Management Ltd. v. CellzDirect, Inc.</i> , 827 F.3d 1042 (Fed. Cir. 2016).....	66

<i>McRO, Inc. v. Bandai Namco Games America Inc., et al.</i> , 837 F.3d 1299 (Fed. Cir., Sept. 13, 2016) (Reyna, J); <i>Affinity Labs of Texas, LLC v. DirecTV, LLC, et al.</i> , Case Nos. 15-1845; -1846; -1847; -1848 (Fed. Cir., Sept. 23, 2016) (Bryson, J); <i>Affinity Labs of Texas, LLC v. Amazon.com Inc., et al.</i> , 838 F.3d 1266 (Fed. Cir. 2016) (Bryson, J); <i>Intellectual Ventures I LLC v. Symantec Corp., et al.</i> , Case Nos. 15-1769; -1770; -1771 (Fed. Cir., Sept. 30, 2016) (Dyk, J) (Mayer, J, concurring) (Stoll, J, dissenting in part); <i>FairWarning IP, LLC v. Iatric Systems, Inc.</i> , 839 F.3d 1089 (Fed. Cir. 2016) (Stoll, J); <i>Synopsys, Inc. v. Mentor Graphics Corporation</i> , Case No. 15-1599 (Fed. Cir., Oct. 17, 2016) )	67
<i>BASCOM Global Internet Servs., Inc. v. AT&amp;T Mobility LLC</i> , 827 F.3d 1341 (Fed. Cir. 2016) (Chen, J) (Newman, J, concurring), <i>reh'g en banc denied</i> , (Aug. 11, 2016); <i>McRO, Inc. v. Bandai Namco Games America Inc., et al.</i> , 837 F.3d 1299 (Fed. Cir. 2016) (Reyna, J)	71
<b>WILLFUL INFRINGEMENT</b>	<b>72</b>
<i>Halo Electronics, Inc. v. Pulse Electronics, Inc., et al.</i> , 136 S.Ct. 1923 (2016) (Roberts, CJ); <i>Stryker Corp. v. Zimmer, Inc.</i> , Case No. 14-1520 (June 13, 2016) (Roberts, CJ)	72
<i>Stryker Corp. v. Zimmer</i> , Case No. 13-1668 (Fed. Cir., Sept. 12, 2016) (Prost, CJ), <i>reh'g denied</i> , (Dec. 2, 2016); <i>WesternGeco L.L.C. v. Ion Geophysical Corp.</i> , Case Nos. 13-1527; 14-1121; -1526; -1528 (Fed. Cir., Sept. 21, 2016) )	74
<b>CBM APPELLATE REVIEW</b>	<b>76</b>
<i>SightSound Tech., LLC v. Apple Inc.</i> , Case Nos. 15-1159, -1160 (Fed. Cir., Dec. 15, 2015)	76
<i>Blue Calypso, LLC v. Groupon, Inc.</i> , Case Nos. 2015-1391; -1393; -1394; -1396; -1397; -1398; -1399; -1401 (Fed. Cir., Mar. 1, 2016)	77
<b>CBM INSTITUTION</b>	<b>78</b>
<i>Apple Inc. v. Smartflash LLC</i> , Case Nos. CBM2015-00015, -00018 (PTAB, Dec. 8, 2015)	78
<i>Great West Casualty Co. v. Intellectual Ventures II LLC</i> , Case No. CBM2015-00171 (PTAB, Feb. 9, 2016)	79
<i>Qualtrics, LLC, v. OpinionLab, Inc.</i> , Case No. CBM2016-00003 (PTAB, Apr. 13, 2016) (DeFranco, APJ); <i>Google Inc. v. Zuilii</i> , Case No. CBM2016-00008 (PTAB, Apr. 25, 2016)	80
<i>Life Techs. Corp. v. Unison Strategic IP, Inc.</i> , Case No. CBM2015-00037 (PTAB, June 28, 2016) (Bonilla, APJ); <i>Informatica Corp. v. Protegrity Corp.</i> , Case No. CBM2015-00021 (May 31, 2016) (Turner, APJ); <i>HP Inc. v. Big Baboon, Inc.</i> , Case No. CBM2016-00020 (PTAB, June 28, 2016)	81
<i>Care N' Care Insurance Co. and TriZetto Corp. v. Integrated Claims Systems, LLC</i> , Case No. CBM2015-00062 (PTAB, July 28, 2016)	82
<b>CBM DEFINITIONS</b>	<b>84</b>
<i>Square, Inc. v. Protegrity Corp.</i> , Case No. 2014-00182 (PTAB, Mar. 2, 2016)	84
<i>IBFX, Inc. v. Trading Techs. Int'l, Inc.</i> , Case No. CBM2015-00181 (PTAB, Mar. 7, 2016)	85
<i>AT&amp;T Mobility LLC v. Intellectual Ventures II LLC</i> , CBM2015-00185 (PTAB May 4, 2016) (Braden, APJ); <i>Apple Inc. v. Mirror World Techs., LLC</i> , CBM2016-00019 (PTAB May 26, 2016)	86
<i>BMC Software, Inc. v. zIT Consulting GmbH</i> , Case No. CBM2016-00044 (PTAB, Aug. 23, 2016) (Giannetti, APJ); <i>Plaid Technologies Inc. v. Yodlee, Inc. and Yodlee.com, Inc.</i> , Case No. CBM2016-00037 (PTAB, Aug. 16, 2016)	87
<b>IPR APPELLATE REVIEW</b>	<b>88</b>
<i>MCM Portfolio LLC v. Hewlett-Packard Co.</i> , Case No. 15-1091 (Fed. Cir., Dec. 2, 2015)	88
<i>Nike, Inc. v. Adidas AG</i> , Case No. 14-1719 (Fed. Cir., Feb. 11, 2016)	89
<i>PPC Broadband, Inc. v. Corning Optical Commc'n RF, LLC</i> , Case Nos. 15-1361; -1366; -1368; -1369 (Fed. Cir., Feb. 22, 2016)	90
<i>Genzyme Therapeutic Products Ltd. v. Biomarin Pharmaceutical Inc.</i> , Case Nos. 15-1720; -1721 (Fed. Cir., June 14, 2016)	91
<i>Murata Machinery USA v. Daifuku Co., Ltd.</i> , Case No. 15-2094 (Fed. Cir., Aug. 1, 2016)	92
<i>Corning Optical Communications RF, LLC v. PPC Broadband, Inc.</i> , Case No. IPR2013-00340 (PTAB., Aug. 4, 2016)	93
<i>In re: Warsaw Orthopedic, Inc.</i> , Case Nos. 15-1050; -1058 (Fed Cir., Aug. 9, 2016)	94

<b>IPR CLAIM AMENDMENTS</b> .....	<b>95</b>
<i>Prolitec, Inc. v. ScentAir Technologies, Inc.</i> , Case No. 15-1020 (Fed. Cir., Dec. 4, 2015).....	95
<i>In re Aqua Products, Inc.</i> Case No. 15-1177 (Fed. Cir., May 25, 2016).....	96
<i>Shinn Fu Company of America and Shinn Fu Corp. v. The Tire Hanger Corp.</i> , IPR 2015-00208, Paper 24 (PTAB, Apr. 22, 2016) .....	97
<i>Alcohol Monitoring Systems, Inc. v. Soberlink, Inc.</i> , Case No. IPR2015-00556 (PTAB, May 3, 2016) .....	98
<i>Veritas Techs. LLC v. Veeam Software Corp.</i> , Case No. 15-1894 (Fed. Cir., Aug. 30, 2016) .....	99
<b>IPR CLAIM CONSTRUCTION</b> .....	<b>100</b>
<i>In re Varma</i> , Case No. 15-1502 (Fed. Cir, Mar. 10, 2016) .....	100
<i>SAS Institute, Inc. v. ComplementSoft, LLC</i> , Case Nos. 15-1346; -1347 (Fed. Cir., June 10, 2016).....	101
<i>Cuozzo Speed Techs., LLC v. Lee</i> , Case No. 15-446 (US, June 20, 2016) .....	102
<b>IPR ESTOPPEL</b> .....	<b>104</b>
<i>MAG Aerospace Industries, Inc. v. B/E Aerospace, Inc.</i> , Case Nos. 2015-1370; 2015-1426 (Fed. Cir., Mar. 23, 2016) (Prost, J); <i>B/E Aerospace, Inc. v. MAG Aerospace Industries, Inc.</i> , IPR2014-01510, Paper 106 (PTAB, Mar. 18, 2016) .....	104
<i>Shaw Industries Group, Inc. v. Automated Creel Systems, Inc.</i> , Case Nos. 15-1116; -1119 (Fed. Cir., Mar. 23, 2016) .....	105
<i>Praxair Distribution, Inc. v. INO Therapeutics LLC</i> , Case No. 2016-00781 (PTAB, Aug. 25, 2016).....	107
<i>Ford Motor Company v. Paice LLC &amp; The Abell Foundation, Inc.</i> , Case No. IPR2015-00784 (PTAB, Oct. 21, 2016) (Medley, APJ); <i>Ford Motor Company v. Paice LLC &amp; The Abell Foundation, Inc.</i> , Case No. IPR2015-00792 (PTAB, Oct. 25, 2016) .....	108
<b>IPR INSTITUTION</b> .....	<b>109</b>
<i>Synopsys, Inc. v. Mentor Graphics Corp.</i> , Case Nos. 14-1516; -1530 (Fed. Cir., Feb. 10, 2016).....	109
<i>Garmin Int'l, Inc. v. Cuozzo Speed Techs. LLC</i> , Case No. IPR2012-00001 (PTAB, Mar. 5, 2013) (Lee, APJ); <i>Bloomberg, Inc. v. Markets-Alert Pty, Ltd.</i> , Case No. CBM2013-00005 (PTAB, May 29, 2013) (Chang, APJ); <i>Oracle Corp. v. Click-to-Call Techs, LP</i> , Case No. IPR2013-00312 (PTAB, Oct. 30, 2013) (Zecher, APJ); <i>MasterImage 3D, Inc. v. RealD Inc.</i> , Case No. IPR2015-00040 (July 15, 2015) (Lee, APJ); <i>Lumentum Holdings, Inc. v. Capella Photonics, Inc.</i> , Case No. IPR2015-00739 (Mar. 4, 2016).....	110
<i>Medtronic, Inc. v. Robert Bosch Healthcare Sys., Inc.</i> , Case Nos. 15-1977; -1986; -1987 (Fed. Cir., Oct. 20, 2016) .....	112
<b>IPR INSTITUTION / PETITION</b> .....	<b>113</b>
<i>Samsung Elecs Co., Ltd v. NVIDIA Corp.</i> , Case Nos. IPR2015-01270; -01314 (PTAB, Dec. 8, 2015) .....	113
<i>Hewlett-Packard Co. v. US Philips Corporation</i> , IPR2015-01505 (PTAB, Dec. 16, 2015) .....	114
<i>Johns Manville Corporation v. Knauf Insulation Inc.</i> , Case No. IPR2015-01633 (PTAB, Jan. 4, 2016) .....	115
<i>Harmonic, Inc. v. Avid Technology, Inc.</i> , Case No. 15-1072 (Fed. Cir., Mar. 1, 2016).....	116
<i>Alarm.com Inc. v. Vivint, Inc.</i> , Case No. IPR2015-02204, Paper No. 14 (PTAB, Mar. 31, 2016) (Boudreau, APJ); <i>Benitec Biopharma Ltd. v. Cold Spring Harbor Lab.</i> , Case No. IPR2016-00016, Paper No. 8 (PTAB, Mar. 31, 2016).....	117
<b>IPR INSTITUTION / PRELIMINARY</b> .....	<b>118</b>
<i>Merck &amp; Cie v. Gnosis S.P.A.</i> , Case No. 14-1779 (Fed. Cir., Dec. 17, 2015) .....	118
(Hughes, J.) (Newman, J. dissenting) (Gnosis I), reh'g denied .....	118
<i>Republic Tobacco, LP v. Fan Bao</i> , Case No. IPR2015-00072 (PTAB, Jan. 4, 2016) .....	120
<i>CaptionCall, LLC, v. Ultratec, Inc.</i> , Case Nos. IPR2015-00636; -00637 (PTAB, Jan. 6, 2016).....	121
<i>AVX Corp. v. Greatbatch Ltd.</i> , Case IPR2015-00710 (PTAB, Jan. 13, 2016).....	122
<i>Alarm.com Inc. v. Vivint, Inc.</i> , Case IPR2015-01995 (PTAB, Jan. 28, 2016) .....	123
<b>IPR INSTITUTION / REAL PARTIES IN INTEREST</b> .....	<b>124</b>

<i>Corning Optical Comm's RF, LLC v. PPC Broadband, Inc.</i> , IPR2014-00440, -00441, -00736 (PTAB, Dec. 9, 2015) .....	124
(Bonilla, APJ.); <i>Mako Surgical Corp. v. Blue Belt Techs., Inc.</i> , Case IPR2015-00630 (PTAB, Dec. 17, 2015) .....	124
<i>Kofax, Inc. v. Uniloc USA, Inc.</i> , Case No. IPR2015-1207 (PTAB, July 20, 2016) .....	126
<i>Wi-Fi One, LLC v. Broadcom Corp.</i> , Case No. 15-1944 (Fed. Cir., Sept. 16, 2016) (Bryson, J) (Reyna, J, concurring); <i>Husky Injection Molding Systems v. Athena Automation Ltd.</i> , Case Nos. 15-1726; -1727 (Fed. Cir., Sept. 23, 2016) .....	127
<b>PGR</b> .....	<b>128</b>
<i>American Simmental Association v. Leachman Cattle of Colorado, LLC</i> , Case Nos. PGR-2015-00003; -00005 (PTAB, June 13, 2016) .....	128
<i>Netsirv v. Boxbee, Inc.</i> , Case No. PGR2015-00009 (PTAB, Aug. 2, 2016) .....	129
<b>TRADEMARKS/TRADE SECRETS</b>	
<b>DEFEND TRADE SECRETS ACT</b> .....	<b>130</b>
Defend Trade Secrets of 2016 .....	130
<b>JURISDICTION</b> .....	<b>132</b>
<i>Wellogix, Inc. v. SAP America, Inc. et al.</i> , Case No. 15-20184 (5th Cir., May 12, 2016) (per curium) (non-precedential).....	132
<b>ATTORNEYS' FEES</b> .....	<b>133</b>
<i>Baker v. DeShong</i> , Case No. 14-11157 (5th Cir., May 3, 2016) .....	133
<i>SunEarth, Inc. v. Sun Earth Solar Power</i> , Case Nos. 13-17622; 15-16096 (9th Cir., Oct. 24, 2016) ).....	134
<b>DAMAGES</b> .....	<b>135</b>
<i>Romag Fasteners, Inc. v. Fossil, Inc., et al.</i> , Case Nos. 14-1856; -1857 (Fed. Cir., Mar. 31, 2016) .....	135
<b>DISPARAGEMENT</b> .....	<b>136</b>
<i>Lee v. Tam</i> , Docket No. 15-1293 (Sup. Ct., Sept. 29, 2016) ( <i>certiorari</i> granted) .....	136
<b>INJUNCTIONS</b> .....	<b>139</b>
<i>LFP IP, LLC v. Hustler Cincinnati, Inc.</i> , Case No. 15-3135 (6th Cir., Jan. 13, 2016) .....	139
<i>Guthrie Healthcare System v. ContextMedia, Inc.</i> , Case Nos. 14-3343-cv; 4-3728 (2d Cir., June 13, 2016) .....	140
<i>Wreal, LLC v. Amazon.com, Inc.</i> , Case No. 15-14390 (11th Cir., Oct. 28, 2016) .....	141
<b>INTERNATIONAL MATTERS</b> .....	<b>142</b>
<i>JBLU, Inc. v. United States</i> , Case No. 15-1509 (Fed. Cir., Mar. 2, 2016) .....	142
<i>Trader Joe's v. Michael Norman Hallatt</i> , Case No. 14-35035 (9th Cir., Aug. 26, 2016) .....	143
<b>LIKELIHOOD OF CONFUSION</b> .....	<b>144</b>
<i>Oakville Hills Cellar, Inc. v. Georgallis Holdings, LLC</i> , Case No. 16-1103 (Fed. Cir., June 24, 2016) .....	144
<i>JL Beverage Company, LLC v. Jim Beam Brands Co. et al.</i> , Case No. 13-17382 (9th Cir., July 14, 2016).....	145
<i>Phoenix Entertainment Partners v. Dannette Rumsey and Basket Case Pub, Inc.</i> , Case No. 15-2844 (7th Cir., July 21, 2016).....	146
<b>NOMINATIVE FAIR USE</b> .....	<b>147</b>
<i>Int'l Info. Sys. Sec. Certification Consortium, Inc. v. Sec. Univ., LLC</i> , Case No. 14-3456 (2d Cir., May 18, 2016) .....	147
<b>RIGHT OF PUBLICITY</b> .....	<b>148</b>
<i>Rosa and Raymond Parks Institute for Self Development v. Target Corp.</i> , Case No. 15-10880 (11th Cir., Jan. 4, 2016).....	148
<i>Sgt. Jeffrey S. Sarver v. Nicolas Chartier, et. al.</i> , Case No. 12-55429 (9th Cir., Feb. 17, 2016) .....	149



**STANDING** ..... 151  
*Belmora LLC v. Bayer Consumer Care AG and Bayer Healthcare LLC*, Case No. 15-1335 (4th Cir., Mar. 23, 2016) ..... 151

**COPYRIGHTS**

**ATTORNEYS' FEES** ..... 153  
*Kirtsaeng v. John Wiley & Sons, Inc.*, 136 S.Ct. 1979 (2016) ..... 153

**COPYRIGHTABLE SUBJECT MATTER** ..... 155  
*Star Athletica, L.L.C. v. Varsity Brands, Inc.*, 136 S.Ct. 1823 (2016) ..... 155

**DEFENSES** ..... 156  
*Adobe Systems Inc. v. Christenson et al.*, Case No. 12-17371 (9th Cir., Dec. 30, 2015) ..... 156  
*Muhammad-Ali v. Final Call, Inc.*, Case No. 15-2963 (7th Cir., Aug. 10, 2016) ..... 157  
*GlobeRanger Corporation v. Software AG US, Inc.*, Case No. 15-10121 (5th Cir., Sept. 7, 2016) ..... 158  
*TCA Television Corp. v. McCollum*, 839 F.3d 168 (2d Cir. 2016) ..... 159

**DIGITAL MILLENNIUM COPYRIGHT ACT** ..... 160  
*Capitol Records LLC, et al. v. Vimeo LLC*, 826 F.3d 78 (2d Cir. 2016) ..... 160  
*EMI Christian Music Grp., Inc., et al. v. MP3tunes, LLC, et al.*, Case No. 14-4369 (2d Cir., Oct. 25, 2016) ..... 161

**REGULATORY** ..... 162  
*United States Telecom Association, et al. v. Federal Communications Commission and United States of America*, Case No. 15-1063 (DC Cir., June 14, 2016) ..... 162

## PATENTS

### ANTITRUST

#### *Patents / Antitrust / Misuse / Inequitable Conduct*

### **PRICE TAG FOR PATENT INVALIDITY RULING IN INEQUITABLE CONDUCT CASE IS \$26 MILLION**

*TransWeb, LLC v. 3M Innovative Properties Co.*, 812 F.3d 1295 (Fed. Cir. 2016) (Hughes, J)

Affirming a ruling of invalidity and an antitrust damages award of trebled attorneys' fees in a patent abuse case, the US Court of Appeals for the Federal Circuit highlighted the severe penalties that may befall patent owners that pursue anticompetitive suits based on unenforceable patents. *TransWeb, LLC v. 3M Innovative Properties Co.*, Case No. 2014-1646 (Fed. Cir., Feb. 10, 2016) (Hughes, J). Finding no error or abuse of discretion with the district court's ruling that the two 3M patents at issue were unenforceable because of inequitable conduct, the Federal Circuit affirmed the district court's finding that 3M had committed a *Walker Process* antitrust violation and upheld \$26 million in antitrust damages.

This litigation stems from a patent dispute surrounding plasma-fluorinated filter media used in respirators. In spring 1997, the founder of TransWeb allegedly handed out samples of his company's plasma-fluorinated product at a filtration industry expo. In 1998, 3M obtained patents on its plasmafluorinated media, asserting to the examiner that TransWeb's product was not prior art. 3M later used its patents to initiate an infringement suit against TransWeb.

After 3M voluntarily dismissed its suit, TransWeb filed its own suit against 3M asserting unenforceability, invalidity, and a *Walker Process* antitrust violation. The case resulted in a jury verdict invalidating 3M's patents for obviousness and finding those patents unenforceable because of inequitable conduct. The jury also found 3M liable for a *Walker Process* violation and awarded TransWeb lost profits and attorneys' fees (\$3.2 million in cost-of-antitrust-suit fees and \$23 million in the form of treble antitrust damages for the cost of defending the earlier infringement suit). 3M appealed.

Evaluating the inequitable conduct ruling for abuse of discretion or clear error in factual determinations, the Federal Circuit noted that the facts of this case presented a "definitional case of but-for materiality" because of the patent examiner's statement that 3M's patent claims would not have been allowed but for statements by 3M during prosecution that the TransWeb samples were not prior art. Walking through extensive evidence of 3M's intent to deceive the examiner, the Federal Circuit found no clear error or improprieties in the district court's analysis.

3M also appealed the ruling that it committed a *Walker Process* violation. In *Walker Process*, the Supreme Court of the United States held that a plaintiff may bring a § 2 Sherman Act claim (monopolization or attempted monopolization) on the basis of maintenance and enforcement of a fraudulently obtained patent. To do so, a plaintiff must show (1) that the defendant obtained the patent by knowing and willful fraud on the patent office, and maintained and enforced the patent with knowledge of the fraudulent procurement; and (2) all other elements required by § 2 of the Sherman Act, such as anticompetitive harm to a relevant market. 3M challenged the antitrust market definition adopted by the district court. On review, the Federal Circuit found sufficient evidence to support the jury's finding of fact regarding the relevant market.

As to the damages award, the issue on appeal was whether the \$23 million in-defense-of-suit damages were correctly deemed an antitrust injury, which requires a sufficient link to an anticompetitive action by 3M. The Federal Circuit upheld the monetary award, finding that 3M's anticompetitive lawsuit forced TransWeb to either (1) forfeit the suit and lose profits, or (2) defend against the suit. The Court ruled that either choice would result in antitrust injury, which could form the basis of a damage award under Clayton Act § 4. The Federal Circuit noted that it "furthers the purpose of the antitrust laws to encourage TransWeb to bring its antitrust suit . . . instead of waiting to be excluded from the market[.]"

**Patents / Antitrust and Lanham Act / Monopolization and False Advertising****SECOND CIRCUIT AFFIRMS DISMISSAL OF SHAM CITIZEN PETITION CLAIM, SUMMARY JUDGMENT ON FALSE ADVERTISING CLAIMS**

*Apotex Inc., et al. v. Acorda Therapeutics, Inc.*, 823 F.3d 51 (2d Cir. 2016) (Jacobs, J)

Addressing Sherman Act and Lanham Act claims arising out of an Abbreviated New Drug Application (ANDA), the US Court of Appeals for the Second Circuit upheld the district court's dismissal of the plaintiffs' Sherman Act claim that the defendant filed a sham citizen petition with the US Food and Drug Administration (FDA) to hinder plaintiffs' competing generic product, and also affirmed the district court's granting of the defendant's motion for summary judgment on the plaintiffs' Lanham Act false advertising claims relating to the defendant's advertisements for the same competing product. *Apotex Inc., et al. v. Acorda Therapeutics, Inc.*, Case No. 14-4353 (2d Cir., May 16, 2016) (Jacobs, J).

Apotex and Acorda Therapeutics are competing manufacturers of tizanidine, a drug used to treat spasticity but with drowsiness as a common side effect. Apotex began selling generic tizanidine tablets in 2004, around the same time that Acorda acquired the rights to sell tizanidine tablets and capsules under the trade names Zanaflex and Zanaflex Capsules, respectively.

In 2007, Apotex filed an ANDA relating to generic tizanidine capsules, which would compete with Acorda's Zanaflex Capsules. Acorda filed a citizen petition with the FDA, raising concerns about Apotex's ANDA. The FDA denied Acorda's citizen petition on February 3, 2012, and on the same day approved Apotex's ANDA. Apotex launched its generic tizanidine capsules product, and Acorda countered with its own authorized generic version of Zanaflex Capsules.

Apotex filed suit in district court, alleging that Acorda filed a sham citizen petition with the FDA to delay approval of Apotex's competing capsule formulation in violation of § 2 of the Sherman Act. Apotex also alleged that in the course of Acorda's marketing of its tizanidine capsules, Acorda violated the Lanham Act's proscription on false advertising by making misrepresentations to physicians and in promotional material regarding the effect of Zanaflex Capsules in reducing drowsiness as compared to the tablet form. The district court found that "the simultaneous approval by the FDA of Apotex's [ANDA] and its denial of Acorda's citizen petition (raising concerns about the ANDA) was by itself insufficient to support a Sherman Act claim." After discovery, the district court granted summary judgment and dismissed all of Apotex's Lanham Act false advertising claims on the grounds that none of Acorda's representations (with one exception) were literally false or likely to mislead consumers, and that Acorda failed to show that the false depiction in one graph "would meaningfully impact consumers' purchasing decisions." Apotex appealed.

On appeal, the Second Circuit affirmed, finding that Apotex failed to show that Acorda's citizen petition was objectively baseless. A prior case, *DDAVP*, established an inference that the citizen petition is a sham when the petition is denied simultaneously with the grant of an ANDA petition. However, the Second Circuit highlighted recent FDA guidance that undermines that inference. Specifically, the FDA guidance favors contemporaneous adjudications of ANDA applications and citizen petitions so as to safeguard the procedural rights of ANDA applicants such as Apotex.

The Second Circuit also upheld the district court's grant of summary judgment on Apotex's Lanham Act false advertising claims. First, the Court held that Acorda's advertisements could not form the basis for Lanham Act claims to the extent they were in line with the FDA-approved label for Zanaflex Capsules. Although Apotex alleged that certain of Acorda's representations exceeded the boundaries imposed by the FDA label, the Court held that Apotex failed to show that those representations were inconsistent with the FDA label in a manner sufficient to support a false advertising claim, as there was no evidence that the representations were false.

Finally, although the Second Circuit agreed with the district court's conclusion that "a reasonable juror could determine" that one graph "communicates a literally false message," it found that Apotex failed to show that the misrepresentation was material such that it was likely to influence consumers' purchasing decisions.

**Patents/Pay-for-Delay****NEXIUM CASE EXTENDS ACTAVIS RULING**

*In Re: Nexium (Esomeprazole) Antitrust Litigation*, Case Nos. 15-2005, -2006, -2007. (1st Cir., Nov. 21, 2016) (Lynch, C. J.)

For the first time since the 2012 Supreme Court decision in *FTC v. Actavis*, the US Court of Appeals for the First Circuit addressed a pay-for-delay pharmaceutical settlement that went to trial after a group of pharmaceutical retail outlets claimed the settlement had anticompetitive effects. The First Circuit affirmed the district court's decision denying a new trial after the jury found plaintiffs failed to show that they suffered an antitrust injury, which entitled them to damages. *In Re: Nexium (Esomeprazole) Antitrust Litigation*, Case Nos. 15-2005, -2006, -2007. (1st Cir., Nov. 21, 2016) (Lynch, C. J.).

Prior to the case, Defendants AstraZeneca and Ranbaxy Pharmaceuticals reached a settlement agreement in response to a Hatch-Waxman litigation involving AstraZeneca's prescription heartburn medication, Nexium, and Ranbaxy's generic equivalent. AstraZeneca claimed Ranbaxy's generic infringed six of its patents, including two expiring on May 27, 2014. As part of the settlement agreement, Ranbaxy agreed to delay the launch of its generic until May 27, 2014 in return for various promises from AstraZeneca, including the agreement not to market its own authorized generic version of Nexium during Ranbaxy's 180-day exclusivity period (called a "no-AG clause").

After the defendants reached this agreement, plaintiffs, a collection of pharmaceutical retail outlets and certified classes of direct purchasers and end payors, sued defendants AstraZeneca and Ranbaxy claiming that their settlement "constituted a large and unjustified payment" that equated to a pay-for-delay settlement with anticompetitive effects. Pay-for-delay or "reverse payment" settlements refer to situations where brand name manufacturers and patent holders pay generic manufacturers and alleged patent infringers to settle and delay the generic's entry into the market. In *FTC v. Actavis, Inc.*, the Supreme Court found these settlements can carry the "risk of significant anticompetitive effects" and are therefore subject to the antitrust rule of reason analysis. More recently, in *In re Loestrin*, the First Circuit (Feb. 2016) stated these "reverse payments" may be non-monetary and may take the form of other advantages to the generic manufacturer.

At trial, the jury found Plaintiffs proved an antitrust violation, but had not shown that they suffered an antitrust injury entitling them to damages. Plaintiffs then moved for a new trial, but the district court denied the motion. On appeal, Plaintiffs claimed the district court made a number of fundamental errors, including: 1) excluding expert witnesses; 2) erroneously granting judgment as a matter of law in the defendants' favor on the issue of overarching conspiracy; 3) committing reversible error in the special verdict form and jury instructions; and 4) in its summary judgment rulings, "cut[ting] down the number of causal mechanisms through which the plaintiffs could make their case to the jury."

After a detailed explanation of the New Drug Application ("NDA") and Abbreviated New Drug Application ("ANDA") process and a comprehensive history of the underlying lawsuits, the First Circuit found no reversible error by the district court. The Court found that any errors at summary judgment were "rendered harmless" by the jury verdict and trial proceedings, that the verdict form—though "perhaps...inartfully phrased"—was balanced by thorough jury instructions, and plaintiffs' failure to preserve their own objections and decisions to limit testimony or forego certain arguments were strategic choices by plaintiffs, and not court error. The Court concluded that the reason for the verdict was simply a "fail[ure] to convince the jury" of antitrust injury in addition to the antitrust violation.

**BIOSIMILARS*****Patents / BPCIA / Mandatory Disclosures******BPCIA 180-DAY NOTICE OF INTENT TO MARKET A BIOSIMILAR IS REQUIRED, ENFORCEABLE BY INJUNCTION***

*Amgen, Inc. v. Apotex, Inc.*, 827 F.3d 1052 (Fed. Cir. 2016) (Taranto, J), *cert. denied*, No. 16-332 (US Dec. 12, 2016)

In an opinion that details many intricacies of both the Biologics Price Competition and Innovation Act of 2009 (BPCIA) and related portions of the Patent Act, the US Court of Appeals for the Federal Circuit affirmed a district court's grant of a preliminary injunction, finding that a biosimilar product applicant must provide a biologic reference product sponsor with 180 days' post-licensure notice before the applicant's commercial marketing begins, regardless of whether the applicant provided notice of US Food and Drug Administration (FDA) review under 42 USC § 262(l)(2)(A). *Amgen, Inc. v. Apotex, Inc.*, Case No. 16-1308 (Fed. Cir., July 5, 2016) (Taranto, J), *cert. denied*, No. 16-332 (US Dec. 12, 2016).

Apotex filed an application for an FDA license to market a biosimilar version of Amgen's Neulasta® biologic product, invoking the BPCIA's abbreviated pathway for regulatory approval of follow-on biological products that are "highly similar" to a previously approved reference product. Amgen sought and obtained a preliminary injunction to enforce BPCIA's § 262(l)(8)(A), which requires a biosimilar product applicant to give notice to the reference product sponsor 180 days before the applicant begins commercially marketing its FDA-licensed product. The parties stipulated that all of the factors considered in awarding a preliminary injunction favored Amgen as the reference product sponsor, except for the likelihood of success factor, which depended on the parties' competing interpretations of the BPCIA. Apotex appealed the preliminary injunction to the Federal Circuit.

In a prior case, *Amgen v. Sandoz*, the Federal Circuit held that the 180-day notice period must follow, not precede, FDA licensure. In that case, the biosimilar product applicant had not engaged in the so-called "patent dance." As detailed in the multi-part subsection § 262(l) of the BPCIA, the "patent dance" refers to a series of information disclosures made between an applicant and the reference product sponsor, and to the parties' related duties concerning initiation of patent litigation relating to marketing a licensed biosimilar product. The dance is initiated by the disclosures described in § 262(l)(2)(A). In *Sandoz*, the Federal Circuit held that a biosimilar product applicant cannot be compelled to provide notice of FDA review under § 262(l)(2)(A), and that an infringement suit under 35 USC § 271(e)(2) is the reference product sponsor's remedy if the applicant does not voluntarily provide such notice.

In this case, Apotex argued that the 180-day post-licensure notice described in § 262(l)(8)(A) was not mandatory under the BPCIA when the applicant had made its disclosures under § 262(l)(2)(A). In *Sandoz*, the Court described the 180-day notice as mandatory, but the applicant had not made a § 262(l)(2)(A) disclosure. Apotex argued that § 262(l)(9) establishes that the exclusive remedy for failure to provide the 180-day notice of commercial marketing under § 262(l)(8)(A), where an applicant had also made its § 262(l)(2)(A) disclosure, is a declaratory judgment suit.

BPCIA § 262(l)(9) provides different remedies for a reference product sponsor depending on the status of the § 262(l)(2)(A) and § 262(l)(8)(A) disclosures. The Federal Circuit rejected Apotex's argument, however, finding that the 180-day notice is mandatory regardless of whether the applicant first provides notice under § 262(l)(2)(A), and is enforceable by injunction. As the Court explained, while § 262(l)(9)(A) bars certain declaratory judgment actions, §§ 262(l)(9)(B) and (C) state only that, in certain circumstances, the reference product sponsor "may bring" such an action. There is no language that excludes other remedies for the conduct described. Indeed, according to the Court, Apotex's argument conflicts with the Supreme Court of the United States mandate that "equitable jurisdiction is not to be denied or limited in the absence of a clear and valid legislative command." For these reasons, the Federal Circuit affirmed the grant of the preliminary injunction.

**CLAIM CONSTRUCTION*****Patents / Claim Construction*****“PLAIN AND ORDINARY MEANING” MUST BE TETHERED TO INVENTION DESCRIBED IN SPECIFICATION**

*Eon Corp. IP Holdings LLC v. Silver Spring Networks, Inc.*, 815 F.3d 1314 (Fed. Cir. 2016) (Prost, CJ) (Bryson, J, dissenting)

Addressing claim construction issues, a divided panel of the US Court of Appeals for the Federal Circuit reversed a jury verdict of infringement, holding that the district court’s “plain and ordinary meaning” construction failed to provide the jury with a clear understanding of the disputed claim scope and that, under the correct construction, no reasonable juror could find infringement. *Eon Corp. IP Holdings LLC v. Silver Spring Networks, Inc.*, Case No. 2015-1237 (Fed. Cir., Feb. 29, 2016) (Prost, CJ) (Bryson, J, dissenting).

The patents at issue were directed to two-way communications devices, and each incorporated the terms “mobile” and “portable,” which the parties agreed were synonymous. The defendant argued that the disputed terms do not cover “fixed or stationary products that are only theoretically *capable* of being moved.” The plaintiff, by contrast, argued that the terms should be given their plain and ordinary meaning, and that the terms should cover devices that are capable of being moved. The defendant’s construction comported with dictionary definitions of the disputed terms, but the patents’ specifications described battery-operated, portable devices with milli-watt transmitter power, that could be moved throughout a geographical area with a “hand-off” process tracking movement from cell to cell. Unlike the devices described in the specification, the defendant’s accused devices were electric watt-hour utility meters affixed to the outside of buildings, often for years at a time.

The plaintiff’s expert argued that the asserted claims covered objects capable of being moved—for example, houses, but not mountains. By contrast, the defendant’s expert argued that the claims only covered devices that were *easily* moved. The district court agreed with the plaintiff and instructed the jury that the terms should be afforded the plain and ordinary meaning. Both of the parties’ arguments comported with the district court’s directive to refrain from arguments inconsistent with the dictionary definitions of the terms. After the jury found the patents to be infringed, the defendant appealed.

On appeal, the defendant argued that the district court erred by ruling that the synonymous terms should be given their “plain and ordinary meaning” without explaining what that meaning was, and that no reasonable juror could find infringement under the correct construction. The Federal Circuit panel majority concluded that the district court did not perform its claim construction duty to resolve the parties’ dispute about proper scope of a claim term. As the Court explained, by instructing the jury to assume the plain and ordinary meaning without resolving the parties’ dispute, the district court left the legal task of claim construction to the jury. The Court found that the district court’s approach erred for two reasons: there was no single, accepted meaning of the disputed terms, and the plaintiff’s definition was not viewed in context of the patent and was completely untethered from the context of the invention. The Court reiterated that the ordinary meaning of a claim term is its ordinary meaning to the ordinary artisan after reading the entire patent.

Having found that the district court erred with respect to the proper construction of the disputed terms, the majority considered whether to remand the case, but found that no remand was necessary because no reasonable jury could have found infringement with the claims properly construed. The Court cited intrinsic evidence in the patents to support the defendant’s narrower construction, and further evidence from trial supporting that the defendant’s devices were fixed, not portable.

In dissent, Judge Bryson characterized the issue as whether the patents’ specifications demonstrate that the patentee intended to depart from the plain meaning of the terms, consistent with dictionary definitions. The dissent cited to trial evidence showing that the defendant’s accused products were easily moved, even if not actually moved in ordinary practice. The dissent also criticized the majority for not providing its own affirmative construction.

Petition for *certiorari* was filed on Oct. 24, 2016.

**Patents / Claim Construction****WHEN DISTINGUISHING STATEMENTS MAY BE CONSIDERED DISCLAIMERS OF CLAIM SCOPE**

*David Netzer Consulting Engineering LLC v. Shell Oil Co.*, 824 F.3d 989 (Fed. Cir. 2016) (Lourie, J)

Addressing disclaimer of claim scope, the US Court of Appeals for the Federal Circuit affirmed the district court's summary judgment of non-infringement, finding that the patentee clearly and unmistakably disclaimed particular techniques for performing the claimed process. *David Netzer Consulting Engineering LLC v. Shell Oil Co.*, Case No. 15-2086 (Fed. Cir., May 27, 2016) (Lourie, J).

Netzer sued Shell for infringement of a patent directed to a process for the coproduction of ethylene and benzene from refinery mixtures. The claimed process requires a step of "fractionating the pyrolysis gasoline to form a purified benzene product comprising at least about 80 wt [percent] of benzene." Shell moved for summary judgment of non-infringement, arguing that the term "fractionating" refers to conventional distillation, and that Shell's accused process uses extraction (not distillation) to form a benzene product with 99.9 percent purity. The district court granted Shell's motion without formally construing the claims, finding that fractionating does not include extraction. Netzer appealed.

On appeal, Netzer argued that fractionating means separating a mixture into fractions, no matter what processes are used to do so, and that no disclaimer was explicitly made in the specification. Shell argued that fractionating means distilling, and that the patentee disclaimed extraction by distinguishing it from fractionation.

The Federal Circuit agreed with Shell that fractionating means distilling and excludes extraction. As the Court explained, the specification repeatedly and consistently used fractionation to refer to distillation. The patentee described problems that would be impossible for conventional distillation as being impossible for conventional fractionation. Elsewhere, the patentee repeatedly referred to fractionation within the context of distillation. Moreover, the Court found that the patentee made clear and unmistakable statements that distinguished fractionation from extraction, such as by characterizing extraction as expensive and unnecessary in light of market demand, both in the specification and during prosecution.

Netzer also argued that even under Shell's proposed construction, Shell should be found to infringe because the accused process includes distillation and results in a purified benzene product. The Federal Circuit disagreed, explaining that Shell's process only distills the mixture to 57 percent purity, and then uses extraction to produce a 99.9 percent pure product. In particular, Shell's process does not perform the step of "fractionating the pyrolysis gasoline to form a purified benzene product comprising at least about 80 wt [percent] of benzene" because the "purified benzene product" is formed by extraction, not fractionation.

Petition for *certiorari* was filed on Nov. 23, 2016.

**Patents / Design Patents / Claim Construction**

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**DESIGN PATENT CLAIM CONSTRUCTION MUST FOCUS ON OVERALL DESIGN, NOT SIMPLY NONFUNCTIONAL ELEMENTS**

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*Sport Dimension, Inc. v. The Coleman Company, Inc.*, 820 F.3d 1316 (Fed. Cir. 2016) (Moore, J)

Addressing claim construction issues in the context of a design patent, the US Court of Appeals for the Federal Circuit reversed the district court's construction, finding that it failed to account for the overall ornamentation of the design. *Sport Dimension, Inc. v. The Coleman Company, Inc.*, Case No. 15-1553 (Fed. Cir., Apr. 19, 2016) (Moore, J).

The design patent at issue related to a personal flotation device. The district court determined that the Coleman Company's flotation device featured an armband and torso tapering that represented the best available design for a personal flotation device. The district court also looked to a related utility patent filed by Coleman in ultimately determining that the armband and torso tapering were functional elements. Having determined that the elements were functional, the district court eliminated the armbands and side torso tapering from the claim scope entirely. Coleman appealed.

Citing *Ethicon*, the Federal Circuit explained that it is improper to entirely eliminate a structural element from the claimed ornamental design, even when that element also serves some functional purpose. Such an approach departs from the established legal framework for interpreting design patent claims. The Court explained that design patents protect the overall ornamentation of a design, not an aggregation of separable elements. According to the Federal Circuit, by eliminating particular structural elements from the design patent's claim scope, the district court improperly converted the claim scope from one that covers the overall ornamentation to one that covers individual elements.

The Federal Circuit then analyzed the overall design of Coleman's personal flotation device, including the features ignored by the district court, and determined that the design was minimalist, with little ornamentation. The Federal Circuit agreed that the armband and torso features were indeed functional, and so the fact finder should not focus on the particular designs of those elements when determining infringement but rather should focus on what these elements contribute to the design's overall ornamentation. In this case, because the overall design featured many functional elements and a minimalist overall ornamentation, the Court concluded that the overall claim scope is accordingly narrow. The case was remanded for consideration of infringement under the proper claim construction.



**Patents / Claim Construction / Divided Infringement****CLAIM CONSTRUCTION DISPUTES SHOULD BE AFFIRMATIVELY AND FORMALLY RAISED**

*LifeNet Health v. LifeCell Corp.*, 837 F.3d 1316 (Fed. Cir. 2016) (Prost, CJ), *reh'g denied*, (Nov. 18, 2016)

Addressing the preservation of claim construction disputes for appeal and issues of divided infringement, the US Court of Appeals for the Federal Circuit affirmed the district court, explaining that *O2 Micro* only requires the district court to resolve claim construction issues that were actually and affirmatively raised before or during trial, and that, for purposes of a divided infringement analysis, a negative claim limitation is not an affirmative step that must be performed by the same party. *LifeNet Health v. LifeCell Corp.*, Case No. 15-1549 (Fed. Cir., Sept. 16, 2016) (Prost, CJ), *reh'g denied*, (Nov. 18, 2016).

LifeNet's patent relates to plasticized soft tissue grafts for transplantation. Prior art tissue grafts were preserved by freeze drying, which presented several technical and medical disadvantages. LifeNet developed an improved preservation method, where the tissue's water is replaced with plasticizers that mimic the hydrating capability of water while eliminating the need for a freeze drying step. According to the specification, the plasticizers may be removed prior to implantation, but do not have to be.

In order to overcome a prior art reference during prosecution, LifeNet added a negative claim limitation: "one or more plasticizers *are not removed from said internal matrix* of said plasticized soft tissue graft prior to transplantation into a human" (emphasis added). LifeCell's accused products are plasticized soft tissue grafts for which some—but not all—of the plasticizers are removed during a two-minute rinse prior to transplantation.

During the claim construction process, LifeCell argued that the non-removal limitation means that no processing steps can be taken prior to implantation, such that no amount of plasticizer is even partially removed. Under this construction, LifeCell would not infringe. Defendant LifeNet, in contrast, argued that the non-removal limitation is met so long as the plasticizers are not fully removed. The district court did not adopt either construction, instead instructing the jury that the non-removal limitation should be given its plain and ordinary meaning.

At trial, LifeCell argued non-infringement on the grounds that up to 50 percent of the plasticizer is removed during its two-minute rinse. LifeNet responded that although LifeCell's rinse step removes plasticizer found in gaps and voids in the tissue, the step does not remove plasticizer from the internal matrix of the tissue graft, as required by the negative claim limitation. According to LifeNet, it was the jury's job to resolve the factual question of whether the two-minute rinse removed plasticizer from the internal matrix. The jury found the patent infringed and not invalid.

On appeal, LifeCell argued that the district court should have instructed the jury that the non-removal limitation meant that no plasticizer could be removed from *any part* of the tissue graft, and that the court's failure to resolve this legal dispute about claim scope constituted error under *O2 Micro*. The Federal Circuit rejected the *O2 Micro* argument as untimely, noting that LifeCell's arguments during the *Markman* phase focused only on the degree of plasticizer removal, not the location from which the plasticizer had to be removed. LifeCell's new "location" theory came up for the first time at trial, via a motion *in limine* to exclude testimony contrary to the court's claim construction and in the proposed jury instructions. At no point did LifeCell ever explicitly request a new or modified claim construction encompassing the "location" theory but rather pressed the issue as a factual one, arguing that there was not enough evidence to find infringement. For these reasons, the Court found that LifeCell failed to properly raise an *O2 Micro* issue.

With respect to divided infringement, LifeCell argued that it cannot be held liable for direct infringement because the non-removal step cannot actually be met until a third party (e.g., a physician) prepares and implants the tissue graft. According to LifeCell, because not all claim elements are practiced by a single entity, there can be no liability for infringement. The Federal Circuit disagreed, explaining that in typical divided infringement cases, a third party must take one or more affirmative steps in order for all claim limitations to be met. By contrast, because the non-removal step at issue is a negative claim limitation, "[t]he

limitation is met without action by a third party. It is satisfied by the graft from the moment it is manufactured unless and until the plasticizer is removed from the internal matrix before implantation." No action is required by a third party in order to satisfy all elements of the claims.

Petition for panel rehearing and rehearing *en banc* filed by LifeCell Corp. was denied.

## DAMAGES

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### *Patents / Damages*

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# THERE IS MORE THAN ONE WAY TO SLICE THE APPORTIONMENT ANALYSIS

*Commonwealth Scientific and Industrial Research Organisation v. Cisco Systems, Inc.*, 809 F.3d 1295 (Fed. Cir. 2015) (Prost, C.J.)

Addressing the application of the smallest salable patent-practicing unit analysis, as well as the impact of a patent's standards essential status on apportionment and the relevance of prior licenses between the parties, the US Court of Appeals for the Federal Circuit vacated and remanded a damages award, explaining that the smallest salable unit is not mandatory for every apportionment analysis, especially when there are relevant prior licenses between the parties. *Commonwealth Scientific and Industrial Research Organisation v. Cisco Systems, Inc.*, Case No. 15-1066 (Fed. Cir., Dec. 3, 2015) (Prost, C.J.).

In the early 1990s Commonwealth Scientific and Industrial Research Organisation (CSIRO) was granted a patent that covered the IEEE 802.11a wireless standard. CSIRO committed to license the patent on reasonable and non-discriminatory (RAND) terms for the 802.11a standard, but refused to commit to RAND terms for later variations of the standards. Between 1996 and 2005 CSIRO agreed to various licenses with Cisco at royalty rates based on total sales volume and per unit prices. In July 2011 CSIRO sued Cisco asserting the patent. After Cisco stipulated not to contest infringement or validity, the district court awarded CSIRO \$16.2 million in damages. Cisco appealed.

The Federal Circuit started by re-affirming that damages must "reflect the value attributable to the infringing features of the product, and no more." The Court emphasized that to be reliable, apportionment models must be "sufficiently tied to the fact of the case," but rejected Cisco's argument that all apportionment models must begin with the smallest salable patent-practicing unit.

In terms of the district court reliance on the parties past licenses, the Federal Circuit found that because the parties' prior negotiations centered on the asserted patent, apportionment was already built into the analysis despite the licenses being based on total sales volume and per unit prices. The Federal Circuit explained that damages models based on comparable licenses remained reliable, even where the licenses are not based on the smallest salable patent-practicing unit. Thus, the Court found error in the district court's conclusion that the parties' prior licenses for the same patent were not relevant to the damages analysis. Rather, the Court explained that as an actual agreement between the parties that was contemporaneous with the hypothetical negotiation, entered before the newest 802.11 standard was established and focused on the chips at issue, was pertinent and should be taken into account.

The Federal Circuit next turned to the "unique considerations" applicable to apportionment in the context of a standards essential patent. The Court restated the *Ericsson* test, requiring that the patented feature be apportioned from all the unpatented features reflected in the standard, as well as that the royalty is based only on the patented feature, not any value added by the standard's adoption of the patented feature. The Court rejected CSIRO's argument that *Ericsson* only applied to patents encumbered with RAND obligations, explaining that *Ericsson* explicitly applies to both encumbered and unencumbered standards essential patents. Thus, the Court concluded that the district court erred in failing to account for the value of the asserted patent accruing from the adoption of the new 802.11 standard, requiring that the damages award be vacated and the case remanded for a new determination of a reasonable royalty.

**Patents / Permanent Injunction / Irreparable Harm****LOWERING THE BAR FOR IRREPARABLE HARM: INFRINGING FEATURE NEED NOT BE THE EXCLUSIVE DRIVER OF CONSUMER DEMAND**

*Apple Inc. v. Samsung Elecs. Co.*, 809 F.3d 633 (Fed. Cir. 2015) (Moore, J.) (Reyna, J., concurring) (Prost, C.J., dissenting), cert. denied, (US Jun. 27, 2016)

How does a patent owner prove it has been irreparably harmed when the protected feature is only a small part of an infringing device? The US Court of Appeals for the Federal Circuit answered that question in the ongoing IP battle between Apple and Samsung, explaining that Apple needed only to show “some connection” between the infringing features and the demand for Samsung’s products, and finding that the district court erred by requiring Apple to show that the infringing features were the “exclusive” or “predominant” drivers of consumer demand. With that clarification of the standard, the Court held that Apple established it met the irreparable harm prong of the *eBay* factors. *Apple Inc. v. Samsung Elecs. Co.*, Case No. 14-1802 (Fed. Cir., Dec. 16, 2015) (Moore, J.) (Reyna, J., concurring) (Prost, C.J., dissenting), cert. denied, (US Jun. 27, 2016).

Apple sought a permanent injunction for several patents covering features of its iPhones and iPads, such as, e.g., *swipe-to-unlock*. Rather than seeking to enjoin Samsung smartphones and tablets outright, Apple sought to enjoin only the infringing features of Samsung’s products. Despite the relative narrowness of Apple’s proposed injunction, the district court denied Apple’s motion, finding that Apple had not shown that it would suffer irreparable harm. In particular, the district court found that Apple had failed to demonstrate a causal nexus linking Samsung’s infringement to Apples alleged harm—which Apple argued was lost sales and damage to its reputation.

As to the other *eBay* factors, the district court found the public interest and balance of hardships favored Apple, but that monetary damages were adequate due to the lack of irreparable harm. Consequently, Apple’s request for a permanent injunction was denied. Apple appealed.

Apple argued to the Federal Circuit that its narrowly tailored proposed injunction—which sought to exclude only infringing features and not entire products—eliminated the causal nexus requirement. The Court disagreed, explaining that the purpose of the causal nexus requirement is to establish the link between the act of infringement and the actual harm alleged, thus ensuring that an injunction is not entered for irreparable harm caused by otherwise lawful competition. Therefore, a causal nexus linking the harm and the infringing act must be established regardless whether a feature-based injunction or product-based injunction is sought.

The Court next addressed what Apple was required to demonstrate in order to establish a causal nexus between Samsung’s infringement and the alleged harm—Apples lost sales. The Court clarified that although a finding that the competitor’s infringing features *drive consumer demand* for its products *satisfies the causal nexus* inquiry, it is not a required element of proof. Recognizing that such a showing may be nearly impossible from an evidentiary standpoint when an accused product has thousands of features, the Court warned that such a requirement would preclude companies like Apple from ever satisfying the *eBay* test for an injunction against products that compete with its iPad or iPhone and from exercising its right as a patent holder to exclude others. Critically, as pointed out in the Court’s analysis “that the infringing features are not the only cause of the lost sales may well lessen the weight of any alleged irreparable harm, [but] it does not eliminate it entirely.”

The majority found the district court thus erred by requiring Apple to prove that the infringing features were the “exclusive” or “predominant” reason why consumers bought Samsung’s products. Instead the district court should have considered whether there is “some connection” between the infringed features, and the demand for Samsung’s products, *i.e.*, where Apple demonstrated that the patented features “impact consumers’ decisions to purchase the accused devices” and “were important to customers when they were examining their phone choices.” In this way, the causal nexus between infringement and irreparable harm can be shown with evidence that a patented feature is *one of several features* that cause consumers to make their purchasing decisions.

In the majority's opinion, evidence of the infringing features impacting consumers' purchasing decisions include, for example, evidence that the infringer valued the infringing feature, evidence that the infringer's customers or partners disapproved of the non-infringing alternatives and evidence that the patentee's customers valued the patented feature. The Court further instructed that although *copying*, by itself, does not establish causal nexus, it is not wholly irrelevant either and must be considered on a case-by-case basis.

Based on the record, the majority concluded that Apple had sufficiently demonstrated irreparable harm, entitling it to a permanent injunction. In her dissent, Chief Judge Prost strongly disagreed with the majority's interpretation of the case law, account of the evidentiary record and finding of irreparable harm.

Though Apple also argued that it suffered irreparable harm from injury to its reputation as an innovator, the majority never reaches this issue, stopping at lost sales. In his concurrence however, Judge Reyna explains that he would find that Samsung's continued infringement would irreparably injure Apple's reputation as an innovator and that reputational injury, in and of itself, would be a sufficient basis on which to grant an injunction. According to Reyna, when, as here, the disputing parties are "direct competitors," and when the customers find the patentee's innovation appearing in a competitor's products, the patentee's reputation as an innovator will "certainly" be damaged.

*Certiorari* has since been denied in this case.

**Patents / Pre-Issuance Damages****PRE-ISSUANCE DAMAGES POSSIBLE ONLY IF YOU “KNOW” ABOUT THE PUBLISHED APPLICATION**

*Rosebud LMS Inc. v. Adobe Systems Inc.*, 812 F.3d 1070 (Fed. Cir. 2016) (Moore, J)

Addressing for the first time the notice requirement for pre-issuance damages under 35 USC § 154(d), the US Court of Appeals for the Federal Circuit affirmed the grant of summary judgment of no pre-issuance damages where the patent owner failed to prove that defendant had actual notice of its published application. *Rosebud LMS Inc. v. Adobe Systems Inc.*, Case No. 15-1428 (Fed. Cir., Feb. 9, 2016) (Moore, J).

The present litigation is the third suit filed by the patent owner, Rosebud, against Adobe alleging infringement of various patents within a single patent family. In this case, the district court granted Adobe summary judgment on the issue of post-issuance damages because Adobe had stopped use of the accused technology 10 months before the patent-in-suit issued.

Adobe also moved for summary judgment on pre-issuance damages, claiming it had no notice of the published patent application. Regarding pre-issuance damages, Rosebud argued that material facts remained in dispute, that Adobe had actual knowledge of the grandparent patent to the patent-in-suit, that it had followed Rosebud's products for years and that Adobe's outside counsel would have searched for the published application as part of its work on Rosebud's prior cases against Adobe.

A month before the close of discovery, the district court granted Adobe's motion for summary judgment, finding that Rosebud had not met the § 154(d) requirement of actual knowledge and that its evidence was, at best, evidence of constructive notice. In doing so, the district court rejected Rosebud's argument that the litigation history created an affirmative duty for Adobe to search for Rosebud's published patents. Rosebud appealed.

The Federal Circuit began by noting that § 154(d) provides a narrow exception to the general rule that damages may only be collected for infringement during the term of the patent, and by its plain language requires proof that the infringer “had actual notice of the published patent application.” The Court agreed with the district court that “constructive knowledge” did not suffice. The Federal Circuit further explained that, unlike the marking provision (§ 287(a)), § 154(d) requires the patentee to affirmatively notify the accused infringer to be entitled to damages. The Court agreed with Adobe's policy argument that given the extraordinary nature of pre-issuance damages, adherence to the statutory requirement of notification by the applicant is simpler to implement and does not force an accused infringer to rebut unsubstantiated allegations that it knew of a published application. The Court concluded that any policy change would have to come from Congress, and “in the absence of such action, we interpret the actual notice requirement of § 154(d) as it is clearly written to have its ordinary meaning.”

After analyzing the evidence that Rosebud submitted in support of its actual notice argument, the Federal Circuit, like the district court, found that Rosebud's evidence failed. The fact that Adobe knew of the grandparent patent was found to be insufficient. As the Court explained, the alleged infringer must have notice of the specific claims in the published application for the patent-in-suit; knowledge of the family's specification does not satisfy § 154(d). Similarly, nothing in the evidence suggested that Adobe was so closely monitoring Rosebud's products or that it would seek out Rosebud's published applications. The Court also rejected Rosebud's argument that Adobe's counsel would have evaluated the application as part of earlier litigation, finding that the claim was unsupported by evidence.

**Patents / Design Patent Damages****FOR DESIGN PATENT DAMAGES 'ARTICLE OF MANUFACTURE' NOT NECESSARILY ENTIRE END PRODUCT**

*Samsung Elecs. Co. v. Apple, Inc.*, 137 S.Ct. 429 (2016)

On December 6, 2016, Justice Sotomayor, writing for a unanimous Supreme Court of the United States, held that for purposes of determining damages for design patent infringement under 35 USC. §289, the relevant “article of manufacture” may include either the end product sold to the consumer or simply a component of that product. *Samsung Elecs. Co. v. Apple, Inc.*, Case No. 15-777, 2016 WL 7078449, at \*6 (US Dec. 6, 2016). This decision reverses a damages award of \$400 million against Samsung, which been affirmed on appeal by the Federal Circuit.

**Background***The District Court Findings*

In 2011, Apple sued Samsung for infringement of a range of its utility and design patents and dilution of its trade dresses. Three years later, the District Court for the Northern District of California entered final judgment in favor of Apple after a jury trial, upholding the jury’s findings of infringement, dilution and validity, as well as upholding the jury’s award of over \$1 billion in damages—including \$399 million in design patent damages equaling Samsung’s *entire* profit made from sales of the infringing smartphones. Samsung appealed each of the district court’s findings to the US Court of Appeals for the Federal Circuit.

*Appeal to the Federal Circuit*

On appeal, the Federal Circuit affirmed the district court’s findings related to design patent infringement, validity, and utility and design patent infringement damages, while reversing the district court’s trade dress dilution finding. Regarding the design patent infringement damages award, Samsung argued that damages should be limited to profits from sales of the infringing “article of manufacture,” rather than the profits from sales of the entire end product. Thus, damages should be limited to profits from the front face, bezel or display screen design of the smartphone. Apple should not be entitled to profits from the entire smartphone.

The Federal Circuit disagreed, stating that such apportionment arguments were rejected by Congress and prohibited under §289, which codifies the remedy for design patent infringement, stating in relevant part:

“Whoever during the term of a patent for a design, without license of the owner, (1) applies the patented design, or any colorable imitation thereof, to any *article of manufacture* for the purpose of sale, or (2) sells or exposes for sale any *article of manufacture* to which such design or colorable imitation has been applied shall be liable to the owner to the extent of his *total profit*, but not less than \$250. . . .” (emphasis supplied)

According to the Federal Circuit, an “article of manufacture” as codified in §289 could not be construed to include specific components of an infringing article when those components are not sold separately from the end product. Because “the innards of Samsung’s smartphones were not sold separately from their shells as distinct articles of manufacture to ordinary purchasers,” the damages award could not be limited to reflect apportionment among the varying components of the infringing smartphones. Thus, the court found that the “total profit” accounted for in §289 must constitute the infringer’s total profits from an *entire product*, regardless of whether the infringement is attributable to the product as a whole or simply a component thereof. In reaching this decision, the Federal Circuit addressed criticism from amici and did not dispute that allowing an award based on infringement of one component of a complex article “makes no sense in the modern world,” but held that it was bound to do so by statute. Samsung was subsequently denied rehearing *en banc* and filed a petition of *certiorari* to the Supreme Court.

### *Petition for Certiorari*

In its petition, Samsung argued that rewarding profits for sales of an entire product where only a small component of that product was infringed over-compensates the patent holder by allowing massive windfalls exceeding the inventive value of the patents. Samsung raised the question: “[w]here a design patent is applied to only a component of a product, should an award of infringer’s profits be limited to those profits attributable to the component?” The Supreme Court granted Samsung’s petition on this question and heard oral argument on October 11, 2016.

### *Supreme Court Decision*

In reversing the Federal Circuit, Justice Sotomayor explained that the appellate court’s interpretation of “article of manufacture” was too narrow.

Section 289 of the Patent Act allows a patent holder to recover the total profit an infringer makes from the infringement. That total profit encompasses “all of the profit made from the prohibited conduct, that is, from the manufacture or sale of the ‘article of manufacture to which [the patented] design or colorable imitation has been applied.’” Any award of damages for design patent infringement under §289 must follow a two-step inquiry: (1) identifying the “article of manufacture” to which the infringed design has been applied, and (2) calculating the infringer’s total profit made on that article of manufacture. Under the first step, in the case of a single-component product, the “article of manufacture” is the product itself. However, in the case of a multicomponent product, it is not so obvious. Under either circumstance, the Court explained that the term “article of manufacture” as used in §289 may encompass *both* a product sold to a consumer and a component of that product.

In doing so, the Court looked to the dictionary definition of “article” and “manufacture” to define an article of manufacture as “simply a thing made by hand or machine,” noting that the definition is broad enough to encompass both an end product as well as the individual components of that product. As Sotomayor explained, this broader interpretation of “article of manufacture” is consistent with 35 U.S.C. §171(a), which defines the scope of eligible design patents: “[w]hoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefor.” Because the US Patent and Trademark Office and the courts have permitted design patents for designs extending to complete products, as well as components of a multicomponent product, the Court reasoned that “article of manufacture” should be understood to include both components and end products.

The Court reversed the Federal Circuit’s judgment, declining to define the specific article of manufacture at issue since neither party had briefed the issue, and remanded the case to the Federal Circuit for further proceedings.

### *Conclusion*

Analysis of design patent damages must begin with identifying the “article of manufacture.” Because many design patents only cover a component(s) of a larger multicomponent device, the Supreme Court analysis is designed to prevent disproportionate awards or inappropriate damage demands in those situations where the asserted design patent is directed to only a component of an end product.

Going forward, future patent holders will likely attempt to define the article of manufacture as broadly as possible in order to ensure the maximum damages award. The specifics behind making that decision, however, remain unclear as the issue of how to define the appropriate article of manufacture in a particular case has been remanded to the Federal Circuit.



**DIVIDED INFRINGEMENT**

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***Patents / Infringement***

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**FEDERAL CIRCUIT CONFIRMS BROADENING OF STANDARD FOR DIVIDED INFRINGEMENT**

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*Mankes v. Vivid Seats Ltd.*, 822 F.3d 1302 (Fed. Cir. 2016) (Taranto, J.)

In an opinion addressing divided infringement in view of the Supreme Court of the United States' 2014 decision in *Limelight Networks v. Akamai Technologies* and the US Court of Appeals for the Federal Circuit's subsequent revision of the applicable law on remand, the Federal Circuit vacated the district court's finding of no infringement and remanded the case for further proceedings. *Mankes v. Vivid Seats Ltd.*, Case Nos. 15-1500; -1501 (Fed. Cir., Apr. 22, 2016) (Taranto, J).

Mankes sued Vivid Seats for infringement of Mankes's patent claiming an internet-based reservation system. Because it was undisputed that no one person performs all of the steps of the method claims at issue, Mankes's infringement case depended on the law regarding divided infringement. In early 2015, the district court concluded that Mankes's allegations were insufficient to establish direct infringement under § 271(a) and granted judgment on the pleadings to the defendants. Mankes appealed.

During the briefing on the merits appeal, the legal standards applied by the district court were altered by the Federal Circuit's *en banc* opinion in *Akamai Technologies v. Limelight Networks*, which broadened the standard for divided infringement by relaxing the standard for attribution. Under the old law, the district court found that Mankes had not alleged sufficient facts attributing the actions of local venues to those of the defendants, because Mankes had not alleged that the local venues were the defendants' agents or were required by the defendants to take the particular actions that constituted the performance of steps. In *Akamai*, however, the Federal Circuit enumerated additional circumstances in which others' acts may be attributed to an accused infringer to support direct infringement liability for divided infringement. In particular, the Federal Circuit articulated a standard that permits liability "when an alleged infringer conditions participation in an activity or receipt of a benefit upon performance of a step or steps of a patented method and establishes the manner or timing of that performance."

In view of *Akamai's* revision to the standards governing direct infringement, the Federal Circuit remanded the case to the district court. The panel recognized that when governing legal standards change during an appeal, it may be appropriate to remand the case for consideration under the new standards. The Federal Circuit further found that Mankes should have the opportunity to amend his complaint based on the new articulation of the divided-infringement standard. After the case was remanded however, the parties stipulated to dismissal of all claims with prejudice.

**EQUITABLE ESTOPPEL**

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***Patents / Equitable Estoppel***

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**EQUITABLE ESTOPPEL AS DEFENSE AGAINST NON-PRACTICING ENTITIES**

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*High Point SARL v. Sprint Nextel Corp.*, 817 F.3d 1325 (Fed. Cir. 2016) (Reyna, J), *reh'g denied*, (Aug., 22, 2016)

In a decision strengthening the rights of defendants accused of infringement by non-practicing entities (NPEs), the US Court of Appeals for the Federal Circuit applied equitable estoppel to dismiss a suit based on the actions of an NPE's predecessor-in-interest. The Federal Circuit found that the predecessor-in-interest's business relationship with the defendant estopped the assignee NPE from pursuing its suit. *High Point SARL v. Sprint Nextel Corp.*, Case No. 15-1298 (Fed. Cir., Apr. 5, 2016) (Reyna, J), *reh'g denied*, (Aug., 22, 2016).

The patents-in-suit cover code division multiple access (CDMA) protocols, a method of sharing cell phone base stations among multiple users that saw widespread adoption across the United States. AT&T originally developed the patents. In 1996, AT&T spun off Lucent as a separate company and included the patents in that transaction. In 2000, Lucent spun off another company, Avaya, again including the patents. Eight years later, Avaya sold the patents to High Point.

The defendant, Sprint, had been working on CDMA networks since at least 1995, when it met with AT&T, among others, to discuss building an interoperable CDMA network for many different companies' devices. In 1998 and 2000, Sprint, Lucent, and Nortel had further discussions about building an interoperable network and entered into a series of cross-licensing agreements to develop their CDMA networks. Over time, as the networks expanded, these cross-licenses expired or failed to fully cover the networks. Nevertheless, Sprint continued building out its network using unlicensed telecom equipment from Samsung, Nortel, and Motorola. As early as 2001, Sprint began using unlicensed equipment from Samsung in Puerto Rico, with other instances of unlicensed equipment being used in 2004 and 2008. At the end of 2008, High Point sued Sprint on the patents based on these unlicensed expansions.

Sprint raised the defense of equitable estoppel, which requires proof of three elements: misleading conduct by the patentee, reliance by the accused infringer, and prejudice to the accused infringer. Sprint's argument was based on the discussions about building interoperable networks and the cross-licenses, combined with Avaya's failure to sue on the patents-in-suit despite the seven years of alleged infringement. High Point countered that much of Sprint's unlicensed equipment from Samsung and Motorola was never subject to a license or an interoperability agreement, so those discussions should be considered irrelevant. After the district court sided with Sprint, High Point appealed.

The Federal Circuit affirmed, noting that the combination of interoperability discussions and licensing, in addition to the years of silence on the alleged infringement, constituted misleading conduct upon which Sprint was entitled to rely. The Court further found that Sprint experienced both economic and evidentiary prejudice as a result of this reliance. The economic prejudice came from Sprint's investment of billions of dollars in building its network, and the evidentiary prejudice arose from fading or lost information about the patents' inventors.

Petition for panel hearing and rehearing *en banc* filed by High Point SARL was denied.

## EU COMPETITION LAW

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### *EU Competition Law / Patents / Royalties / Arbitral Awards*

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# **PAYING ROYALTIES FOR TECHNOLOGY THAT COMPETITORS CAN USE FOR FREE**

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*Sanofi-Aventis v. Genentech*, Case C-567/14 (CJEU, Mar. 17, 2016) (Wathelet, AG)

The Court of Justice of the European Union (CJEU) recently issued its opinion on a question referred to it by the Paris Court of Appeal regarding the provisions of Article 101 of the Treaty on the Functioning of the European Union (TFEU), which deal with anticompetitive agreements. The question at issue was whether Article 101 TFEU must be interpreted as precluding effect being given, where patents are revoked, to a license agreement that requires the licensee to pay royalties for the sole use of the rights attached to the licensed patent. *Sanofi-Aventis v. Genentech*, Case C-567/14 (CJEU, Mar. 17, 2016) (Wathelet, AG).

### **Background**

In 1992, Hoechst granted a license to Genentech for a human cytomegalovirus enhancer. The licensed technology was subject to one European patent and two patents issued in the United States. In 1999, the European Patent Office revoked the European patent.

Under the license agreement with Hoechst, Genentech was obliged to pay a one-off fee, a fixed annual research fee and a running royalty based on sales of finished products. Genentech never paid the running royalty, however, and in 2008 it notified Hoechst and Sanofi-Aventis (Hoechst's parent company) that it was terminating the license. Hoechst and Sanofi-Aventis believed that Genentech had used the enhancer to manufacture its blockbuster drug Rituxan and was therefore liable to pay the running royalty on its sales of that drug.

Sanofi-Aventis initiated two separate actions. In the United States, it brought an action alleging that Genentech infringed the two US patents. The US courts ultimately decided that there was no infringement of the patents in question. Sanofi-Aventis also submitted an application for arbitration against Genentech before the International Court of Arbitration to recover the royalties.

In the arbitral award, the sole arbitrator held that Genentech had manufactured Rituxan using the enhancer and that the company was therefore required under the license to pay Sanofi-Aventis the running royalties. According to the arbitrator, the license's commercial purpose was to avert all litigation on validity. Thus, payments already made under the license could not be reclaimed, and payments due remained due regardless of whether the patent had been revoked or was not infringed.

Genentech brought an action before the Paris Court of Appeal seeking annulment of the arbitral award. The company relied on public policy arguments, claiming that a requirement of payment for the use of technology that Genentech's competitors could use without charge put Genentech at a competitive disadvantage and contravened Article 101 TFEU. The Paris Court of Appeal stayed the proceedings and referred the preliminary question to the CJEU.

### **AG Wathelet's Opinion**

#### *Payment of Running Royalties*

Genentech argued that the payment of a running royalty where the patent was revoked and where there was no infringement not only affected trade between Member States, but also constituted a restriction on competition. As noted, Genentech also argued that it was placed at a competitive disadvantage in the market since it was required to pay for the use of a technology that its competitors could take advantage of freely and without charge.

In his opinion, Advocate General (AG) Wathelet reiterated that the aim of EU competition law is not to regulate commercial relations between companies, but to prohibit anticompetitive agreements. He relied on the CJEU's judgment in C-

320/87 *Ottung*, which held that an obligation to pay a royalty that is unconnected with a patent may implicate Article 101(1) TFEU if the license agreement either (1) does not grant the licensee the right to terminate the agreement or (2) seeks to restrict the licensee's freedom of action after termination.

AG Wathelet noted that Genentech's obligation to pay royalties was stipulated to last only for the duration of the license agreement, and that Genentech could terminate the license by giving notice (thereby placing Genentech in the same position as all other users of the enhancer). He also argued that Genentech's freedom of action was not restricted and that it was not subject to any non-challenge obligations.

The AG's answer to the question referred to the CJEU was therefore "no." He considered that Article 101 TFEU does not preclude effect being given, in the event of revocation or non-infringement of patents protecting a technology, to a license agreement that requires the licensee to pay royalties for the sole use of the rights attached to the licensed patents where (1) the commercial purpose of the agreement is to enable the licensee to use the technology at issue while averting patent litigation, and (2) the licensee may terminate the license agreement by giving notice, even in the event of revocation or non-infringement.

#### *Competition Law and Annulment of Arbitral Awards*

During the proceedings before the Paris Court of Appeal, the French government and Sanofi-Aventis argued that because of certain limitations on the review of arbitration awards under French law, the reference for a preliminary ruling in the present case was inadmissible.

AG Wathelet considered such limitations on the scope of the review of international arbitration awards to be contrary to the principle of effectiveness of EU law. Referring to C-126/97 *Eco Swiss*, the AG noted that Article 101 TFEU constitutes a fundamental provision that is essential for accomplishment of the tasks entrusted to the European Union. In particular, AG Wathelet opined that a Member State court's review of whether international arbitral awards are contrary to public policy rules could not be conditioned by whether this question was raised or debated during the arbitration proceedings, nor could it be limited by national law prohibiting the merits of the award being reconsidered (as Sanofi-Aventis and the French government had tried to argue). He concluded that parties to agreements that might be regarded as anticompetitive could not put such agreements beyond the reach of review under EU competition law by resorting to arbitration.

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**EXHAUSTION**

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**Patents / Exhaustion**

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**FEDERAL CIRCUIT PRECEDENTS ON DOMESTIC AND INTERNATIONAL PATENT EXHAUSTION PRINCIPLES REMAIN UNCHANGED**

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*Lexmark Int'l, Inc., v. Impression Products, Inc.*, 816 F.3d 721 (Fed Cir. 2016) (*en banc*) (Taranto, J., joined by Prost, CJ and Newman, Lourie, Moore, O'Malley, Reyna, Wallach, Chen and Stoll, JJ.) (Dyk, J. dissenting, joined by Hughes, J.), *cert. granted*, No. 15-1189 (US Dec. 2, 2016)

The *en banc* U. S. Court of Appeals for the Federal Circuit issued its long awaited (10-2) decision, reaffirming the court's prior rulings in *Mallinckrodt* and *Jazz Photo* that a seller can use its patent rights to block resale and reuse of a product, and authorized sales of a product abroad does not exhaust the US patent rights associated with that product. *Lexmark Int'l, Inc., v. Impression Products, Inc.*, Case Nos. 14-1617; -1619 (Fed Cir., Feb. 12, 2016) (*en banc*) (Taranto, J., joined by Prost, CJ and Newman, Lourie, Moore, O'Malley, Reyna, Wallach, Chen and Stoll, JJ.) (Dyk, J. dissenting, joined by Hughes, J.), *cert. granted*, No. 15-1189 (US Dec. 2, 2016).

The case arose in the context of a printer manufacturer, Lexmark, enforcing patent rights in its toner cartridges. Lexmark's infringement suit addressed two types of cartridges: "single-use" cartridges Lexmark initially sold in the United States, at a reduced price, subject to a box-top label license that notified customers to use the cartridge only once; and cartridges Lexmark sold abroad. Impression acquired spent cartridges, repaired the cartridges such that they could be used again and sold the cartridges in the United States without Lexmark's authorization.

When Lexmark sued for infringement, Impression responded that Lexmark's initial sale of the cartridges in the distribution chain without any restriction on resale terminated or "exhausted" Lexmark's right to enforce its US patents. The district court held that the doctrine prevented Lexmark from enforcing the post-sale single-use restrictions in a patent-infringement suit but allowed Lexmark to enforce its patent rights in foreign-sold cartridges resold by Impression in the United States, because the first sale occurred abroad.

Soon after the appeal was docketed at the Federal Circuit, the Court *sua sponte* ordered an *en banc* consideration of the issue of international patent exhaustion in the Court and its 2001 Federal Circuit decision in *Jazz Photo*, to be reconsidered in view of the Supreme Court 2012 copyright decision in *Kirtsaeng v. John Wiley & Sons*. The Federal Circuit patent rule was there was no exhaustion of US patent rights as a consequence of an authorized sale abroad, while the Supreme Court copyright rule was essentially the opposite.

In its *en banc* order, the Federal Circuit also noted the apparent tension between its 1992 *Mallinckrodt* decision (finding single use/no resale restrictions by patent owner to be lawful) and the Supreme Court's 2008 *Quanta Computer* decision as to whether patent owners can restrict the scope of exhaustion that accompanies the sale of a patented article.

The majority opinion, penned by Judge Richard G. Taranto (92 pages), explained in considerable detail why *Mallinckrodt* and *Jazz Photo* remain good law, notwithstanding the Supreme Court's intervening decisions in *Quanta* and *Kirtsaeng*.

In doing so, the Federal Circuit rejected arguments that foreign sales and unrestricted first sales of an item that had post-first sale use restrictions automatically exhaust patent rights in a patented article. Both the US government and a toner-cartridge remanufacturer had urged the court to reconsider its exhaustion precedents in light of the intervening Supreme Court decisions.

### **Mallinckrodt (Use Restrictions)**

As explained by the majority, a patentee, when selling a patented article subject to a single-use/no-resale restriction that is lawful and clearly communicated to the ultimate purchaser, does not by that sale give the downstream buyers the resale/reuse authority that has been expressly denied. “Such resale or reuse, when contrary to the known, lawful limits on the authority conferred at the time of the original sale, remains unauthorized, and therefore remains infringing conduct under the terms of § 271. Under Supreme Court precedent, a patentee may preserve its § 271 rights through such restrictions when licensing others to make and sell patented articles; *Mallinckrodt* held that there is no sound legal basis for denying the same ability to the patentee that makes and sells the articles itself. We find *Mallinckrodt*’s principle to remain sound after the Supreme Court’s decision in *Quanta Computer*..., in which the court did not have before it or address a patentee sale at all, let alone one made subject to a restriction, but a sale made by a separate manufacturer under a patentee-granted license conferring unrestricted authority to sell.”

### **Jazz Photo (International Exhaustion)**

The majority explained that a US patentee, merely by selling or authorizing the sale of a US-patented article abroad, does not authorize the buyer to import the article and sell and use it in the United States, which are infringing acts in the absence of patentee-conferred authority. “*Jazz Photo*’s no-exhaustion ruling recognizes that foreign markets under foreign sovereign control are not equivalent to the US markets under US control in which a US patentee’s sale presumptively exhausts its rights in the article sold. A buyer may still rely on a foreign sale as a defense to infringement, but only by establishing an express or implied license—a defense separate from exhaustion, as *Quanta* holds—based on patentee communications or other circumstances of the sale. We conclude that *Jazz Photo*’s no-exhaustion principle remains sound after the Supreme Court’s decision in *Kirtsaeng*, in which the Court did not address patent law or whether a foreign sale should be viewed as conferring authority to engage in otherwise-infringing domestic acts. *Kirtsaeng* is a copyright case holding that 17 U.S.C. § 109(a) entitles owners of copyrighted articles to take certain acts without the authority of the copyright holder. There is no counterpart to that provision in the Patent Act, under which a foreign sale is properly treated as neither conclusively nor even presumptively exhausting the US patentee’s rights in the United States.”

### **The Dissent**

In a 30-page dissent, Judge Timothy B. Dyk (joined by Judge Hughes), argued that “*Mallinckrodt* was wrong when decided, and in any event cannot be reconciled with the Supreme Court’s recent decision in *Quanta Computer*. [ . . . ] We exceed our role as a subordinate court by declining to follow the explicit domestic exhaustion rule announced by the Supreme Court.”

The dissent also faulted the majority’s “presumption-based approach to international exhaustion that would treat exhaustion as a default rule.” Although the dissent “would retain *Jazz Photo* insofar as it holds that a foreign sale does not in all circumstances lead to exhaustion of United States patent rights,” it parted way with the majority in arguing that “a foreign sale does result in exhaustion if an authorized seller has not explicitly reserved the United States patent rights.”

### **Petition for *Certiorari***

The Supreme Court granted Impression Products’ petition for *certiorari* on December 2, 2016.

**INDEFINITENESS*****Patents / Indefiniteness*****CLARIFYING THE OBSCURE (CLAIM INDEFINITENESS)**

*The Dow Chemical Co. v. Nova Chemicals Corp. et al.*, 809 F.3d 1223 (Fed. Cir. 2015) (Prost, C.J.) (Wallach, J.; Dyk, J., concurring) (Moore, J.; Pauline, J.; Newman, J.; O'Malley J.; Taranto, J., concurring-in-part) (O'Malley, J.; Reyna, J., dissenting-in-part), *cert. denied*, (May 23, 2016)

Clarifying the application of the indefiniteness standard set forth in the Supreme Court's *Nautilus* case, a divided US Court of Appeals for the Federal Circuit denied a combined petition for rehearing and rehearing *en banc* while also criticizing the panel's jurisdiction to hear the appeal. *The Dow Chemical Co. v. Nova Chemicals Corp. et al.*, Case Nos. 14-1431, -1462 (Fed. Cir., Dec. 17, 2015) (Prost, C.J.) (Wallach, J.; Dyk, J., concurring) (Moore, J.; Pauline, J.; Newman, J.; O'Malley J.; Taranto, J., concurring-in-part) (O'Malley, J.; Reyna, J., dissenting-in-part).

At issue were two Dow patents directed to improved ethylene polymer compositions for use in making thinner films without compromising their strength. The claims at issue require "a slope of strain hardening coefficient greater than or equal to 1.3." At trial, the defendants argued the claims are indefinite for failing to teach one skilled in the art how to measure "strain hardening." A jury found the asserted claims to be infringed and not invalid. The Federal Circuit affirmed the decision, but remanded the case back to district court to address supplemental damages. The district court granted supplemental damages, and both parties appealed to the Federal Circuit. While the appeal was pending, the Supreme Court decided *Nautilus, Inc. v. Biosig Instruments, Inc.*, which set forth a new standard for indefiniteness. Applying the new *Nautilus* standard, the Federal Circuit found the claims indefinite and reversed the supplemental damages award.

Dow filed a combined petition for rehearing and rehearing *en banc*, which was denied. Judge Moore, joined by Judges Newman, O'Malley and Taranto in full (Chen in part) concurred with the denial in order to clarify the impact of the panel's opinion on the law of indefiniteness. First, contrary to Nova Chemical's claims, "the panel did not and cannot stand for the proposition that extrinsic evidence cannot be relied upon to determine, whether in light of the state of knowledge of the skilled artisan at the time, a patent's specification is sufficiently definite." In rejecting Dow's claim that the panel changed the law of indefiniteness, Judge Moore explained that, consistent with Supreme Court and prior Federal Circuit precedent, findings of fact that rely upon extrinsic evidence on the issue of indefiniteness must be given deference on appeal. Judge Moore's concurring opinion also noted that the burden of proving indefiniteness remains with the party challenging validity.

Chief Judge Prost, joined by Judges Wallach and Dyk, filed a separate concurrence, agreeing with Judge Moore, that the standard for establishing the invalidity of a patent is clear and convincing evidence and that the burden rests on the accused infringer. The concurring opinion also explained that if a skilled person would choose an established method for measurement, which may be sufficient to defeat indefiniteness, even if such method is not set forth *in haec verba* in the patent.

Judge O'Malley, joined by Judge Reyna, dissented with respect to jurisdiction, criticizing the original panel's reliance on *Nautilus* because "the panel could not reopen a validity determination that had been the subject of a final judgment that was affirmed on appeal, and as to which the Supreme Court declined review," even in light of the change in law for indefiniteness as a result of *Nautilus*.

Petition for *certiorari* was denied.

**Patents / Indefiniteness****POINT OF NOVELTY ENTERS INDEFINITENESS ANALYSIS**

*Cox Communications, Inc. v. Sprint Communication Co.*, 838 F.3d 1224 (Fed. Cir. 2016) (Prost, CJ) (Newman, J, dissenting), *reh'g denied*, (Dec. 13, 2016)

Sprint sued Cox for patent infringement, asserting several patents directed to developments in voice-over-IP technology. Among the claims that Sprint asserted were method claims where certain steps of the method were performed using a “processing system.” Cox moved for partial summary judgment on the ground that the claim term “processing system” was indefinite. The district court granted Cox’s motion, finding the claims indefinite because they functionally described the structural “processing system” limitation. Sprint appealed. *Cox Communications, Inc. v. Sprint Communication Co.*, Case No. 16-1013 (Fed. Cir., Sept. 23, 2016) (Prost, CJ) (Newman, J, dissenting), *reh'g denied*, (Dec. 13, 2016).

The Federal Circuit reversed. The parties had previously agreed that the term “processing system” was not a means-plus-function term, so the Court analyzed whether “processing system” rendered the claims indefinite under the *Nautilus v. Biosig Instruments* framework. The Court noted that all of the asserted claims were method claims and that the point of novelty resided with the functional steps of the claimed methods, not with the processing system that performed those steps. Because the “processing system” played “no discernable role in defining the scope of the claims,” the Court found that term did not prevent the claims from informing skilled artisans about the scope of the invention with reasonable certainty as *Nautilus* requires.

Judge Newman concurred in the Court’s judgment but disagreed with its analysis. Newman found that the . . . court creates an interesting, but flawed, new mode of analysis, whereby the adjudicator (1) first removes the challenged term from the claim, then (2) decides whether the claim has the same meaning without the challenged term, and (3) if the answer is “yes,” rules that the claim is not indefinite as a matter of law.

Rejecting that analysis, Newman urged the Court “to return to the traditional method of claim analysis.”

Petition for panel rehearing and rehearing *en banc* filed by Cox Communications, *et al.* has since been denied.



**INDIRECT INFRINGEMENT**

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***Patents / Indirect Infringement***

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**INDIRECT PATENT INFRINGEMENT CAN BE BASED ON WILLFUL BLINDNESS AND CIRCUMSTANTIAL EVIDENCE**

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*Warsaw Orthopedic, Inc., et al. v. NuVasive, Inc.*, Case Nos. 13-1576; -1577 (Fed. Cir., June 3, 2016) (Dyk, J) (*Warsaw II*)

In a case remanded by the Supreme Court of the United States “for further consideration in light of *Commil*”, the US Court of Appeals for the Federal Circuit reinstated its prior decision of indirect infringement in all respects. *Warsaw Orthopedic, Inc., et al. v. NuVasive, Inc.*, Case Nos. 13-1576; -1577 (Fed. Cir., June 3, 2016) (Dyk, J) (*Warsaw II*). The Federal Circuit found that *Commil* did not change the earlier affirmance of indirect infringement based on willful blindness, because the Supreme Court, in *Commil*, did not change the standards for indirect infringement from its earlier decision in *Global-Tech*.

The Federal Circuit’s vacated earlier decision (*Warsaw I*) started as a patent infringement suit by Warsaw Orthopedic and a related company, Medtronic Sofamor (MSD), against NuVasive. NuVasive counterclaimed for infringement of its patent that relates to a method for detecting the presence of, and measuring distance to, a nerve during surgery.

In *Warsaw II*, the Federal Circuit decided that only its prior decision regarding the NuVasive patent was affected by the Supreme Court’s remand. That aspect of the decision related to the Federal Circuit’s earlier affirmance of a jury verdict of direct infringement of the NuVasive patent by users of MSD’s “NIM-Eclipse” products and induced infringement by MSD. *Warsaw I* at 1369, 1373, 1379.

After *vacatur* and remand by the Supreme Court, the Federal Circuit reopened the case for supplemental briefing on “the question of what action this court should take on remand from the Supreme Court ‘for further consideration in light of *Commil* . . . .’” In its decision on remand, the Federal Circuit, with Judge Dyk writing for the panel, stated that “[t]he only question here is whether there was substantial evidence for the jury to conclude that MSD induced infringement of NuVasive’s . . . patent.” The Federal Circuit then emphasized that the Supreme Court’s decision in *Commil* “reaffirmed and clarified” the Supreme Court’s earlier decision on the standard for inducement under § 271(b) in *Global-Tech* but did not change the law.

The Federal Circuit stated that *Commil*, like the Supreme Court’s prior decision in *Global-Tech*, held that proof of induced infringement requires not “only knowledge of the patent” but also “proof the defendant knew the [induced] acts were infringing.” The Federal Circuit reasoned that *Commil*, in reaffirming *Global-Tech*, “also necessarily reaffirmed that willful blindness can satisfy the knowledge requirement for active inducement under § 271(b) (and for contributory infringement under 271 (c)), even in the absence of actual knowledge.”

Judge Dyk stated that *Global-Tech* “also held that knowledge of infringement can be inferred from circumstantial evidence,” and that *Global-Tech* affirmed earlier Supreme Court and Federal Circuit precedents on this issue. He then cited to several Federal Circuit cases that held, *e.g.*, that the “requisite intent to induce infringement may be inferred from all of the circumstances” and that “[w]hile proof of intent is necessary, direct evidence is not required; rather, circumstantial evidence may suffice.”

The Federal Circuit concluded that “there was substantial evidence that MSD’s infringement position was objectively unreasonable and that the jury, based on this evidence, could reasonably have concluded that MSD had knowledge (or was willfully blind to the fact) that it was infringing.”

**Patents / Cert Alert**

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**INDUCEMENT AND RISK OF LIABILITY FOR WORLDWIDE SALES**

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*Life Technologies Corporation v. Promega Corporation*, Case No. 14-1583 (US, June 27, 2016) (decision on *cert.*)

The Supreme Court of the United States agreed to review a decision by the US Court of Appeals for the Federal Circuit regarding active inducement infringement under 35 USC § 271(f)(1) in a case important to US manufacturers that supply components of patented inventions for use abroad. *Life Technologies Corporation v. Promega Corporation*, Case No. 14-1583 (US, June 27, 2016) (decision on *cert.*)

At the district court, Life Technologies Corporation (LifeTech) acknowledged that by selling certain kits, it directly infringed the asserted patent under § 271(a). Many of those sales were made abroad, however, and LifeTech supplied only a single component of those kits from the United States—the Taq polymerase. For those sales, the district court instructed the jury on active inducement under § 271(f)(1) and, over LifeTech’s objection that it could not induce itself within the meaning of the statute, instructed the jury to include in the damage calculation kits made outside the United States where the Taq polymerase was supplied from the United States.

The jury returned a damage award based on LifeTech’s worldwide sales. Later, on LifeTech’s motion for judgment as a matter of law, the district court ruled that § 271(f)(1) requires the involvement of another, unrelated party to “actively induce the combination of components” and that no other party was involved in LifeTech’s assembly of the accused kits overseas. It also found that the statutory phrase “substantial portion of the components” requires at least two components to be supplied from the United States, but that LifeTech supplied only a single component.

On appeal, the Federal Circuit reversed the ruling regarding § 271(f)(1), concluding that even a single component supplied from the United States can constitute “a substantial portion” of the components of a patented invention.

The text of 35 USC § 271 (f)(1) reads as follows:

Whoever without authority supplies or causes to be supplied in or from the United States all or a *substantial portion of the components of a patented invention*, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer. (Emphasis added.)

The question on which the Supreme Court granted *certiorari* is as follows:

Whether the Federal Circuit erred in holding that supplying a single, commodity component of a multi-component invention from the United States is an infringing act under 35 USC § 271(f)(1), exposing the manufacturer to liability for all worldwide sales.

In other words, the Supreme Court will decide if LifeTech’s export of the Taq polymerase was sufficient to be considered a “substantial portion of the components” under the statute, thereby exposing LifeTech to infringement damages based on its worldwide sale of the subject kits.

The Supreme Court heard oral argument on December 6, 2016 and the appeal is currently pending adjudication.

## INVENTORSHIP

*Patents / Inventorship / Assignment***CORRECTED INVENTORSHIP LEADS TO LOSS OF STANDING TO PURSUE INFRINGEMENT CASE**

*Vapor Point LLC v. Moorhead*, Case Nos. 15-1801; -2003 (Fed. Cir., Aug. 10, 2016) (*per curiam*) (O'Malley, J, concurring), *reh'g denied*, (Oct. 20, 2016)

Addressing inventorship and waiver issues, the US Court of Appeals for the Federal Circuit affirmed the district court's decision to add two joint inventors to a patent, explaining that even those who contribute only to a single claim, or to one aspect of a single claim, are inventors. *Vapor Point LLC v. Moorhead*, Case Nos. 15-1801; -2003 (Fed. Cir., Aug. 10, 2016) (*per curiam*) (O'Malley, J, concurring), *reh'g denied*, (Oct. 20, 2016).

Vapor Point and individuals Keith Nathan and Kenneth Matheson (collectively, Vapor Point) brought suit against NanoVapor Fuels and individuals Elliott Moorhead and Bryant Hickman (collectively, NanoVapor) seeking to add Nathan and Matheson as joint inventors on two of NanoVapor's patents. Specifically, Vapor Point alleged that NanoVapor hired both Nathan and Matheson to reengineer and develop a commercial embodiment of the system claimed in the NanoVapor patents at issue, and that NanoVapor filed these patents without consent, notice or compensation. NanoVapor countersued Vapor Point, arguing (among other things) that Vapor Point infringes the two NanoVapor patents.

Both sides also asserted various state law claims. In response to Vapor Point's state law claims, NanoVapor asserted a number of defenses, including that Vapor Point had an obligation to assign the two NanoVapor patents to NanoVapor. Both sides later voluntarily nonsuited their respective state law claims, representing that only issues of infringement and inventorship remained.

After a four-day evidentiary hearing, the district court granted Vapor Point's claims of inventorship, adding Nathan and Matheson as joint inventors of the two patents, and dismissed the action. Because NanoVapor failed to join all inventors in the litigation, including Nathan and Matheson, NanoVapor no longer had standing to pursue the infringement claim.

NanoVapor appealed to the Federal Circuit, arguing that the district court erred in its determination of inventorship and improperly dismissed the action without deciding whether Vapor Point had an obligation to assign the patents to NanoVapor.

With respect to inventorship, the Federal Circuit reiterated that all inventors, even those who contribute only to a single claim or one aspect of a single claim, must be listed on any patent including such a claim. Indeed, joint inventors need not physically work together or make the same type or amount of inventive contribution. Here, the Federal Circuit found substantial evidence that Nathan and Matheson each contributed to at least one aspect of the patented invention. Accordingly, the Federal Circuit agreed with the district court that Nathan and Matheson should properly be named inventors on the NanoVapor patents.

The Federal Circuit also agreed that NanoVapor waived its right to ask the district court to determine whether Vapor Point had an obligation to assign the patents to NanoVapor. In this case, NanoVapor asserted that Vapor Point had an obligation to assign only as an affirmative defense to Vapor Point's state law claims, which were voluntarily dismissed with prejudice. After dismissal, the only remaining claims from Vapor Point's complaint were related to inventorship. As the parties agreed, determinations of inventorship and ownership are separate issues, and ownership is not an affirmative defense to inventorship. Accordingly, voluntary dismissal of the state law claims mooted NanoVapor's equitable defense that Vapor Point had an obligation to assign. The Federal Circuit further noted NanoVapor's affirmative representation that resolution of the inventorship issue would dispose of the infringement issue, which amounted to a waiver of any assertion of ownership of Vapor Point's rights.

Judge O'Malley wrote a separate concurrence to note that, regardless of whether NanoVapor waived its right to assert ownership by assignment in the two NanoVapor patents, NanoVapor would nevertheless have lacked standing to maintain an infringement action because it had no written assignment from either Nathan or Matheson. O'Malley advocated for strict adherence to 35 USC § 261 and noted that any precedent holding that such an "in writing" requirement could be ignored must be rejected. O'Malley also acknowledged that patent ownership may be transferred by operation of law, such as by way of inheritance, but that such transfers are not "assignments" under § 261. Moreover, although state law principles may give rise to shop rights and implied-in-fact contracts, these are also not "assignments" pursuant to § 261 and may only be used as a defense against infringement. In this case, NanoVapor conceded that it had no executed written instrument requiring assignment from either of Nathan or Matheson—NanoVapor apparently drafted multiple employee agreements, but none were signed. Accordingly, any possible equitable claim of patent ownership held by NanoVapor was insufficient to permit NanoVapor to assert its infringement claim, regardless of waiver.

Petition for panel rehearing and rehearing *en banc* filed by Moorhead, NanoVapor Fuels Group, Inc., and Bryant Hickman was denied.

**Patents / Inventorship / Laches****FOREIGN LITIGATION DOES NOT DEFEAT PRESUMPTION OF LACHES**

*Lismont v. Alexander Binzel Corp.*, Case No. 14-1846 (Fed. Cir., Feb. 16, 2016) (Chen, J), *reh'g denied*, (Mar. 30, 2016)

Addressing laches issues in the context of a multi-jurisdictional dispute, the US Court of Appeals for the Federal Circuit affirmed a summary judgment ruling that the plaintiff's correction of inventorship lawsuit was barred by the doctrine of laches. *Lismont v. Alexander Binzel Corp.*, Case No. 14-1846 (Fed. Cir., Feb. 16, 2016) (Chen, J), *reh'g denied*, (Mar. 30, 2016).

Mr. Hedwig Lismont resides in Belgium. He asserts that in 1995 he began developing a manufacturing process at the request of welding equipment manufacturer Binzel-Germany. According to Mr. Lismont, after he disclosed the details of his manufacturing process to Binzel, the company began filing patent applications naming a Binzel employee, and not Mr. Lismont, as the inventor. Three filings are of relevance:

- A German patent
- A Patent Cooperation Treaty (PCT) application claiming priority from the German patent
- A US patent claiming priority from the PCT application

The US patent is directed to a cost-effective method of manufacturing a contact tip for use in metal inert gas welding.

Mr. Lismont first filed a lawsuit in Germany in 2000 alleging that he was the true inventor of the German patent. He filed a second suit with similar allegations in 2002. The German lawsuits were eventually decided against Mr. Lismont, with the courts concluding that he failed to prove his inventorship interest.

In 2012, Mr. Lismont sought correction of inventorship with respect to the US patent by bringing a lawsuit in the United States under 35 USC § 256. After limited discovery, Binzel moved for summary judgment that the claim was barred by laches since Mr. Lismont knew of the PCT application that precipitated the issuance of the US patent in 2002, yet waited 10 years before initiating a lawsuit in the United States.

The district court granted the motion, finding Mr. Lismont's inventorship claim barred by laches. The district court concluded that the rebuttable presumption of laches would attach since more than six years had passed between the filing of the lawsuit and the time Mr. Lismont knew or should have known of the US patent's issuance. The district court further concluded that Mr. Lismont failed to rebut the presumption of laches with evidence that the delay should be excused or was otherwise reasonable. Mr. Lismont appealed.

Summary judgment orders are typically reviewed *de novo*, but because laches is an equitable doctrine that turns on questions of fact, the Federal Circuit reviewed the district court's conclusions for abuse of discretion. With respect to the laches, the Federal Circuit agreed that the presumption of laches applies and that the district court "properly determined that Mr. Lismont had not presented any genuine issues sufficient to rebut the presumption." In reaching this conclusion, the Federal Circuit rejected two of the appellant's positions. First, Mr. Lismont had argued that the presumption of laches was inappropriate because he had been diligently seeking to vindicate his inventorship rights in European courts and therefore did not delay the US litigation. The Federal Circuit disagreed, explaining that in order to avoid the imposition of laches, Mr. Lismont should have initiated his correction of inventorship suit within six years of the US patent issuance.

Second, Mr. Lismont contended that the European litigation efforts should rebut the presumption of laches. The Federal Circuit rejected this argument as well, finding that a foreign litigation could only excuse a plaintiff's delay where the defendant had adequate notice of the foreign litigation as well as plaintiff's intention to pursue his or her rights in the United States upon completion of the foreign litigation. Here, there had been no adequate notice or threat of litigation in the United States. The

mere initiation of patent litigation in a foreign jurisdiction and the existence of a US patent are insufficient to rebut the presumption of laches.

Petition for panel rehearing filed by Hedwig Lismont was denied.

## ITC

**Patents / ITC / Importation****FEDERAL CIRCUIT REJECTS ITC'S AUTHORITY OVER INTANGIBLE ARTICLES**

*ClearCorrect Operating, LLC, et al. v. Int'l Trade Comm'n*, Case No. 14-1527 (Fed. Cir., Mar. 31, 2016) (*per curiam*) (Prost, J, concurring) (Newman, J, dissenting)

The US Court of Appeals for the Federal Circuit denied a request for rehearing *en banc* in *ClearCorrect Operating v. Int'l Trade Comm'n*, leaving in place a 2–1 decision that the term “articles” in 19 USC § 1337 is limited to tangible items. *ClearCorrect Operating, LLC, et al. v. Int'l Trade Comm'n*, Case No. 14-1527 (Fed. Cir., Mar. 31, 2016) (*per curiam*) (Prost, J, concurring) (Newman, J, dissenting).

Appellant ClearCorrect manufactures orthodontic aligners. In the United States, ClearCorrect would scan a patient's teeth and digitally recreate the tooth arrangement. The digital file was transmitted to Pakistan, where a new set of digital files of intermediate tooth positions was created. Those digital files were then transmitted back to the United States, where ClearCorrect would use a 3-D printer to make aligners from the digital files. The US International Trade Commission (ITC) found that transmission of the intangible digital files into the United States was an importation of an “article” under § 337, and issued a cease and desist order to ClearCorrect's Pakistani affiliate. A Federal Circuit panel, over the dissent of Judge Newman, reversed, ruling that the ITC exceeded its authority because the term “articles” in § 337 was limited to tangible goods. Both the ITC and intervenor Align Technology requested rehearing *en banc*, with a number of *amicus* briefs filed in support.

The full court nonetheless denied the request for rehearing in an 11–1 *per curiam* opinion, with Judge Newman dissenting. The dissent argued that limiting the ITC's jurisdiction to tangible goods is inconsistent with prior rulings, particularly *Suprema, Inc. v. Int'l Trade Comm'n*. In *Suprema*, the *en banc* court found that “the legislative history [of § 337] consistently evidences Congressional intent to vest the [International Trade] Commission with broad enforcement authority to remedy unfair trade acts,” and since US Customs and Border Protection had already determined that transmission of software from a foreign country to the United States via the internet was an importation, § 337 should not be read to exclude authority over such transmissions.

The dissent also noted that nothing in dictionaries from the relevant era or § 337 justified a physical limitation on the term, and that even if an exclusion order could not be enforced, respondents could still be subject to a cease and desist order, removing the argument that leaving “article” unlimited would create an unenforceable remedy.

Finally, the dissent argued that even if there was some question as to whether the term “article” covered digital goods, the ITC's interpretation was entitled to *Chevron* deference. Judge Prost wrote a brief concurrence in response to Judge Newman's dissent, reiterating the panel opinion's view that if Congress had wanted the ITC to have authority over digital importations, it would have provided for that authority explicitly. Judges O'Malley and Wallach joined the concurrence.

## JURISDICTION

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### *Patents / ANDA / Personal Jurisdiction*

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## **FUTURE INFRINGEMENT SUPPORTS SPECULATIVE JURISDICTION**

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*Acorda Therapeutics Inc. v. Mylan Pharm. Inc.*, 817 F.3d 755 (Fed. Cir. 2016) (Taranto, J) (O'Malley, J, concurring)

Addressing personal jurisdiction in suits under 35 USC § 271(e)(2), the US Court of Appeals for the Federal Circuit held that a state in which an Abbreviated New Drug Application (ANDA) filer plans to sell its generic product has specific personal jurisdiction over the ANDA filer, even where the ANDA was neither prepared nor filed in that state. *Acorda Therapeutics Inc. v. Mylan Pharm. Inc.*, Case Nos. 15-1456; -1460 (Fed. Cir., Mar. 18, 2016) (Taranto, J) (O'Malley, J, concurring).

Mylan filed ANDAs seeking permission from the US Food and Drug Administration (FDA) to manufacture and market generic versions of three drugs owned by two brand-name manufacturers. Mylan prepared the ANDAs at its principal place of business in West Virginia and filed them at FDA headquarters in Maryland. The brand-name manufacturers brought separate suits against Mylan under 35 USC § 271(e)(2) in the District of Delaware. Mylan did not dispute that it planned to sell its product in Delaware or that it was registered to do business in Delaware. Nonetheless, Mylan moved to dismiss the suits for lack of personal jurisdiction. The judges in both suits denied Mylan's motions, finding that Delaware had specific personal jurisdiction over Mylan. The judges disagreed as to whether general personal jurisdiction existed as a result of Mylan being registered to do business in Delaware. Both judges certified their rulings for interlocutory appeal.

In both cases, the Federal Circuit affirmed the denial of the motion to dismiss on the specific jurisdiction grounds. Although the statute states that "[i]t shall be an act of infringement to submit an application," the Federal Circuit concluded that § 271(e)(2) was also meant to guard against future infringement, as defined under § 271(a). The Court disagreed with Mylan that a rigid past/future dividing line governs the minimum-contacts standard. The Court explained that Mylan's uncontested plans to sell its generic product in Delaware supported specific jurisdiction there, even though neither sales nor any activity related to submitting the ANDA took place in Delaware.

With the case resolved on specific jurisdiction grounds, the Court did not reach the question of general jurisdiction. Judge O'Malley wrote separately to express that she would have preferred to resolve the case on general jurisdiction grounds as opposed to "planned future conduct in the State." In her view, a clear line of Supreme Court of the United States precedent supports finding general jurisdiction over Mylan because it registered to do business in Delaware.

Mylan has since filed a petition for *certiorari* after being denied a rehearing *en banc*. The Supreme Court is scheduled to review the petition in its January 6, 2017 Conference.



**Patents / Declaratory Judgment / Jurisdiction****INFRINGEMENT COUNTERCLAIM CONFERS SUBJECT MATTER JURISDICTION**

*Microsoft Corp. v. GeoTag, Inc.*, 817 F.3d 1305 (Fed. Cir. 2016) (Wallach, J), *cert. denied*, (US Oct. 11, 2016)

Addressing jurisdictional issues, the US Court of Appeals for the Federal Circuit affirmed the district court's conclusion that the patentee's counterclaims for infringement independently gave rise to subject matter jurisdiction under 28 USC § 1338(a). *Microsoft Corp. v. GeoTag, Inc.*, Case No. 15-1140 (Fed. Cir., Apr. 1, 2016) (Wallach, J), *cert. denied*, (US Oct. 11, 2016).

GeoTag sued more than 300 entities in the Eastern District of Texas, accusing their store locator services of patent infringement. Many of the entities had purchased those services from Google. In response, Google sued GeoTag in the District of Delaware seeking declaratory judgment of invalidity and non-infringement. GeoTag answered and counterclaimed that Google's AdWords product also infringed the patent at issue in the Eastern District of Texas. Google moved for, and the district court granted, summary judgment of non-infringement, holding that AdWords does not practice one of the claim elements.

While the summary judgment motion was pending, the Federal Circuit ruled in *Microsoft Corp. v. DataTern, Inc.* that suits against customers do not ordinarily confer declaratory judgment standing on a supplier. With the district court's leave, Google filed a First Amended Complaint, which GeoTag moved to dismiss for lack of subject matter jurisdiction. GeoTag's motion to dismiss alleged (1) that Google's First Amended Complaint was deficient because there was not a substantial controversy "of sufficient immediacy" between the parties, and (2) that the counterclaims were compulsory (not permissive) and thus should be dismissed if the underlying declaratory judgment action lacks subject matter jurisdiction.

The district court denied GeoTag's motion, holding (1) that Google's First Amended Complaint established a substantial controversy of sufficient immediacy to warrant declaratory relief, and (2) that the counterclaims (which the district court deemed to be permissive) formed an independent basis for finding subject matter jurisdiction. GeoTag stipulated to the entry of final judgment and appealed.

On appeal, the Federal Circuit affirmed both the denial of the motion to dismiss, as well as the summary judgment order. The Court held that GeoTag's patent-infringement counterclaims independently conferred subject matter jurisdiction on the district court, explaining that because GeoTag's counterclaim actually charged Google with infringement of the patent, there was necessarily a case or controversy sufficient to support jurisdiction. The Court found it to be irrelevant whether the underlying complaint was deficient and did not reach the question. The Court also found it irrelevant whether the counterclaims were compulsory or permissive, noting that nothing in the text of § 1338 suggests that Congress conditioned its grant of jurisdiction on the nature of the counterclaim.

Regarding the summary judgment order, the Court rejected two challenges to the district court's claim construction, reasoning that the construction of the appealed terms did not form the basis for the district court's decision to grant summary judgment. Because there was no technical dispute as to how the AdWords product functions, the Court affirmed the summary judgment of non-infringement.

*Certiorari* has since been denied in this case.

**Patents / Venue****FEDERAL CIRCUIT PRESERVES STATUS QUO FOR VENUE IN PATENT CASES**

*In Re: TC Heartland LLC*, 821 F.3d 1338 (Fed. Cir. 2016) (Moore, J), *cert. granted*, (US Dec. 14, 2016)

In a strongly worded opinion, the US Court of Appeals for the Federal Circuit denied a petition for a writ of *mandamus* and rejected arguments that Congress intended that a defendant accused of patent infringement be deemed to “reside” in its place of incorporation. *In Re: TC Heartland LLC*, Case No. 16-105 (Fed. Cir., Apr. 29, 2016) (Moore, J), *cert. granted*, (US Dec. 14, 2016). In the absence of additional legislation, venue in patent cases is proper in any district where the defendant makes sales.

Kraft Foods Group accused TC Heartland of infringing Kraft’s patents based on sales of liquid water-enhancer products. Kraft brought the suit in Delaware, but Heartland moved to either dismiss the action or transfer venue to the Southern District of Indiana, where Heartland has its primary place of business. Although Heartland contended that it had no local presence in Delaware, the evidence established that Heartland shipped orders of the accused products into Delaware. The district court rejected Heartland’s theory that it did not “reside” in Delaware for venue purposes according to 28 USC § 1400(b) and also rejected the contention that the court in Delaware lacked specific personal jurisdiction.

After the district court’s denial of the request to dismiss or transfer, Heartland filed a petition for a writ of *mandamus* at the Federal Circuit. The majority of the *amicus* briefing that the petition attracted was directed to the impact the decision would have on filings in the Eastern District of Texas—the district court which by far attracts the highest volume of patent filings.

The Federal Circuit’s venue analysis turned on the applicability of long-established precedent and an absence of evidence that Congress intended to overrule prevailing law. In 1990, the Federal Circuit held in *VE Holding v. Johnson Gas Appliance* that definition of corporate residence in the general venue statute (28 USC § 1391) applies to the patent-focused venue statute (§ 1400). Following this ruling, district courts uniformly adopted a broad understanding of “corporate residence” in patent cases. In 2011, Congress amended § 1391, subsections (a) and (c), changing the language preceding the definition of “corporate residence” from “For the purposes of venue under this chapter” to “For all venue purposes.” Heartland argued that with this change, Congress intended to alter the definition of corporate residence so as to nullify the effect of the Federal Circuit’s ruling in *VE Holding*.

Finding Heartland’s argument to be “utterly without merit or logic,” the Federal Circuit emphasized the lack of evidence supporting the view that Congress intended, through amendments in 2011, to codify Supreme Court of the United States precedent regarding the patent venue statute from 1957. To the contrary, the Federal Circuit pointed out that congressional reports over the years have consistently recognized that the broad understanding of corporate residence articulated in *VE Holding* is prevailing law. The Federal Circuit was similarly dismissive of Heartland’s arguments that it was not subject to specific personal jurisdiction, finding that Kraft’s infringement allegations were sufficiently related to shipments of accused product to Delaware.

The Supreme Court granted TC Heartland’s petition for *certiorari* on December 14, 2016.

**Patents / Declaratory Judgment / Jurisdiction****SUBSTANTIAL CONTROVERSY FOR DECLARATORY JUDGMENT JURISDICTION MAY BE BASED ON DEMONSTRATED INTENT TO ENFORCE PATENTS**

*Asia Vital Components Co., Ltd. v. Asetek Danmark A/S*, 837 F.3d 1249 (Fed. Cir. 2016) (Prost, CJ)

The US Court of Appeals for the Federal Circuit reversed a district court's dismissal of a declaratory judgment action for lack of subject matter jurisdiction, clarifying that a "substantial controversy" does not require a specific threat of infringement litigation. *Asia Vital Components Co., Ltd. v. Asetek Danmark A/S*, Case No. 15-1597 (Fed. Cir., Sept. 8, 2016) (Prost, CJ).

Asetek is the assignee of the asserted patents, which are directed to liquid cooling systems used to cool computers. In April 2014, Asetek sent Asia Vital Components (AVC) a letter accusing AVC of infringing its patents. AVC noted that it did not manufacture the products Asetek called out in its letter, but still requested a meeting with Asetek to discuss related matters. Asetek stated that it believed AVC was likely selling other infringing products in the United States, highlighted Asetek's enforcement of its intellectual property against other manufacturers of liquid cooling systems and agreed to meet with AVC. The two parties met in August 2014 and discussed a potential license to the asserted patents but did not specifically discuss any AVC products that potentially infringed the asserted patents.

In September 2014, AVC filed a declaratory judgment complaint seeking a declaration that its liquid cooling products, identified as K7 and K9, did not infringe Asetek's patents. Asetek moved to dismiss the complaint for lack of subject matter jurisdiction. The district court granted Asetek's motion, explaining that because there were never any discussions between the parties as to whether AVC's K7 and K9 products were infringing, and because Asetek was unaware of the existence of AVC's K7 and K9 products prior to the complaint, "the complaint does not plead sufficient facts to show that there is a substantial controversy under the totality of the circumstances." AVC appealed.

On appeal, the Federal Circuit reversed, finding that Asetek's actions demonstrated intent to enforce its patents, creating a substantial controversy between the parties. The Court found this intent based on Asetek's accusation that AVC was selling other infringing products in the United States and Asetek's warning to AVC that it enforced its intellectual property in pending litigations against companies that AVC alleged sell products similar to its own K7 and K9 products. Asetek also met with AVC to discuss a potential license, even after learning that its specific allegations in its initial letter were incorrect, and made threats to AVC's customers regarding AVC's alleged infringement of the asserted patents. The Court found that such threats constitute affirmative actions by Asetek to "impede and frustrate AVC's attempts to meaningfully participate in the liquid cooling market," further supporting the conclusion that a substantial controversy existed between the parties. Additionally, the Federal Circuit found that the threat of suit was "real and immediate" because AVC had completed designs for the K7 and K9 products, including manufactured prototypes, and demonstrated an intent to market and sell the products with evidence of potential customers prepared to place orders.

The Federal Circuit emphasized that the question of jurisdiction does not turn on Asetek's knowledge of the specific AVC products that may infringe or whether Asetek specifically alleged that the K7 and K9 products infringed, but rather whether Asetek's actions "can be reasonably inferred as demonstrating intent to enforce a patent." Because Asetek's actions demonstrated intent to enforce its patents, there was a sufficient controversy to support AVC's declaratory judgment complaint.

**Patents/ Jurisdiction****EXPANDED FEDERAL CIRCUIT JURISDICTION: CLASSIFYING COMPULSORY COUNTERCLAIMS**

*In re Rearden LLC*, 841 F.3d 1327 (Fed. Cir. 2016) (Stoll, J.)

Addressing jurisdictional issues under the America Invents Act, the US Court of Appeals for the Federal Circuit denied a petition for a *writ of mandamus* challenging a district court order compelling a petitioner to produce allegedly privileged documents. *In re Rearden LLC*, Case No. 16-125 (Fed. Cir., Nov. 17, 2016) (Stoll, J.).

Respondent, Virtue Global Holding Limited (“VGHL”) filed a district court complaint accusing Petitioners, Rearden, of false or misleading representations of fact concerning ownership of visual effects technology contained in various hardware, source code, and physical assets, and protected by trademarks, copyrights, trade secrets, and patents, (the “MOVA assets”). Both Respondent and Petitioners claimed ownership of the MOVA assets and each sought a declaration that it owned the assets. VGHL also argued that Rearden’s patent assignments were invalid and Rearden counterclaimed seeking damages for patent infringement. The central issue on appeal relates to VGHL’s motion to compel Rearden to produce, during discovery, certain documents Rearden exchanged with its corporate attorney. Finding that Rearden failed to show it could assert the attorney-client privilege, and had in fact waived any such privilege, the magistrate judge granted VGHL’s motion to compel. Rearden objected, but the district court found Rearden failed to establish that the magistrate’s findings were clearly erroneous or contrary to law.

Rearden petitioned the Federal Circuit for a *writ of mandamus* challenging the district court’s order. VGHL argued that the Court lacked jurisdiction to issue *mandamus* because the issue lay solely with the regional circuit court of appeal. The Court disagreed, noting that 28 U.S.C. § 1295(a) grants the Court appellate jurisdiction “in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents.” Notably, the America Invents Act (“AIA”) expanded the Court’s jurisdiction to encompass compulsory counterclaims “arising under” patent law. This expanded jurisdiction is limited to only *compulsory* counterclaims and does not include *permissive* counterclaims.

The Federal Circuit’s decision on jurisdiction thus boiled down to whether Rearden’s patent infringement counterclaim was compulsory or permissive. Under Rule 13 of the Federal Rules of Civil Procedure, a compulsory counterclaim is one that “arises out of the transaction or occurrence that is the subject matter of the opposing party’s claim. In this case, the Court found the claims to be compulsory because they involved the same patents, shared overlapping legal and factual issues, shared substantial evidentiary overlap such that the same evidence could refute both the claims of ownership and the counterclaims of infringement, and shared a close, logical relation – the ownership and rightful use of the technology in the MOVA assets.

Turning to the merits of the *mandamus* petition, the Court reviewed the district court’s denial of a request for an evidentiary hearing and denial to supplement the record under an abuse of discretion standard. Because petitioners sought relief by way of *mandamus*, the Court emphasized that its review was “particularly deferential” and that it would only overturn the district court’s determination if Rearden showed that it had a clear and indisputable right to relief and no adequate alternative legal channels to obtain the same relief. Ultimately, Rearden fell short of meeting this standard and the Court declined to enter *mandamus* relief.

## LACHES

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### *Patents / Laches*

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## LACHES

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*SCA Hygiene Products v. First Quality Baby Products*, Case No. 15-927 (Supr. Ct., May 2, 2016)

The Supreme Court of the United States granted *certiorari* to review a patent case on the law of laches and heard oral argument on November 1, 2016. *SCA Hygiene Products v. First Quality Baby Products*, Case No. 15-927 (Supr. Ct., May 2, 2016). The question presented was: Can the defense of laches bar a claim for patent infringement brought within the Patent Act's six-year statutory limitations period (35 USC § 286), and if so, to what extent?

The US Court of Appeals for the Federal Circuit granted *en banc* review to determine if the Supreme Court's *Petrella v. Metro-Goldwyn-Mayer* decision required a change to the law of laches in patent cases. In *Petrella*, the Court held that courts should not use equitable doctrines like laches to bar copyright suits as untimely because Congress wrote a specific statute of limitations to be used for copyright cases. In a 6–5 decision, the Federal Circuit held that in terms of patent infringement actions, *Petrella* did not require a change in the laches rule set out by the court in 1992 in *A.C. Aukerman v. R.L. Chaides Constr.* Rather, the *en banc* Court explained that notwithstanding the provisions of § 286, Congress codified the laches defense in § 282 when it included an unenforceability defense in that statute. Thus, the Court found that laches could bar a damages claim even for acts occurring within the six-year period of § 286.

The Federal Circuit also held, however, that *Petrella* requires a change in the *Aukerman* rule that only pre-suit damages may be barred by laches. The Court explained that the availability of injunctive relief or ongoing royalties now depends on an analysis of the circumstances of the delay under the Supreme Court's 2006 decision in *eBay, Inc. v. MercExchange*.

In its *cert* petition, SCA argued that the *en banc* decision of the Federal Circuit conflicts with the Supreme Court's decision in *Petrella* that, under the Copyright Act, laches cannot bar damages claims brought within a statutory limitations period, even though the initial violation may have occurred years earlier. SCA also argued that the Federal Circuit observes a presumption in favor of laches that is inconsistent with Supreme Court precedent.

The Supreme Court heard oral argument on November 1, 2016 and the appeal is currently pending adjudication.

## LICENSING

**Patents / Licenses****MOST-FAVORED LICENSEE ENTITLED TO REFUND OF 99 PERCENT OF LUMP SUM ROYALTY**

*JP Morgan Chase Bank, N.A. v. DataTreasury Corp.*, Case No. 15-40905 (5th Cir., May 19, 2016) (Davis, J) (Higginson, J, dissenting in part), *cert. denied*, (Nov. 28, 2016)

The US Court of Appeals for the Fifth Circuit ruled that a most-favored licensee clause allowed a licensee that paid a lump sum of \$70 million to be entitled to a refund when a subsequent licensee paid a lump sum of only \$250,000. The refund applied to royalties paid both before and after the more favorable license. *JP Morgan Chase Bank, N.A. v. DataTreasury Corp.*, Case No. 15-40905 (5th Cir., May 19, 2016) (Davis, J) (Higginson, J, dissenting in part), *cert. denied*, (Nov. 28, 2016).

In 2005, to resolve a patent infringement action filed by DataTreasury against JP Morgan, the parties entered into a license agreement under which JP Morgan would pay DataTreasury \$70 million for use of one of DataTreasury's check processing patents. The license agreement contained a "most-favored licensee" clause, which provided that if DataTreasury granted a similar license to anyone else, JP Morgan would "be entitled to the benefit of any and all more favorable terms."

Seven years later, DataTreasury entered into a license agreement with Cathay General Bancorp that allowed Cathay to use the same DataTreasury patent for only \$250,000. After it learned of Cathay's cheaper license, JP Morgan began litigation to recover the difference between the \$70 million it paid and the \$250,000 paid by Cathay.

The dispute centered on whether the most-favored licensee clause applied retroactively—that is, to royalties JP Morgan paid during the entire term, including before Cathay's license—or only prospectively, on royalties paid after Cathay's more favorable license agreement. DataTreasury argued that JP Morgan was only entitled to a refund on royalties paid since 2012, the date of Cathay's license.

The Fifth Circuit found that most-favored licensee clauses apply prospectively to running royalties but can also apply retroactively to lump sum royalties. A preliminary issue was whether JP Morgan's royalties should be classified as lump sum royalties or running royalties. Under its license agreement, JP Morgan agreed to pay a total of \$70 million but was allowed to pay in installments. The Court explained that this was a lump sum royalty because, according to the agreement, JP Morgan's failure to pay any of the installments would terminate the entire license, in both the future and the past. In contrast, failure to make one payment of a running royalty would affect only the uses covered by that single payment, not previous uses.

JP Morgan was, therefore, entitled to a refund for all royalties paid since the parties first entered into their agreement in 2005, even before Cathay's agreement. The Fifth Circuit distinguished case law that applied most-favored licensee clauses only to royalties paid after the more favorable license arose. Those cases all addressed licenses with running royalties. In contrast, JP Morgan's most-favored licensee clause meant that all of its lump sum royalties should be reduced to the amount it would have paid under Cathay's agreement.

Petition for *certiorari* filed by Datatreasury Corporation was denied.

**Patents / Licensing****ARM'S LENGTH ROYALTY RATES SAVE MEDTRONIC FROM \$1.36 BILLION TAX DEFICIENCY**

*Medtronic, Inc. v. Commissioner, TC Memo. 2016-112 (Tax, June 9, 2016) (Kerrigan, J)*

Addressing whether certain intercompany technology license agreements were negotiated at arm's length, the US Tax Court rejected the Internal Revenue Service's (IRS's) alleged \$1.36 billion tax deficiency and determined that the royalty rates in question were appropriate because the licensee's actions formed the foundation of the product's success. *Medtronic, Inc. v. Commissioner, TC Memo. 2016-112 (Tax, June 9, 2016) (Kerrigan, J)*.

To prevent tax evasion and ensure that taxpayers appropriately allocate taxable income between related entities, intercompany agreements must be negotiated at arm's length. At issue here was whether intercompany license agreements for medical device technology between Medtronic entities in the United States and Puerto Rico met this requirement.

Medtronic is a leading medical technology company that operates in multiple countries. Among its product offerings are implantable medical devices that, once implanted in the human body, including in the patient's heart, analyze cardiac signals and apply therapeutic actions. Because failure of these devices can have severe consequences for the patient, including death, the US Food and Drug Administration (FDA) scrutinizes these implantable medical devices and requires them to meet strict safety and quality standards. The market also values implantable medical devices that are of high quality and have low failure rates.

Medtronic US and Medtronic's Puerto Rico subsidiary, MPROC, entered into intercompany licenses for patents, trade secrets and other intellectual property used to manufacture implantable medical devices. Under the license agreements, MPROC gained the right to use the intellectual property to manufacture the medical devices and paid Medtronic US a 44 percent royalty for the devices and a 26 percent royalty for the leads. MPROC ensured a high-quality product by, among other things, firing employees responsible for even a single product defect.

The IRS analyzed the taxes that the Medtronic entities paid in 2005 and 2006, and determined that the parties were shifting too much taxable income to MPROC. In its notice of deficiency, the IRS stated that the Medtronic entities had a \$1.36 billion tax deficiency.

The Tax Court determined that the IRS's tax deficiency calculations were arbitrary and capricious. The IRS had argued that the royalty rates were too low because MPROC merely manufactured a standard product under Medtronic US's supervision. According to the IRS, Medtronic's success was attributable not to the product quality contributed by MPROC, but to Medtronic's large product line and sales force. The Court rejected this argument, finding that for these implantable medical devices, product quality was the foundation for success. If the medical device fails, the patient can die. MPROC was responsible for, and used its expertise to ensure, a high-quality, FDA-compliant product. Because MPROC was responsible for the success of the product, the Court rejected the IRS's analysis and determined an arm's length royalty to be 44 percent for the devices and 22 percent for the leads.

**OBVIOUSNESS*****Patents / Obviousness / Inherent Anticipation*****REFORMULATED OXYCONTIN PATENTS INVALID**

*Purdue Pharma L.P., et al. v. Epic Pharma, LLC, et al.*, Case Nos. 14-1294, -1296, -1306, -1307, -1311, -1312, -1313, -1314 (Fed. Cir., Feb. 1, 2016) (Prost, CJ), *cert. denied*, (Nov. 14, 2016)

Addressing product-by-process limitations and inherent anticipation issues, the US Court of Appeals for the Federal Circuit affirmed the district court's ruling that the asserted claims of Purdue Pharma's patents covering reformulated OxyContin are invalid. *Purdue Pharma L.P., et al. v. Epic Pharma, LLC, et al.*, Case Nos. 14-1294, -1296, -1306, -1307, -1311, -1312, -1313, -1314 (Fed. Cir., Feb. 1, 2016) (Prost, CJ), *cert. denied*, (Nov. 14, 2016).

The case concerns four patents related to a version of the pain reliever OxyContin. Three of the patents relate to an improved formulation of oxycodone hydrochloride, which is the active ingredient (API) of OxyContin. The fourth patent covers abuse-resistant formulations of OxyContin.

The first three patents (referred to herein as the low-ABUK patents) describe an oxycodone salt with extremely low levels of a particular impurity (14-hydroxy), which belongs to a class of potentially dangerous compounds known as alpha, beta unsaturated ketones (ABUKs). Purdue scientists discovered that the source of the 14-hydroxy impurity was an oxidation byproduct called 8-alpha, which transformed into 14-hydroxy during the synthesis process. To remove the 14-hydroxy impurity from the API, Purdue included an extra hydrogenation step to convert the 14-hydroxy into oxycodone free base.

The district court found the three low-ABUK patents to be obvious, explaining that using hydrogenation to remove 14-hydroxy was well known, and that the discovery of 8-alpha was not necessary to the claimed invention. According to the district court, "a skilled artisan would recognize that hydrogenation could be used to remove the remaining 14-hydroxy, regardless of the source of the 14-hydroxy." The district court also concluded that because the claims were directed to a product, the process limitation requiring the 14-hydroxy to be derived from 8-alpha was immaterial to the obviousness determination.

Purdue appealed, relying heavily on the seminal 1923 Supreme Court's *Eibel Process* decision for the proposition that "where an inventor discovers a nonobvious source of a problem and then applies a remedy in response, the invention is nonobvious and worthy of a patent—even if the remedy, standing alone, would generally appear to be known in the art." According to Purdue, because the source of the 14-hydroxy was not obvious; the solution must also be nonobvious.

The Federal Circuit found the *Eibel Process* decision inapplicable, explaining that unlike *Eibel*, Purdue did not claim the remedy of the problem (performing an extra hydrogenation step), but instead claimed only the end product itself (oxycodone with low ABUK levels). Purdue also argued that without knowing the source of the 14-hydroxy impurity, a person of ordinary skill in the art would not know when or how to perform the hydrogenation step. The Federal Circuit again disagreed, noting that Purdue claimed the end product, not a method for creating that product. As such, the only issue was whether a person of ordinary skill in the art would find it obvious to use hydrogenation to remove the 14-hydroxy—the source of the 14-hydroxy is irrelevant.

Purdue next argued that the district court erred in concluding that the claim language "wherein at least a portion of the 14-hydroxy is derived from 8-alpha . . ." was a process limitation that was immaterial to the obviousness analysis. The Federal Circuit agreed with the district court, noting that the "derived from 8-alpha" limitation does not describe the structure of 14-hydroxy or impart any structural or functional differences in the ultimate end product. According to the Federal Circuit, there was no suggestion in the patents that the hydrogenation process changes depending on the source of the 14-hydroxy impurity. Because the claims at issue were product-by-process claims, the district court properly focused on the product and not the process of making it.



With respect to the fourth patent, the issue was whether the prior art inherently disclosed tablets having the specific breaking strength required by the asserted claims. According to the inventors, a crush-resistant formulation (having a breaking strength of greater than 500N) reduced the potential for abuse, as the original OxyContin tablets were easily crushed into powder, allowing them to be swallowed, snorted or injected.

The district court found the asserted claims of the fourth patent to be anticipated, crediting the experimental work and testimony of defendant's expert Dr. Fernando Muzzio, who recreated a process disclosed in a key prior art reference, McGinity. Using the McGinity process, Dr. Muzzio made thousands of tablets, then tested them for breakage strength. Each and every tablet made according to McGinity had a breaking strength of over 500 nM. The district court thus concluded that the McGinity reference "inherently discloses a breaking strength greater than 500N, because the experimental results indicate unanimously, reliably, clearly and convincingly that any tablet made according to the McGinity Application would exhibit this characteristic."

On appeal, Grunenthal raised multiple arguments asserting different grounds of error, all focused on Dr. Muzzio's testing procedures, adequacy, and reliability. Ultimately, the Court reviewed each of the district court's findings in response to Grunenthal's arguments and found Grunenthal failed to show any clear error in the lower court's findings or provide any independent testing to rebut Dr. Muzzio's findings.

*Certiorari* has since been denied.

**Patents / Obviousness / IPR****FEDERAL CIRCUIT DISTINGUISHES “MOTIVATION TO COMBINE” FROM “EXPECTATION OF SUCCESS” FOR OBVIOUSNESS PURPOSES**

*Intelligent Bio-systems Inc. v. Illumina Cambridge LTD*, Case No. 15-1693 (Fed. Cir., May 9, 2016) (O'Malley, J), *reh'g denied*, (July 12, 2016)

Addressing issues of obviousness and the proper scope of *inter partes* review (IPR) reply briefs, the US Court of Appeals for the Federal Circuit upheld a Patent Trial and Appeal Board (PTAB or Board) IPR decision finding the patent at issue valid. *Intelligent Bio-systems Inc. v. Illumina Cambridge LTD*, Case No. 15-1693 (Fed. Cir., May 9, 2016) (O'Malley, J), *reh'g denied*, (July 12, 2016).

Intelligent Bio-Systems (IBS) filed an IPR challenging the claims in Illumina Cambridge's patent for a DNA sequencing method as obvious. The patent involved nucleotides, the building blocks of DNA strands that have been modified with a removable azido “protecting group” that prevents each nucleotide from binding to the next nucleotide in the strand until it is removed (deblocked). IBS argued that prior art taught a method of DNA sequencing using nucleotides with protecting groups and that other prior art taught the use of azido groups. Illumina responded that, in the prior art, successful sequencing required 100 percent deblocking, while the disclosed azido groups achieved less than 80 percent removal. The PTAB found that the lower deblocking efficacy disclosed in the prior art eliminated any expectation of success or motivation to combine the prior art. IBS appealed.

On appeal, the Federal Circuit found that the PTAB erred by basing its standard for success on the prior art rather than the claims of the patent. Although the prior art considered 100 percent removal necessary for success, the claims in question did not include that limitation. Therefore IBS did not have to prove that such a result would be reasonably expected. However, the Court agreed that 100 percent deblocking was relevant to whether one of ordinary skill in the art had the requisite motivation to combine the prior art, as IBS's sole argument was that a person of skill would be motivated to combine the prior art to achieve 100 percent deblocking. In light of the evidence that the azido group would achieve less than 80 percent deblocking, IBS had failed to provide a credible explanation for how the combination of prior art would achieve this goal.

Recognizing this gap in its case, IBS attempted introduce new arguments and evidence in its reply brief to the PTAB, arguing that a person of skill would know to modify the procedure in the prior art to create the claimed patent. But the PTAB disregarded IBS's reply brief, finding that it fell afoul of 35 USC § 312(a)(3) and 37 CFR § 42.23(b), which require that all arguments be included in the initial petition and that replies may only respond to arguments raised in the corresponding brief. The Federal Circuit agreed that, because IBS initially argued that the prior art was sufficient to make the claimed invention, but provided new arguments and evidence in its reply, it had failed to provide all its arguments with particularity in its initial petition. This was an improper new rationale for motivation to combine, so the PTAB did not need to consider it in its deliberations. Furthermore, because the PTAB is not required to “parse the reply brief to determine which, if any, parts of that brief are responsive and which are improper,” the entire brief could be disregarded.

Petition for panel rehearing and rehearing *en banc* filed by Intelligent Bio-Systems, Inc. was denied.

**Patents / Obviousness / “Common Sense”****GENERALIZED COMMON SENSE ALLEGATIONS CANNOT BE USED TO SUPPLY IMPORTANT MISSING CLAIM LIMITATION**

*Arendi SARL v. Apple Inc., et al.*, Case No. 15-2073 (Fed. Cir., Aug. 10, 2016) (O'Malley, J)

Addressing the use of common sense for an obviousness analysis, the US Court of Appeals for the Federal Circuit held that conclusory statements about common sense cannot be used to supply missing claim limitations that play a major role in the claimed subject matter. *Arendi SARL v. Apple Inc., et al.*, Case No. 15-2073 (Fed. Cir., Aug. 10, 2016) (O'Malley, J).

Arendi sued Apple, Google and others for infringement of its patent on detecting certain types of information in a document and searching external data sources for related information. The defendants filed a petition for *inter partes* review (IPR), and the US Patent and Trademark Office (PTO) instituted review on an obviousness ground based on a single prior art reference. That prior art detected phone numbers in a document and saved them to an external database, but did not conduct any searches using the detected phone number. The defendants asserted that it would have been common sense to first search the database for the phone number to avoid creating duplicate entries. The PTO's Patent Trial and Appeal Board (PTAB or Board) agreed and found the claims unpatentable. Arendi appealed.

On appeal, the Federal Circuit addressed the permissible use of common sense for an obviousness analysis. It first noted that common sense is typically used to provide a motivation or rationale to combine rather than to supply a missing claim limitation. The Court then considered two of its apparently conflicting prior opinions on using common sense to supply missing claim limitations.

In *Perfect Web*, the Court blessed an obviousness holding where common sense was used to supply a missing claim step. But the Federal Circuit characterized that missing step as unusually simple in a particularly straightforward technology, and stated that *Perfect Web* should be considered an exception rather than the rule.

In *Hear-Wear*, the Court affirmed the rejection of an argument that common sense supplied a missing structural claim element. The Federal Circuit in *Hear-Wear* found that conclusory assertions without record evidence cannot be used to establish “core factual findings,” such as missing claim elements. Here, the Court reiterated that a common sense position cannot be used as a wholesale substitute for reasoned analysis and evidentiary support.

The PTAB's decision appeared to parse these cases as barring the use of common sense to supply structural claim elements (as in *Hear-Wear*) but not claim steps (as in *Perfect Web*). The Federal Circuit ignored that distinction and instead held that the question of whether common sense can supply a missing claim limitation turns on whether the limitation is important, *i.e.*, plays a major role in the claimed subject matter and, if missing, would leave the claims almost devoid of content. The Court concluded that the claim limitation at issue—searching an external data source using the information detected in the document—was important and thus could not be satisfied by the conclusory common sense assertions in the record. The Federal Circuit consequently reversed the PTAB's unpatentability decision.

Petition for *certiorari* was filed Nov. 8, 2016.

**PATENTS / OBVIOUSNESS / SECONDARY CONSIDERATIONS****OBVIOUSNESS INQUIRY ALLOWS FLEXIBILITY IN CONSIDERING TEACHINGS OF PRIOR ART**

*ClassCo, Inc. v Apple, Inc.*, Case No. 15-1853 (Fed. Cir., Sept. 22, 2016) (Stoll, J)

Addressing issues of obviousness, the US Court of Appeals for the Federal Circuit affirmed a finding of obviousness based on a flexible approach and further clarified the appropriate evaluation of secondary considerations evidence in an obviousness analysis. *ClassCo, Inc. v Apple, Inc.*, Case No. 15-1853 (Fed. Cir., Sept. 22, 2016) (Stoll, J).

ClassCo brought suit against Apple and several others for infringement of its patent relating to “caller ID” technology. The patented technology improves pre-existing systems by verbally announcing a caller’s identity before the call is connected. Apple filed a request for *inter partes* reexamination of the patent. The Examiner found, and ClassCo agreed, that the primary reference taught all elements of the claims except the use of a single speaker to announce both voice signals and identity information. The Examiner found the claims obvious in view of a second reference’s disclosure of a speaker in a telephone system that can produce audio from multiple types of data. However, the secondary reference did not specifically disclose the use of a single speaker for both voice signals and announcing the caller’s identity. The Patent Trial and Appeal Board (PTAB or Board) affirmed the Examiner’s finding of obviousness on the basis that modifying the primary reference in the way taught by the secondary reference would have resulted in no more than the predictable result of the use of a speaker in a telephone system that produces audio derived from multiple data sources, including voice signals, identity information or tonal ringing. The PTAB gave no weight to ClassCo’s secondary considerations evidence, finding it did not have sufficient nexus to the merits of the claimed invention or was not commensurate with the claim scope. ClassCo appealed.

On appeal, ClassCo argued that the PTAB improperly applied the seminal Supreme Court of the United States *KSR* obviousness case, and that, under *KSR*, a combination of references can only unite old elements with no change in their respective functions. The Federal Circuit disagreed, explaining that an ordinary artisan would recognize that familiar items may have obvious uses beyond their primary purpose and that *KSR* requires a flexible approach to an obviousness determination. The Federal Circuit found that the PTAB properly applied this flexible approach in reaching its obviousness conclusion.

Addressing secondary considerations, the Federal Circuit noted that much of ClassCo’s evidence of praise focused on conventional features in the prior art. The PTAB properly ignored this evidence. However, the Federal Circuit also concluded that the PTAB improperly dismissed some of ClassCo’s evidence of praise on the grounds that the claims encompassed additional embodiments not subject to the praise. As the Federal Circuit explained, the features subject to praise were clearly encompassed by the claims, and a patent applicant need not sell every conceivable embodiment of the claims in order to rely upon evidence of secondary considerations. Nevertheless, while this secondary considerations evidence should have been considered by the PTAB, it was not sufficient to overcome the *prima facie* obviousness determination.

## PATENTABILITY / ON-SALE BAR

**Patents / Patentability****NO SECOND LIFE FOR FETAL TEST**

*Ariosa Diagnostics, Inc., et al. v. Sequenom, Inc., et al.*, 809 F.3d 1282 (Fed. Cir. 2015) (Lourie J., concurring with Moore J., joining) (Dyk, J., concurring) (Newman, J., dissenting), *cert. denied*, (US Jun. 27, 2016)

By a poll of active justices, the US Court of Appeals for the Federal Circuit denied a petition for an *en banc* rehearing of *Ariosa Diagnostics, Inc., et al. v. Sequenom, Inc. et al.* and issued two concurrences and one dissent. Previously, the Federal Circuit had ruled that under *Mayo Collaborative Services v. Prometheus Labs.*, Sequenom's patent claims for prenatal diagnostic methods using maternal blood samples were not patent-eligible under 35 USC. § 101 because they were based on the analysis of a natural phenomenon using well-known techniques. *Ariosa Diagnostics, Inc., et al. v. Sequenom, Inc., et al.*, Case Nos. 14-1139; -1144 (Fed. Cir. Dec. 2, 2015) (Lourie J., concurring with Moore J., joining) (Dyk, J., concurring) (Newman, J., dissenting), *cert. denied*, (US Jun. 27, 2016).

Judge Lourie's concurrence echoed Judge Linn's concurrence from the original panel decision, bemoaning the clear, groundbreaking advancement offered by the invention, but the clear necessity to invalidate it under *Mayo*. Judge Lourie argued that the claims were not abstract, did not improperly claim natural laws and relied on performing physical steps on physical material. But the physical steps were well-known techniques to measure natural phenomenon and therefore *Mayo* required invalidation.

In his concurring opinion, Judge Dyk agreed that a framework like that presented by *Mayo* and *Alice Corp. v. CLS Bank* is essential to prevent highly anticompetitive patents that exploit natural phenomenon or abstract concepts. But, while this framework works well for well-known phenomenon or concepts, it conflicts with other Supreme Court precedent and overlooks the possibility that inventive concepts can come from discovering something new in nature. He suggested that claims involving new laws of nature be allowed when the claims are narrow, specific and actually reduced to practice.

Judge Newman dissented on the grounds that *Mayo* allowed for claims applying natural phenomenon, which Sequenom did by claiming a diagnostic rather than the scientific fact of the discovery, and that *Mayo* was distinguishable because the technology there lacked any innovative advance.

*Certiorari* has since been denied in this case.

**Patents / On-Sale Bar****BINDING CONTRACT OR COMPLETED SALE NOT NECESSARY TO RAISE ON-SALE BAR**

*Merck & CIE v. Watson Labs., Inc.*, 822 F.3d 1347 (Fed. Cir. 2016) (Mayer, J)

Addressing the minimum requirements for raising an on-sale bar defense to patent infringement, the US Court of Appeals for the Federal Circuit reversed the district court, explaining that “[a]n offer to sell is sufficient to raise the on-sale bar, regardless of whether that sale is ever consummated.” *Merck & CIE v. Watson Labs., Inc.*, Case Nos. 15-2063; -2064 (Fed. Cir., May 13, 2016) (Mayer, J).

In 2000, Merck filed a patent directed to a crystalline calcium salt of tetrahydrofolic acid (MTHF). In 2013, Bayer (a Merck subsidiary) brought suit against Watson for infringing the patent based on Watson’s Abbreviated New Drug Application (ANDA) filing. Watson stipulated to infringement and the key issue on appeal was whether the asserted claim was invalid under the on-sale bar.

Under the pre-America-Invents-Act version of § 102(b) (applicable here), an on-sale bar is triggered when a claimed invention (1) is ready for patenting and (2) is the subject of a commercial offer for sale prior to the critical date. On appeal, Merck did not challenge the district court’s determination that MTHF was ready for patenting by September 1998, limiting the issue in this case to whether there was an invalidating commercial offer to sell the product prior to the critical date of April 17, 1999.

Prior to the critical date, Weider contacted Merck requesting information on the price for two kilograms of MTHF. In September 1998, Merck responded with a signed fax containing details regarding the price, payment and delivery terms. Weider responded to Merck’s fax, requesting an order of two kilograms of MTHF for delivery to Weider’s Salt Lake City, Utah, facility, as well as a specification sheet for the raw material, material safety data sheets and a certificate of insurance. Merck sent Weider the requested materials along with a letter confirming that Weider had placed a “first order” for two kilograms of MTHF. In 1999, the parties made a mutual decision to cancel Weider’s existing order for MTHF. The district court concluded that because the agreement for the sale of MTHF was not reduced to writing and signed by both parties, there had been no legally binding sale and thus no invalidating commercial offer for sale or sale of the product. Watson appealed.

On appeal, the Federal Circuit reversed. At the district, Merck highlighted *post hoc* testimony by those involved in the agreement to support its argument that the agreement was insufficient to constitute an offer for sale because it was allegedly missing key terms. However, the Federal Circuit found that such *post hoc* testimony cannot override what was “abundantly plain from the price, quantity and delivery terms” on the face of the September 1998 fax. The offer was not qualified in any way, and in the weeks following Merck’s fax setting forth the relevant details, both parties proceeded on the understanding that Merck had made an offer to sell MTHF. Prior to the cancellation of the order, the parties exchanged further information about the transaction, and Merck sent a letter confirming Weider’s order for two kilograms of MTHF. The Court noted, “[a]n offer to sell is sufficient to raise the on-sale bar, regardless of whether that sale is ever consummated.” Thus, the Court found that because Merck’s September 1998 offer to sell MTHF was a premature commercial exploitation of its invention, complete with essential price, delivery and payment terms, the asserted claim was invalid under the on-sale bar.

Merck has since filed a petition for *certiorari*.

**Patents / On-Sale Bar****EN BANC COURT TIES ON-SALE BAR TO COMMERCIAL SALE IN ACCORDANCE WITH UNIFORM COMMERCIAL CODE**

*The Medicines Co. v. Hospira, Inc.*, 827 F.3d 1363 (Fed. Cir. 2016) (O'Malley, J)

In a unanimous *en banc* decision, the US Court of Appeals for the Federal Circuit established the circumstances under which a product manufactured according to product-by-process claims is invalid under the “on-sale bar” of 35 USC § 102(b). *The Medicines Co. v. Hospira, Inc.*, Case Nos. 14-1469; -1504 (Fed. Cir., July 11, 2016) (O'Malley, J). In order for a commercial transaction to trigger the on-sale bar and invalidate the challenged claims, it must “bear the general hallmarks of a sale pursuant to Section 2-106 of the Uniform Commercial Code.”

The Medicines Company (MedCo) brought a patent case under the Hatch Waxman Act against Hospira for patents covering the brand name drug Angiomax. Following a bench trial, the Federal Circuit reversed the district court's finding that the claims were not invalid based on the legal conclusion that commercial exploitation prior to the critical date triggered the on-sale bar. The full court revisited the panel decision, but this time affirmed the district court's conclusion that the transactions with a contract manufacturer did not trigger the on-sale bar. The full court remanded all remaining issues to the merits panel, including open questions related to claim construction, non-infringement and whether an agreement with MedCo's distributor separately constituted an invalidating sale under § 102(b).

MedCo operates as a specialty pharmaceutical company that is not capable of manufacturing its products in-house. Instead, MedCo prepared the active pharmaceutical ingredient and contracted with Ben Venue Laboratories to manufacture commercial quantities of the finished pharmaceutical. More than one year before the priority date, MedCo paid Ben Venue \$347,500 to manufacture three batches of the pharmaceutical according to the patents-at-issue (claims directed to a product made by a process that uses a pH-adjusting agent as well as the pH-adjusted product). Hospira argued during the litigation that the on-sale bar was triggered when MedCo paid Ben Venue to manufacture Angiomax before the critical date.

The full Federal Circuit, like the district court, began by applying the two-step framework as explained in the 1998 Supreme Court of the United States case *Pfaff v. Wells Electronics, Inc.* Under *Pfaff*, the on-sale bar is triggered where the claimed invention was (1) the subject of a commercial offer for sale and (2) ready for patenting. The Federal Circuit did not reach the second prong, focusing exclusively on whether the transactions between MedCo and Ben Venue were commercial offers for sale. The Federal Circuit rejected Hospira's argument that MedCo's transactions with Ben Venue were a commercial sale under § 102(b) because the companies benefitted from the commercial arrangement. Tracing its own precedent since *Pfaff*, the Court explained that assessment of what constitutes a commercial offer for sale must focus on activities that would be understood to be commercial sales and offers for sale “in the commercial community.” Indeed, as a general proposition, the Court looks to the Uniform Commercial Code to decipher whether the circumstances rise to the level of a commercial offer for sale.

The Federal Circuit explained that the facts presented in this case did not trigger the on-sale bar for the following reasons:

- Only manufacturing services—not the invention itself—were sold to the inventor.
- The inventor maintained control of the invention, as shown by the retention to title to the embodiments and absence of any authorization to Ben Venue to sell the products to others.
- “Stockpiling” of inventory is an act of preparation for commercial sales but does not, standing alone, constitute a “commercial sale” when no offer has yet been made.

Importantly, the Federal Circuit analyzed the significance of the *type of claim* at issue in this case, clarifying that the disposition might be different where the claims were directed to a process or method instead of a patented product.

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**PRIVILEGE**

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***Patents / Patent-Agent Privilege***

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**CASE OF FIRST IMPRESSION: FEDERAL CIRCUIT ENDORSES PATENT-AGENT PRIVILEGE**

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*In Re Queen's University at Kingston, PARTEQ Research and Development*, 820 F.3d 1287 (Fed. Cir. 2016) (O'Malley, J) (Reyna, J, dissenting)

In a case of first impression regarding whether communications between a non-lawyer patent agent and a client are legally privileged, a split panel of the US Court of Appeals for the Federal Circuit held that a patent-agent privilege is warranted on a limited basis where an agent is engaged in the congressionally endorsed, authorized practice of law. *In Re Queen's University at Kingston, PARTEQ Research and Development*, Case No. 2015-145 (Fed. Cir., Mar. 7, 2016) (O'Malley, J) (Reyna, J, dissenting).

The opinion followed the plaintiffs' petition for *mandamus*. At the district court, the petitioners withheld documents reflecting communications between the plaintiffs' employees and the non-lawyer patent agents who prosecuted the patents-in-suit based on an alleged patent-agent privilege. The district court overruled objections to the magistrate's order granting defendants' motion to compel production over the alleged privilege, but agreed to stay the discovery order pending a writ of *mandamus*. Applying Federal Circuit law, the Court found that *mandamus* was warranted to decide the issue of first impression, which had split the lower courts.

The Federal Circuit first recognized that "Rule 501 of the Federal Rules of Evidence authorizes federal courts to define new privileges by interpreting 'common law principles.'" Finding that the respondents did not argue that a patent-agent privilege was foreclosed by the US Constitution, any federal statute or any rule prescribed by the Supreme Court of the United States, the Court turned to reason and experience, as directed by Rule 501, in order to determine whether recognizing a privilege was now appropriate. The majority concluded that it was, holding that the unique roles of patent agents, the congressional recognition of their authority to act, the Supreme Court's characterization of their activities as the practice of law, and the current realities of patent litigation warranted an independent patent-agent privilege.

The Federal Circuit relied on the Supreme Court's prior assertion that the preparation and prosecution of patent applications for others constitutes the practice of law. Further, the majority found that Congress had delegated to the commissioner of patents oversight authority concerning lawyers, agents or other persons representing applicants or other parties before the US Patent and Trademark Office (PTO), and that the commissioner had, in fact, allowed both lawyers and agents to practice before the PTO.

In further support, the majority panel cited both the Supreme Court's recognition of Congress's delegation of supervisory authority to the commissioner of patents for lawyers and agents alike, and related legislative history acknowledging the practitioners' equivalent professional rights before the PTO. The majority found that a client has a reasonable expectation that all communications relating to obtaining legal advice on patentability and legal services in preparing a patent application will be kept privileged, and that denying privilege to agents would frustrate Congress's intent to provide clients a choice between agent and lawyer. As a result, the majority found that a patent-agent privilege is coextensive with the rights Congress affords to patent agents, and serves the same important public interests as the attorney-client privilege.

The Court also noted that the new privilege's scope is necessarily limited to communications with non-lawyer patent agents when those agents are acting within their authorized practice of law before the PTO. The Court found that the Code of Federal Regulations (CFR) sets forth the acts permitted by non-lawyer agents and helps to define the scope of communications covered under the privilege. For example, communications are due the privilege if made in furtherance of the performance of tasks specifically set forth in the CFR, or "are reasonably necessary and incident to the preparation and prosecution of patent applications or other proceedings before the [PTO] involving a patent application or patent in which the practitioner is



authorized to participate.” The Court stressed that it is the burden of the person asserting the privilege to justify its applicability. The Court also cited examples of non-privileged communications, including those with a patent agent who offers an opinion on the validity of another party’s patent in contemplation of litigation or the sale or purchase of a patent, or on infringement.

In dissent, Judge Reyna argued that the public’s need for open discovery outweighed the need for the privilege. The dissent also argued against the new privilege with the following reasoning:

- The privilege may adversely affect an agent’s duty of candor.
- Agent communications are already routinely protected because of lawyer involvement.
- Patent agents and clients are able to destroy written communications through implementation of document-destruction policies.
- Determining the scope of the privilege is complicated and uncertain.
- Congress and the Supreme Court have recognized a difference between agents and lawyers.
- Evidence suggests that Congress did not intend that agents have a privilege.
- No state has created an agent-client privilege.
- The Judicial Conference Advisory Committee has not recommended creating the privilege.
- Lawyers hold the privilege because of their professional status.
- The Supreme Court has never held that patent agents practice law; it has merely recognized that the Florida Supreme Court has done so under Florida law.
- Congress has never believed that patent agents practice law.

The Federal Circuit remanded the issue to the district court to determine whether the patent-agent privilege applied.

**Patents / Discovery Privileges****FEDERAL PATENT-AGENT PRIVILEGE NOT RECOGNIZED IN TEXAS STATE COURTS**

*In re Silver*, Case No. 05-16-00774 (Tex. App., Aug. 17, 2016) (Stoddart, J) (Evans, J, dissenting)

Finding that Texas state courts lacked authority to recognize common-law discovery privileges, the Texas Court of Appeals for the Fifth District refused to recognize the US Court of Appeals for the Federal Circuit's recently adopted "patent-agent privilege" for communications with a non-lawyer patent agent relating to patent prosecution. *In re Silver*, Case No. 05-16-00774 (Tex. App., Aug. 17, 2016) (Stoddart, J) (Evans, J, dissenting).

The original proceeding involved a contract dispute relating to a patent purchase agreement. As part of that proceeding, the defendant requested that the patent owner and inventor, Andrew Silver, produce communications that included approximately 300 emails between Silver and his patent agent. The email communications fell within two categories: those relating directly to patent prosecution, and others relating to the merits of the underlying litigation, but not patent prosecution. Silver argued that all of the emails were properly withheld as privileged in view of the Federal Circuit's recognition of a patent-agent privilege in *In re: Queen's University at Kingston*. *The defendant disagreed and sought an order compelling production. Finding that it lacked authority to recognize common-law discovery privileges under Texas law, the trial court ordered production of all the withheld emails.*

The Texas Appeals Court agreed with the trial court's analysis, explaining that because the substance of the underlying dispute was not based on issues of federal patent law, the Federal Circuit's *Queen's University* holding was not binding on the Texas state courts. The Court further noted that whereas the federal rules of evidence specifically permit federal courts to determine new discovery privileges, the only privileges recognized in Texas are those grounded in the Texas Constitution, statutes, the Texas Rules of Evidence and other rules established pursuant to statute. For these reasons, the Court denied the relator's *mandamus* petition seeking relief from an order requiring production of all communication between an alleged inventor and his patent agent.

The dissent credited Silver's argument that Rule 503 of the Texas Rules of Evidence provides authority for recognizing the patent-agent privilege and, as a result, the patent-agent privilege was not properly characterized as a common-law discovery privilege. According to the dissent, Rule 503 (Lawyer-Client Privilege) defines a lawyer as "a person authorized. . . to practice law in any state or nation." Relying on the same Supreme Court of the United States authority cited in *Queen's University*, the dissent found that a patent agent is a person authorized to practice law for the limited purpose of preparation and prosecution of patent applications in the United States. As a result, the dissent found that the Texas court had discretion to recognize a patent-agent privilege, but lacked discretion to recognize that patent agents were authorized to practice law for a limited purpose. The dissent would have permitted the plaintiff to withhold the communications related directly to patent prosecution, but not those relating to the merits of the underlying litigation.

The dissent further noted that recognition of the patent-agent privilege would promote uniformity in state and federal court litigation and warned that a contrary decision might encourage satellite state court litigation as an opportunity to discover such communications privileged from discovery in federal court patent litigation.

## PROSECUTION

***Patents / Continuation Application Priority*****FEDERAL CIRCUIT RUBBERSTAMPS 50-YEAR-OLD PRACTICE TO SAVE 10,000 CONTINUATION PATENTS**

*Immersion Corp. v. HTC Corp.*, Case No. 15-1574 (Fed. Cir., June 21, 2016) (Taranto, J)

Addressing the question of precisely when a continuation application must be filed in order to be entitled to its parent application's filing date, the US Court of Appeals for the Federal Circuit held that the statutory requirement to file "before" patenting of the parent is met when the continuation is filed on the day the parent patent issues. *Immersion Corp. v. HTC Corp.*, Case No. 15-1574 (Fed. Cir., June 21, 2016) (Taranto, J).

Immersion sued HTC for infringement of three haptic feedback patents. The three patents were serial continuations in a patent family where the first continuation application in their chain of priority was filed on the same day that its parent patent issued. HTC argued that the continuations were not entitled to the original filing date, because the first continuation did not satisfy the 35 USC § 120 requirement to be filed "before the patenting" of its parent. The district court agreed and effectively upended 50 years of patent practice by holding that a continuation application must be filed before the day that its parent issues. Immersion appealed.

In reversing, the Federal Circuit explained that HTC's position interpreted the statutory word "before" to mean "the day before," even though the statute is ambiguous as to the relevant unit of time. The Court thus embarked on a historical analysis, which it found determinative. The analysis began with an 1864 Supreme Court of the United States opinion that originally allowed same-day continuation applications. The Federal Circuit then reviewed the 1952 Patent Act, which set forth § 120 and its "before" language, noting that the legislative history and contemporaneous commentary regarding the Act lacked evidence of any intent to eliminate same-day continuations. The Court also pointed to a US Patent and Trademark Office (PTO) regulation that interpreted § 120 to require that the continuation be filed while the parent is "copending," and to a *Manual of Patent Examining Procedure* section that expressly allowed a continuation application to be filed on the day its parent issued.

The Court treated the historical analysis as a longstanding administrative construction entitled to heavy weight, particularly given the reliance by the public and the PTO. It noted that more than 10,000 active patents could be affected by the change and refused to cause such a large disruption. Finally, the Court discounted HTC's attack as simply procedural and noted that determining how and when legally defined events such as filing or patenting take place has long been treated as a non-substantive matter well within the PTO's authority.

**Patents / Patent Prosecution****PTO INITIATES POST-PROSECUTION PILOT PROGRAM**

## Post-Prosecution Pilot (P3)

On July 11, 2016, the US Patent and Trademark Office (PTO) announced a new pilot program to enhance after final practice. The Post-Prosecution Pilot Program (P3) combines elements of the Pre-Appeal Request for Review and AFCP 2.0 After Final Consideration Pilot, and is designed to reduce the number of appeals and issues to be taken up on appeal to the Patent Trial and Appeal Board (PTAB or Board), and to reduce the number of Requests for Continued Examination.

To participate in the P3 program, an applicant must submit an original utility non-provisional application filed under 35 USC § 111(a) or a national phase application filed under 35 USC § 371 containing an open final rejection. The P3 request is limited to five pages of arguments regarding appealable matters and must include a transmittal form identifying the submission as a P3 submission as well as a statement that the applicant is willing and available to participate in a conference with a panel of examiners. There is no fee for the P3 request, and the request must be filed electronically via the PTO's EFS-Web within two months from the mailing date of the final rejection. Once a P3 request is accepted, no further responses under 37 CFR § 1.116 will be entered for the same final rejection unless the additional response was requested by the examiner to place the application in condition for allowance.

A P3 request may be accompanied by a proposed amendment to one or more claim. Entry of the amendment is governed by Rule 116, and the proposed amendment may not broaden the scope of a claim in any aspect. The amended claims section of the P3 does not count towards the five-page argument limit.

After the PTO verifies the P3 request as timely and compliant, the PTO will contact the applicant to schedule the examiner conference. During the conference, the applicant will present arguments in support of patentability to a panel of examiners in a manner similar to an *ex parte* appeal before the PTAB. An applicant's participation in the conference is limited to 20 minutes. The conference can be done in person, by telephone or via a video conference, such as a WebEx<sup>®</sup> conference. If the office and the applicant are unable to agree on a time to hold the conference within 10 calendar days from the date the PTO first contacts the applicant, or if the applicant declines to participate in the conference, the P3 request will be deemed improper and treated as an after final response under Rule 116.

The PTO will accept P3 requests until either January 12, 2017, or whenever the PTO accepts a total of 1,600 compliant requests, whichever comes first. Each technology center is limited to 200 compliant requests, which means that the P3 program may end in one technology center while continuing to accept requests in another technology center. The PTO is seeking comments on the P3 program, which may be submitted by email to [afterfinalpractice@uspto.gov](mailto:afterfinalpractice@uspto.gov) by November 14, 2016.

**Patents / Rules**

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## **PTO EXTENDS PILOT PROGRAMS**

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After Final Consideration Pilot 2.0 and Quick Path Information Statement Pilot Programs

The US Patent and Trademark Office (PTO) has extended the After Final Consideration Pilot 2.0 (AFCP 2.0) and the Quick Path Information Disclosure Statement (QPIDS) pilot programs until September 30, 2017.

To be considered for the AFCP 2.0 program, a response under 37 CFR § 1.116 must include a request for consideration (Form PTO/SB/434) and an amendment to at least one independent claim that does not broaden the scope of the independent claim in any aspect. Additional non-examining (other) time is authorized for the Examiner to consider and act on the after-final amendment. If the Examiner determines that the amendment cannot be addressed fully in the additional time granted under the AFCP 2.0, the Examiner will issue an Advisory Action indicating that the amendment was not entered.

Under QPIDS, an Information Disclosure Statement (IDS) submitted after the payment of the issue fee and before the patent issues may be considered without requiring a Request for Continued Examination (RCE). For consideration under QPIDS, the applicant must file an IDS with a certification under 37 CFR § 1.97(e), a petition to withdraw from issue and an RCE. Upon consideration of the IDS, if the Examiner determines that no cited item of information necessitates reopening prosecution, the PTO will mail a corrected notice of allowability, the patent will issue, and the RCE will not be entered. On the other hand, if the Examiner determines that prosecution needs to be reopened, the petition to withdraw from issue and the RCE will be entered, and the applicant will be charged the pertinent fees.

## PTAB PROCEDURE

*Patents / PTAB Procedure***SAME BOARD PANEL MAY INSTITUTE AND FINALLY DECIDE AIA REVIEW**

*Ethicon Endo-Surgery, Inc. v. Covidien LP*, Case No. 14-1771 (Fed. Cir., Jan. 13, 2016) (Dyk, J.) (Newman, J., dissenting)

Addressing for the first time the issue of whether the same panel of Patent Trial and Appeal Board (PTAB or Board) may both institute an *inter partes* review (IPR) and finally decide its merits, the US Court of Appeals for the Federal Circuit affirmed the single panel authority of the Board as well as the PTAB panel's finding that the challenged claims were obvious. *Ethicon Endo-Surgery, Inc. v. Covidien LP*, Case No. 14-1771 (Fed. Cir., Jan. 13, 2016) (Dyk, J.) (Newman, J., dissenting as to single panel's authority to both institute and decide).

Ethicon Endo-Surgery (the patent owner) owns a patent for a surgical stapler. Covidien (the petitioner) challenged claims of the patent in an IPR as being obvious over certain prior art. A three-member panel of the Board decided to institute the IPR, and that same panel later issued a final written decision finding the challenged claims invalid for obviousness. The patent owner appealed, challenging the authority of the same panel to both institute and then try the case to a final written decision.

With respect to the panel constituency, the Federal Circuit affirmed that the America Invents Act (AIA) permits the same panel of the Board to render both the institution and final decisions. The Court found that combining functions in one panel was not contrary to constitutional principles and that deciding whether to institute IPR would not unfairly bias the panel in rendering its final decision. Then, the Court interpreted the statutory text of the AIA and determined that the Director can delegate her authority to institute an IPR to the Board.

As to the merits, the Federal Circuit affirmed that the challenged claims were obvious over the prior art, where patent owner only challenged the Board's treatment of secondary considerations of non-obviousness, specifically commercial success and long-felt but unresolved need. The Court affirmed that the alleged commercial success of (and alleged long-felt but unresolved need for) the claimed device was not sufficient evidence of non-obviousness because here the patent owner had not demonstrated a sufficient nexus between the inventive aspect of the claims and its commercial success.

Judge Newman, in dissent, argued that use of a single panel to decide on both institution and ultimate disposition was contrary to the AIA. She argued that "[t]he majority's endorsement of the PTO's statutory violation departs not only from the statute, but also from the due process guarantee of a 'fair and impartial decision-maker.'"

Petition for *certiorari* was filed Sept. 20, 2016.

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**STANDARD OF REVIEW**

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**Patents**

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**SMARTPHONE PATENT WAR: EN BANC FEDERAL CIRCUIT REBUKES EARLIER PANEL DECISION, REINSTATES JURY VERDICTS FOR APPLE**

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*Apple Inc. v. Samsung Elecs. Co., Ltd. et al.*, Case Nos. 15-1171; -1195; -1994 (Fed. Cir., Oct. 7, 2016) (Moore, J) (Prost, CJ, dissenting) (Dyk, J, dissenting) (Reyna, J, dissenting), *reh'g denied*, (Nov. 28, 2016)

Sitting *en banc*, the US Court of Appeals for the Federal Circuit issued an unusual opinion overturning a panel decision for the purpose of reiterating the Court's limited appellate role and the need to give appropriate deference to district court and jury fact findings. *Apple Inc. v. Samsung Elecs. Co., Ltd. et al.*, Case Nos. 15-1171; -1195; -1994 (Fed. Cir., Oct. 7, 2016) (Moore, J) (Prost, CJ, dissenting) (Dyk, J, dissenting) (Reyna, J, dissenting), *reh'g denied*, (N). Each of the three judges from the earlier panel decision filed separate dissents. The eight remaining judges joined in or concurred with the majority opinion.

This appeal arose from a district court case in the worldwide patent battle between Apple and Samsung in the smartphone, tablet and laptop market. Five Apple patents and two Samsung patents made it to trial in the district court in 2014. Three of Apple's patents were found valid and infringed, while one Samsung patent was found valid and infringed. Both parties appealed.

In a panel opinion issued earlier in 2016, the Federal Circuit reversed the validity findings regarding two of Apple's patents and reversed the infringement finding as to the remaining Apple patent. The panel affirmed the district court opinion finding infringement of Samsung's patent. Apple petitioned for *en banc* review, objecting to the panel's reliance on extra-record evidence for claim construction and its reversal of nearly a dozen jury factual findings.

Without seeking the benefit of additional briefing, the Federal Circuit granted Apple's *en banc* petition for the stated purpose of "affirming our understanding of the appellate function" as being limited to only deciding issues raised by the parties, only relying on record evidence and providing the appropriate deference to district court fact findings. The court then issued its *en banc* decision, written by Judge Moore, reinstating the district court judgment on every issue where it had been overturned by the original panel, while maintaining the panel's judgment on those issues where it had affirmed the district court.

The three dissenters, members of the original panel, strongly disagreed regarding the grant of *en banc* review, as well as the Court's issuance of its *en banc* ruling without the benefit of *en banc* briefing. Judge Reyna's dissent argued that *en banc* review is limited to maintaining uniformity among panel decisions or addressing important legal issues, and characterized the majority as instead merely objecting to the panel's judgment calls.

The prime takeaway from the *en banc* review is the majority's pronouncement that the Federal Circuit's role as a reviewing court is "limited to deciding issues raised in the appeal by the parties, deciding these issues only on the basis of the record below, and as requiring appropriate deference be applied to review of fact finding." The *en banc* majority was particularly concerned about the original panel's use of dictionary definitions not of record, which it explained amounted to improper "extra-record extrinsic evidence [used] to construe a patent term."

This case is likely to be the subject of a petition for *certiorari* to the Supreme Court of the United States. Indeed, in his dissent, Judge Dyk wondered aloud why the Court took on important issues of obviousness *en banc* without further briefing and argued that the majority had made "significant changes to the law [of obviousness] as articulated by the Supreme Court."

Samsung's petition for *en banc* rehearing was denied.

## SUBJECT MATTER ELIGIBILITY

**Patents / Patent Eligibility / CBM****EVOLVING PATENT ELIGIBILITY STANDARD FOR COMPUTER-IMPLEMENTED INVENTIONS**

*Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327 (Fed. Cir. 2016) (Hughes, J); *In re TLI Comm's LLC Pat. Lit.*, 823 F.3d 607 (Fed. Cir. 2016) (Hughes, J); *Ahold USA Inc. v. Advanced Marketing Systems, LLC*, Case No. CBM2016-00013, Paper 6 (May 26, 2016) (Giannetti, APJ)

Addressing the patent eligibility of computer-implemented inventions, the US Court of Appeals for the Federal Circuit concluded that under step one of the *Alice* eligibility test, claims directed to improvements in computer functionality may not be directed to abstract ideas if the invention is directed to an improvement in the operation of a computer itself. *Enfish, LLC v. Microsoft Corp.*, Case No. 15-1244 (Fed. Cir., May 12, 2016) (Hughes, J). Less than one week later, the Federal Circuit found that a computer-implemented invention that requires a computer to facilitate what might otherwise be non-computerized functions was directed to an abstract idea and therefore not patent eligible under *Alice* step 1. *In re TLI Comm's LLC Pat. Lit.*, Case Nos. 15-1372; -1376; -1377; -1378; -1379; -1382; -1383; -1384; -1385; -1417; -1419; -1421 (Fed. Cir., May 17, 2016) (Hughes, J). Shortly thereafter, the Patent Trial and Appeal Board (PTAB or Board) applied *Enfish* to find that claims directed to an improvement to computer functionality were not likely patent ineligible at *Alice* step 1. *Ahold USA Inc. v. Advanced Marketing Systems, LLC*, Case No. CBM2016-00013, Paper 6 (May 26, 2016) (Giannetti, APJ).

In *Enfish*, the Federal Circuit reversed the district court judgment of no patent eligibility, finding claims to a computerized database organized as a “self-referential” logical table that defines its columns by rows in the same table to be directed to patent eligible subject matter. The Federal Circuit explained that a self-referential database allows for faster searching, easier configuration and more effective data storage than prior art databases. The Court reasoned that the claims were directed to a non-abstract improvement in computer function as opposed to the abstract idea of “storing, organizing, and retrieving memory in a logical table.”

By contrast, in *TLI*, the Federal Circuit (again with Judge Hughes writing) affirmed the unpatentability of claims to a computer-implemented method of organizing and storing digital information such as photographs using classification information such as the photograph’s date or location. The Court found that, rather than improving the function of a computer, the claimed method merely used the computer to facilitate the performance of an age-old method of indexing documents. Thus, the Court found the claims to be directed to the abstract idea of organizing information, and patent-ineligible because the remaining limitations amounted to no more than a command to “apply it on a [computerized] telephone network.”

Less than two weeks later, the PTAB, applying *Enfish* in the *Ahold* covered business method (CBM) proceeding, declined to institute a CBM review of claims that it held were directed to an improvement in computer functionality (but not based on grounds of patent eligibility). The claims at issue were directed to a computer-implemented coupon system that allows vendors to imbue one coupon with multiple discounts, then selectively deactivate each discount as a consumer purchases each discounted item. Analyzing the CBM-eligibility of the claims, the PTAB explained the claims were not directed to a “technological invention” because the focus of the specification was the claimed coupon as opposed to the claimed data processing components, which were “conventional” and “existing.” The PTAB was not convinced that the problem solved by the claimed invention specifically arose in the realm of computer networks, but nonetheless found that the petitioner had insufficiently demonstrated the likelihood that the claims were not patent eligible. The PTAB faulted the petitioner for analyzing only whether the coupon was abstract rather than the combination of the coupon and data-processing components. Analyzing the claim as a whole, the PTAB reasoned that the claims were directed to improvements in computer function, not the abstract idea of “offering, tracking and processing discounts.” However, the PTAB went on to institute CBM review on written description and anticipation grounds.



**Patents / § 101 Eligibility / Software****SPECIFIC, DISCRETE IMPLEMENTATION OF ABSTRACT IDEA IS PATENT ELIGIBLE**

*BASCOM Global Internet Servs., Inc. v. AT&T Mobility LLC*, 827 F.3d 1341 (Fed. Cir. 2016) (Chen, J) (Newman, J, concurring), *reh'g en banc denied*, (Aug. 11, 2016).

Once again addressing patent eligibility of software patent claims, the US Court of Appeals for the Federal Circuit this time reversed a finding of ineligible subject matter based on the *Alice* step two inventive concept inquiry. *BASCOM Global Internet Servs., Inc. v. AT&T Mobility LLC*, Case No. 15-1763 (Fed. Cir., June 27, 2016) (Chen, J) (Newman, J, concurring), *reh'g en banc denied*, (Aug. 11, 2016).

BASCOM sued AT&T for infringement of BASCOM's patent on remotely filtering internet content using a server maintained by the internet service provider, where the filtering is customized for each user. AT&T moved to dismiss the case, arguing patent ineligibility of the claimed subject matter. The district court granted the motion, concluding that the claims were directed to the abstract idea of filtering content (*Alice* step one) and finding no inventive concept because both the filtering software and the individual computer components recited in the claims were known in the prior art (*Alice* step two). BASCOM appealed.

On the first step of the *Alice* analysis—whether the claims are directed to an abstract idea—the Federal Circuit concluded that it was a close call and deferred consideration of the issue, moving directly to step two and examining whether the claim included “specific claim limitations” that narrowed the (possibly) abstract idea. On this issue, the Court concluded that the evidence was insufficient to find the claims ineligible at the motion to dismiss stage.

The Federal Circuit agreed with the district court's analysis that the claim elements, taken individually, recited only “generic computer, network and internet components.” The Court disagreed, however, as to whether the ordered combination of those elements recited only “well-understood, routine and conventional activities.” The Federal Circuit likened the analysis to an obviousness analysis without any reasons to combine. The Court went on to explain its view that the claims were directed to a specific and discrete filtering implementation that amounted to a technological improvement over the prior art.

The Court next addressed the parties' battle of prior case analogies, where BASCOM had analogized its claims to those found eligible in the Court's *DDR* opinion, while AT&T attempted to analogize the more numerous opinions that went the other way. The Federal Circuit agreed with BASCOM that the claims were akin to those in *DDR* by covering a technology-based solution that improves the performance of the computer itself. It then distinguished its *OIP* opinion, which found that the claims in issue merely automated traditional techniques using generic computer components, and also distinguished four other recent opinions that turned on preemption of the abstract idea.

Judge Newman concurred in the result but wrote separately to complain about separate eligibility and patentability determinations leading to increased costs and uncertainty with no corresponding benefit. She urged a more flexible approach with an initial patentability determination to moot eligibility questions.

The Court denied AT&T's petition for rehearing *en banc* on August 11, 2016.

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## **WHEN APPLYING ALICE, EVALUATE THE INVENTION AS A WHOLE**

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*Rapid Litigation Management Ltd. v. CellzDirect, Inc.*, 827 F.3d 1042 (Fed. Cir. 2016) (Prost, J)

Addressing for the first time eligibility issues under 35 USC § 101 for a method of preserving organ cells, the US Court of Appeals for the Federal Circuit reversed the district court's ruling that the claims were directed to a patent-ineligible law of nature. *Rapid Litigation Management Ltd. v. CellzDirect, Inc.*, Case No. 15-1570 (Fed. Cir., July 5, 2016) (Prost, J).

The patent at issue was directed to an improved process of preserving hepatocytes, a type of liver cell. Hepatocyte preparations are useful in a variety of research, diagnostic and therapeutic contexts. The prior art preservation process was limited to a single freeze/thaw cycle, as conventional wisdom held that a single cycle was all that the cells could withstand. As a result, it was difficult to produce multi-donor pools of cells using the prior art process. The inventors discovered that a portion of the liver cells in a preparation could withstand an additional freeze-thaw cycle, and they used this knowledge to design an improved preservation process.

The district court concluded that the claims were not patent eligible under the Supreme Court *Alice* decision. With respect to step one of *Alice*, the district court concluded that the claims were directed to an "an ineligible law of nature: the discovery that hepatocytes are capable of surviving multiple freeze-thaw cycles." The district court also found that the claims lacked the "inventive concept" required by step two of *Alice*, because the claimed steps were well known in the art. The patent owners appealed.

The Federal Circuit disagreed on both parts of the analysis. Addressing the first step of *Alice*, the Federal Circuit found that the claims were "directed to a new and useful laboratory technique," not a law of nature. The Court cautioned that "it is not enough to merely identify a patent-ineligible concept underlying the claim; we must determine whether that patent-ineligible concept is what the claim is 'directed to.'" While acknowledging the inventors' discovery of a natural phenomenon (the ability of cells to survive multiple freeze-thaw cycles), the Court noted that the inventors did not stop there. Instead, they "employed their natural discovery to create a new and improved way of preserving hepatocyte cells for later use." The Court emphasized that the invention resulted "in a preparation that is both new and vastly more useful for research than hepatocyte preparations made by conventional methods."

The Federal Circuit also explained that even if the claims in issue were directed to a law of nature, they still would be patent eligible under step two of *Alice*. "Under step two, claims that are 'directed to' a patent-ineligible concept, yet also 'improve[] an existing technological process,'" pass muster under § 101 because they achieve an "inventive application of the patent-ineligible concept." Here again the Federal Circuit concluded that the "claimed method is patent eligible because it applies the discovery that hepatocytes can be twice frozen to achieve a new and useful preservation process." The Court also emphasized the need to consider the invention as a whole, because "a new combination of steps in a process may be patentable even though all the constituents of the combination were well known . . . ." As the Court explained, "[t]o require something more at step two would be to discount the human ingenuity that comes from applying a natural discovery in a way that achieves a 'new and useful end.'"

**Patents / Subject Matter Eligibility****FEDERAL CIRCUIT CLARIFIES THE WATERS OF PATENT ELIGIBILITY?**

*McRO, Inc. v. Bandai Namco Games America Inc., et al.*, 837 F.3d 1299 (Fed. Cir., Sept. 13, 2016) (Reyna, J); *Affinity Labs of Texas, LLC v. DirecTV, LLC, et al.*, Case Nos. 15-1845; -1846; -1847; -1848 (Fed. Cir., Sept. 23, 2016) (Bryson, J); *Affinity Labs of Texas, LLC v. Amazon.com Inc., et al.*, 838 F.3d 1266 (Fed. Cir. 2016) (Bryson, J); *Intellectual Ventures I LLC v. Symantec Corp., et al.*, Case Nos. 15-1769; -1770; -1771 (Fed. Cir., Sept. 30, 2016) (Dyk, J) (Mayer, J, concurring) (Stoll, J, dissenting in part); *FairWarning IP, LLC v. Iatric Systems, Inc.*, 839 F.3d 1089 (Fed. Cir. 2016) (Stoll, J); *Synopsys, Inc. v. Mentor Graphics Corporation*, Case No. 15-1599 (Fed. Cir., Oct. 17, 2016) ) (Chen, J)

In six different cases addressing patent eligibility of software patent claims, the US Court of Appeals for the Federal Circuit reached varying conclusions based on the *Alice* two-step inquiry. Most notable was the Federal Circuit's reiteration of its *Enfish* decision in reversing a district court ruling that found claims directed to computer animation automation patent ineligible. *McRO, Inc. v. Bandai Namco Games America Inc., et al.*, Case Nos. 15-1080; -1081; -1082; -1083; -1084; -1085; -1086; -1087; -1088; -1089; -1090; -1092; -1094; -1095; -1096; -1097; -1098; -1099; -1100; -1001 (Fed. Cir., Sept. 13, 2016) (Reyna, J). In three other cases, however, the Federal Circuit reached a different conclusion, finding the claims patent ineligible. Viewed as an ensemble, these cases reflect the Court's struggle to engage in line drawing as to what qualifies as patent eligible subject matter in software patent claims. *Affinity Labs of Texas, LLC v. DirecTV, LLC, et al.*, Case Nos. 15-1845; -1846; -1847; -1848 (Fed. Cir., Sept. 23, 2016) (Bryson, J); *Affinity Labs of Texas, LLC v. Amazon.com Inc., et al.*, Case No. 2015-2080 (Fed. Cir., Sept. 23, 2016) (Bryson, J); *Intellectual Ventures I LLC v. Symantec Corp., et al.*, Case Nos. 15-1769; -1770; -1771 (Fed. Cir., Sept. 30, 2016) (Dyk, J) (Mayer, J, concurring) (Stoll, J, dissenting in part). Finally, the Court subsequently cited its *Enfish* and *McRO* decisions in delineating what qualifies as patent-eligible subject matter in software patent claims in two later decisions. *FairWarning IP, LLC v. Iatric Systems, Inc.*, Case No. 15-1985 (Fed. Cir., Oct. 11, 2016) (Stoll, J); *Synopsys, Inc. v. Mentor Graphics Corporation*, Case No. 15-1599 (Fed. Cir., Oct. 17, 2016) (Chen, J).

In *McRO*, the patents at issue related to individual 3D models, where each of the models included data points on certain areas of the face. In conventional modeling, the animator, using a computer, manually enters certain weights to the 3D models at certain times based on a timed transcript. A computer program then takes the animator manual inputs and interpolates the data to create intermediate frames. The *McRO* patents described this process as tedious and time consuming and were aimed at automating the process by providing specific rules that applied to the timed transcript, to thereby automatically generate the weight output values.

The Federal Circuit explained that the claimed process for animating characters using a computer was patent eligible because the claimed process used different techniques from those that animators had previously accomplished only manually. The Court concluded that the claimed invention utilized the limited rules in a process specifically designed to achieve an improved technological result in conventional industry practice. The Court noted that there was no evidence establishing that the claimed process was the same process as the prior practice used by animators, and that the specific features of the rules as claim limitations reflect a specific implementation not demonstrated in existing manual animation techniques.

The Federal Circuit found that the claimed rules, not the use of a computer, improved the existing technological process, dismissing the defendants' argument that the claims simply used a computer as a tool. The Court disagreed with the district court that the claims were directed to the abstract idea of a set of automated rules for lip-synchronized 3D animation, explaining that the district court "oversimplified the claims" by looking at them generally and by failing to account for specific limitation in the claims. The Court also found that the claims did not preempt all approaches that use rules for achieving automated lip-synchronization of 3D characters, noting that the claims were limited to specific rules for automatically animating characters using particular information and techniques. The Court therefore concluded that the claims were patent eligible based on the *Alice* step one abstract idea inquiry.

In the first of the *Affinity Labs* cases, Affinity Labs sued nine defendants alleging patent infringement by marketing a system that allows customers to receive regional radio broadcasts on their cellphones even when their cellphones are outside the regions reached by the stations' broadcast signals. The district court concluded that the claimed invention was directed to an abstract idea, explaining that the purpose of the patent to disseminate regionally broadcast content to users outside the region

was a well-known, longstanding business practice. The district court also found the claimed “downloadable application with graphical user interface” to be insufficient to qualify as an inventive concept.

The Federal Circuit agreed that the concept of providing out-of-region access to regional broadcast content is an abstract idea, citing a lack of any positive recitation of a non-generic function or component in the claims that provides, with any degree of specificity, a blueprint of how to disseminate regional broadcast content to a user outside the region over a wireless, cellular telephone service. The Court noted that the specification was scant in terms of providing any technological details regarding the manner in which the invention accomplishes the delivery of ordinary broadcast radio signals to cellphones, explaining that the specification included only a “very brief discussion” that was pertinent to the out-of-region broadcasting claims. Unlike in *McRO*, the Federal Circuit concluded that the claims were not directed to a technical improvement in cellular telephones but rather to the use of cellular telephones as a tool in the aid of a process focused on an abstract idea.

Regarding step two of the *Alice* inquiry, the Federal Circuit found that the claimed invention did not provide an inventive concept that transformed the abstract idea of remote delivery of regional broadcasting into a patent-eligible application of that idea, explaining that the claims simply recited generic features of cellular telephones, including routine functions of those features. The Court disagreed with Affinity Labs that the claimed downloadable application for displaying the out-of-region broadcast content amounted to an inventive concept that was novel as of the effective filing date, stating that the patent eligibility inquiry does not turn on the novelty of the feature. Citing its *BASCOM* decision, the Court explained that the technical solution recited in the claims in *BASCOM* stands in stark contrast to the lack of any technical solution recited in the Affinity Labs patent claims. The Court ultimately found that the Affinity Labs patent claims were subject matter ineligible.

Similarly, in the second *Affinity Labs* case, the patent claims were found patent ineligible under the *Alice* step two inquiry. In this case, Affinity Labs sued Amazon alleging infringement by marketing a system that allowed customers to stream music from a customized library. The district court found the claims to be subject matter ineligible under *Alice*. On appeal, the Federal Circuit agreed that the patent claims were directed to an abstract idea, explaining that the idea of delivering media content to electronic devices was a well-known business practice and that the idea of tailoring content to a user was abstract. The Court further noted that the claims were written in largely functional terms, and that stating the relevant functions in general terms absent any technical discussion in the claims and the specification does not convert the abstract idea into a concrete technical solution to a problem.

In the *Intellectual Ventures (IV)* case, the patent owner sued Symantec and Trend Micro for infringement of various claims, and the district court held that claims of two of the patents were subject matter ineligible and that an asserted claim of the third patent was eligible. On appeal, the Federal Circuit affirmed the ruling on the first two patents but reversed in part with respect to the third patent, finding *all* asserted claims of the third patent ineligible. In the first IV patent, the Federal Circuit agreed with the district court that the idea of filtering files and/or emails is a long-prevalent fundamental practice that constitutes an abstract idea, equating such practice to people receiving mail and discarding certain mail based on characteristics of that mail. The Court dismissed IV’s argument that since the prior art did not anticipate or render obvious the asserted claims under the *Alice* step two inventive concept inquiry, the claims were not abstract. The Court explained that the lack of prior art disclosure does not suggest that the features of “determining” and “outputting” are anything other than routine and conventional, let alone not abstract. To the contrary, the Federal Circuit found the claims in issue distinguishable from those at issue in *Enfish* and *BASCOM*, explaining that the challenged claims contained no limitations that addressed the alleged technical improvements of requiring automatic updates to the antivirus software or dealing with the large volume of such software. In regard to the second IV patent, the Federal Circuit concluded that the disclosure of only generic computers performing generic functions to implement the idea of automatic deferral and review of email messages using applied business rules was also routine and conventional, and that it did not improve, and was not directed to an improvement in, the functioning of the computer itself. Thus, these claims were also found to be patent ineligible under *Alice*.

The third IV patent was directed to using computer virus screening in a telephone network. Again, the Federal Circuit found that the claimed subject matter did not improve or change the way a computer functions, dismissing IV’s argument that the claim limitations narrowed the asserted claim to a specific way of screening for computer viruses within the telephone network and did not preempt all virus detection mechanisms.

On this issue, disagreeing with the majority, the dissent argued that that the asserted claim of the third IV patent “advantageously screen[s] computer data for viruses within a telephone network before communicating the computer data to an end user,” and viewed the invention as a fundamental architectural shift from prior-art virus screening. In finding no meaningful difference between the claims found to be patent eligible in *BASCOM* and the asserted claim, the dissent argued

that the claimed shift of the virus screening software from end-user locations to within the telephone network amounted to an inventive concept. Judge Stoll also noted that while the network components recited in the claim may be conventional, in his view the asserted claim was patent eligible as an ordered combination.

In a concurring opinion, Judge Mayer argued that the claims, in sweeping terms, were simply directed to screening a communication for viruses, a concept that (if patentable) has the potential to disrupt or even derail large swaths of online communication. Judge Mayer argued that “[i]t is well past time to return software to its historical dwelling place in the domain of copyright,” noting that software is akin to a work of literature or a piece of music. Judge Mayer concluded that simply declaring that software implemented on a generic computer falls outside the § 101 protections would provide much-needed clarity and consistency in the approach to patent eligibility, ending the semantic difficulties of trying to bootstrap software into the patent system.

Next, in *FairWarning*, the patent at issue related to detecting fraud and misuse by identifying unusual patterns in users’ access to sensitive data. According to the patent specification, pre-existing systems were able to record audit log data concerning user access of digital stored sensitive data. The invention aimed to automate this process by recording the sensitive data, analyzing the stored data against a rule, and providing a notification if the analysis detected misuse. After *FairWarning* sued *Iatric* alleging patent infringement, *Iatric* moved to dismiss the complaint on § 101 grounds. The district court granted the motion, concluding that the claims were not patent eligible under § 101. *FairWarning* appealed.

The Federal Circuit affirmed, finding that the patent claims were directed to an abstract idea. The Court explained that the “realm of abstract ideas” includes collecting information, and that the idea of analyzing data, including user identifier data, was abstract. The Court also concluded that the claimed invention relied on a combination of abstract-idea categories previously recognized by the Court. Citing *McRO*, the Court explained that the claimed rules (in the *McRO* cases) transformed a traditionally subjective process performed by human artists into a mathematically automated process executed on computers, explaining that “it was the incorporation of the claimed rules . . . that improved the existing technological process.” In *McRO*, the Court found that the traditional process, as compared to the claimed method, stood in contrast, and noted that while both practices produced a similar result, they operated in fundamentally different ways.

Here, the Federal Circuit found the claims at issue distinguishable from those at issue in *McRO*, explaining that the asserted claims merely implemented an old practice in a new environment. The Court explained that the claimed rules in *FairWarning* recited “the same questions . . . that humans in analogous situations detecting fraud have asked,” concluding that the incorporation of a computer—not the claimed rules—purportedly improved the existing technological process.

The Court also cited its *Enfish* decision, explaining that the technical improvement recited in the claims in *Enfish* stands in contrast to the *FairWarning* patent claims, which did not recite any technical improvement. Any speed increase in performing the claimed process of analyzing audit log data was the result of the capabilities of a general-purpose computer, not the claimed method.

Under the *Alice* step-two inquiry, the Federal Circuit concluded that the asserted claim limitations failed to add “something more” to “transform” the claimed abstract idea into “a patent-eligible application,” explaining that the use of generic computers, such as a microprocessor or user interface, does not transform an otherwise abstract idea into patent-eligible subject matter.

Finally, in *Synopsys*, the patent at issue related generally to the logic circuit design process. The claimed subject matter was directed to a process for interpreting hardware description language (HDL) code that uses predetermined assignment conditions to identify a circuit diagram as the hardware that performs the function recited in the HDL code, where the hardware is represented as a level sensitive latch. After *Synopsys* sued *Mentor Graphics* alleging patent infringement, *Mentor Graphics* moved for summary judgment that the asserted claims were not patent eligible. After the district court granted the motion, *Synopsys* appealed.

The Federal Circuit agreed with the district court that the idea of translating a functional description of a logic circuit into a hardware component description of the logic circuit was abstract, dismissing the patent owner’s argument that the asserted claims were directed to patent-eligible subject matter because the claimed subject matter related to complex algorithms used in computer-based synthesis of logic circuits. Most notable was the Court’s recognition that the district court did not construe any of the asserted claims to require the use of a computer—general purpose or otherwise—or any other type of hardware. The Court concluded that the incorporation of software code alone cannot invoke the Court’s *Enfish* and *McRO* decisions,

explaining that the asserted claims on their face did not call for any computer implementation of the claimed functions, such as employing a computer or any other physical device.

Regarding step two of the *Alice* inquiry, the Federal Circuit cited its decisions in *DDR Holdings* and *BASCOM* for guidance. In *DDR Holdings*, the claims at issue involved a technological solution that overcame a specific challenge unique to the internet that ultimately amounted to the requisite inventive concept. In *BASCOM*, the requisite inventive concept was found “in the non-conventional and non-generic arrangement of known, conventional pieces.” The Court found the *Synopsys* claims distinguishable from those at issue in *DDR Holdings* and *BASCOM*, explaining that the challenged claims contained no limitations that addressed the alleged technical improvements of using assignment conditions as an intermediate step in the translation process.

In its inventive concept inquiry, the Federal Circuit explained that the search for a § 101 inventive concept is distinct from demonstrating § 102 novelty, dismissing the patent owner’s argument that the challenged claims were not shown to have been anticipated by, or obvious over, the prior art and therefore did not employ conventional computer technology. The Court noted that even a claim directed to a *new* abstract idea is still an abstract idea. Thus, these claims were also found to be patent ineligible under *Alice*.

Synopsys, Inc. filed a petition for panel rehearing or rehearing *en banc* on November 16, 2016.

**Patents / Subject Matter Eligibility Update****PTO RELEASES NEW MEMO ON RECENT SUBJECT MATTER ELIGIBILITY DECISIONS**

*BASCOM Global Internet Servs., Inc. v. AT&T Mobility LLC*, 827 F.3d 1341 (Fed. Cir. 2016) (Chen, J) (Newman, J, concurring), *reh'g en banc denied*, (Aug. 11, 2016); *McRO, Inc. v. Bandai Namco Games America Inc., et al.*, 837 F.3d 1299 (Fed. Cir. 2016) (Reyna, J)

In a memorandum to patent examiners dated November 2, 2016, the US Patent and Trademark Office (PTO) addressed recent subject matter eligibility decisions. The memorandum was spurred by two precedential decision by the US Court of Appeals for the Federal Circuit: *McRO, Inc. v. Bandai Namco Games America, Inc.* and *BASCOM Global Internet Servs. v. AT&T Mobility LLC*.

The memorandum noted that *McRO* and *BASCOM* do not change the PTO's basic subject matter eligibility (SME) guidelines. According to the memorandum, *McRO* and *BASCOM* highlight several factors that examiners should consider when determining whether an application claims eligible subject matter. For example, the memo reminded examiners that they "should consider the claim as a whole under Step 2A of the SME guidance, and should not overgeneralize the claim or simplify it into its 'gist' or core principles, when identifying a concept as a judicial exception."

The memorandum further explained that improvements in computer-related technology were not limited to improvements in computer operation, but could also be a set of "rules" (mathematical relationships) that allow the computer to perform functions not previously performable by a computer. The memorandum encouraged examiners to look to the specification for teaching about how, if at all, the invention improves a computer or other technology, and to determine whether a particular solution to a problem or a particular way of achieving a desired outcome is defined by the claims.

In view of *BASCOM*, in which the Federal Circuit found patent eligibility even though the individual elements of the claimed system were generic computer, network and internet components, the memo reminded examiners to consider whether the claimed elements *in combination* result in a non-generic, non-conventional arrangement of elements.

The PTO indicated that it would address the issue of preemption in a forthcoming update to its SME guidance. However, "[i]f an applicant argues that a claim does not preempt all applications of the exception, an examiner should reconsider in Step 2A of the eligibility analysis whether the claim is directed to . . . a specific way of achieving a desired outcome or end result." The update also will discuss the eligibility decision in *Amdocs (Israel) Ltd. v. Openet Telecom, Inc.*, which the Federal Circuit issued just one day before the PTO released its memorandum.

Finally, in view of the increasing number of precedential SME decisions, the PTO instructed examiners to avoid relying upon or citing non-precedential decisions unless the facts of the application "uniquely match the facts at issue in the non-precedential decision.

## WILLFUL INFRINGEMENT

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### *Patents / Willfulness*

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## THE NEW WILLFULNESS PARADIGM

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*Halo Electronics, Inc. v. Pulse Electronics, Inc., et al.*, 136 S.Ct. 1923 (2016) (Roberts, CJ); *Stryker Corp. v. Zimmer, Inc.*, Case No. 14-1520 (June 13, 2016) (Roberts, CJ)

The Supreme Court of the United States traced two centuries of analysis related to enhanced damages in patent cases to conclude that the US Court of Appeals for the Federal Circuit's two-part test, announced nearly a decade ago in *In re Seagate*, was unduly rigid and impermissibly constrained a district court's discretion. *Halo Electronics, Inc. v. Pulse Electronics, Inc., et al.*, Case No. 14-1513 (June 13, 2016) (Roberts, CJ); *Stryker Corp. v. Zimmer, Inc.*, Case No. 14-1520 (June 13, 2016) (Roberts, CJ). Because the pertinent language of 35 USC § 284 contains no explicit limit on when enhanced damages are appropriate for willful infringement, going forward it will be for district courts to determine, based on the particular circumstances of each case, whether an infringing party's conduct is sufficiently egregious to award enhanced damages.

### Background

Both cases before the Supreme Court were decided under the *Seagate* framework at the Federal Circuit. In both instances, the petitioner proved infringement of a valid patent but was ultimately denied enhanced damages. In the appeal between Halo Electronics and Pulse Electronics, the district court declined to award enhanced damages, and the Federal Circuit affirmed. In the appeal between Stryker and Zimmer, the district court trebled the amount of damages, but the Federal Circuit set aside the enhanced damages award based on a *de novo* determination that the defendant's defenses at trial were objectively reasonable. The Supreme Court granted *certiorari* in both cases to assess whether the two-part *Seagate* framework was consistent with § 284.

### The Unanimous Supreme Court Opinion

Since 2007, the Federal Circuit and the district courts have applied a two-part test to establish whether infringement of a patent was willful, evaluating (1) whether the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent, and (2) whether the risk of infringement was either known or so obvious that it should have been known to the accused infringer.

Beginning with the plain language of the statute, the Supreme Court found no limit or condition in § 284 that supported the test the Federal Circuit had adopted. Rather, the Supreme Court focused on the word "may" and its connotation of discretion. The Supreme Court declined to impose a "precise rule or formula" on district courts considering enhanced damages, but instructed that a district court's discretion should be exercised on a case-by-case basis.

The opinion went on to explain that in a typical patent infringement case, enhanced damages are not appropriate. Rather, such an award is to be reserved for conduct that is "characteristic of a pirate" or "willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant." In essence, a district court's aim in enhancing damages is to fashion a punitive sanction for egregious infringement behavior. The degree of culpability, however, should be measured at the time of the challenged conduct.

The Supreme Court's reasoning relied heavily on its earlier interpretation of 35 USC § 285 (awarding attorneys' fees for an exceptional case) in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*. As it did in *Octane Fitness*, the Supreme Court rejected the clear and convincing evidence standard, explaining that willful infringement need only be shown by a preponderance of the evidence. Likewise, because enhanced damages (such as an award of attorneys' fees) are subject to a district court's discretion, going forward an award of enhanced damages will be reviewed on appeal for an abuse of discretion.

While respondents raised concerns regarding the interplay of unlimited discretion to award treble damages and the leverage of patent holders to exact outsized licensing fees, the Supreme Court cautioned district courts to strike a balance. District courts need not award enhanced damages in "garden variety cases," but the need for strong patent protection to promote innovation justifies a looser construct than the *Seagate* framework.



### **The Concurrence**

In concurrence, Justice Breyer set forth his own understanding of the Court's opinion. He was joined by Justices Kennedy and Alito. The concurrence emphasized that willful misconduct is not a situation where the infringer knew about the asserted patent and nothing more. Because of the punitive nature of enhanced damages, the evidence must demonstrate a difference between knowledge of a patent and intentional infringement.

### **The Federal Circuit Decision (On Remand)**

On remand from the Supreme Court, the Federal Circuit vacated the district court's willfulness determination under the previous *Seagate* standard and remanded that portion of the case in order to allow the district court to apply the Supreme Court's new paradigm. *Halo Electronics v. Pulse Electronics*, Case Nos. 13-1472; -1656 (Fed. Cir., Aug. 5, 2016) (Lourie, J). The Federal Circuit instructed the district court to exercise its discretion in determining whether to award enhanced damages. As part of that discretion, the Federal Circuit reminded the district court to consider at least two factors in its analysis: the jury's subjective willfulness finding, and (instead of the accused infringer's state of mind at the time of trial) what the accused infringer knew or had reason to know at the time of infringement.

**Patents / Willful Infringement****DISTRICT COURTS ON WILLFUL INFRINGEMENT POST-HALO**

*Stryker Corp. v. Zimmer*, Case No. 13-1668 (Fed. Cir., Sept. 12, 2016) (Prost, CJ), *reh'g denied*, (Dec. 2, 2016); *WesternGeco L.L.C. v. Ion Geophysical Corp.*, Case Nos. 13-1527; 14-1121; -1526; -1528 (Fed. Cir., Sept. 21, 2016) (Dyk, J)

In two recent decisions addressing the issue of willful infringement, the US Court of Appeals for the Federal Circuit recalled its mandate, vacated portions of earlier decisions and remanded to the district court the substantive application of the Supreme Court of the United States' recent decision in *Halo Electronics v. Pulse Electronics*. The Federal Circuit decided *Stryker Corp. v. Zimmer*, Case No. 13-1668 (Fed. Cir., Sept. 12, 2016) (Prost, CJ), *reh'g denied*, (Dec. 2, 2016), by reinstating the jury's verdict that Zimmer's infringement was willful, and remanding to the district court the issues of enhanced damages under § 284 and attorneys' fees for an exceptional case under § 285. Likewise, in *WesternGeco L.L.C. v. Ion Geophysical Corp.*, Case Nos. 13-1527; 14-1121; -1526; -1528 (Fed. Cir., Sept. 21, 2016) (Dyk, J), the Federal Circuit vacated its earlier enhanced damages analysis and remanded to the district court with instructions to revisit whether the infringement was willful and whether enhanced damages are warranted.

***Stryker v. Zimmer***

The parties are the two main competitors in the orthopedic pulsed lavage device market. Previously the Federal Circuit affirmed the district court's claim constructions and its summary judgment ruling that Zimmer infringed two of the asserted patents. The Federal Circuit also affirmed the jury's determination that a third patent was infringed and that the three asserted Zimmer patents were valid. The jury had awarded lost damages in an amount of \$70 million, and the district court thereafter trebled damages and found the case exceptional. In the earlier appeal, the Federal Circuit reversed the finding of willful infringement, with the decision eventually making its way to the Supreme Court in tandem with *Halo v. Pulse Electronics* for review of the *Seagate* framework for willful infringement.

Following the Supreme Court's determination that the Federal Circuit's two-part analysis for willful infringement "unduly confines the ability of district courts to exercise the discretion conferred on them," the appeal returned to the Federal Circuit. The Federal Circuit affirmed the jury's finding that the infringement was indeed willful but vacated and remanded the district court's decision to treble damages for willful infringement and award attorneys' fees. Although the district court had already made a discretionary determination to award the maximum amount of enhanced damages and to deem the case exceptional, the Federal Circuit stated that the "best course" was to vacate and remand in order for the district court to assess all of the circumstances in the case. And, for the finding of an exceptional case, the Federal Circuit pointed to "further allegations of litigation misconduct in this case" as well as the intervening decision in *Octane Fitness v. ICON Health & Fitness* as justification for further consideration by the district court.

The Federal Circuit has since denied Zimmer's petitions for panel rehearing or rehearing *en banc*.

***WesternGeco v. Ion Geophysical***

The underlying patent infringement suit covered four patents for technologies used to search for oil and gas beneath the ocean floor. The jury found all asserted patents infringed, not invalid, and awarded WesternGeco \$93 million in lost profits and reasonable royalty damages of \$12 million. After trial, the district court set aside the jury's willful infringement findings because the district court concluded that ION's defenses were reasonable and not objectively baseless. The Federal Circuit affirmed that decision under *Seagate*, but the Supreme Court later granted *certiorari*, vacated and remanded the determination of no willful infringement in light of *Halo*.

The Federal Circuit took the same approach as in *Stryker v. Zimmer*, reinstating its earlier opinion but amending the section of the opinion addressing willful infringement. Again, the Federal Circuit vacated for the district court to apply *Halo* in the first instance (*i.e.*, decide whether the infringement was subjectively willful) and, if so, to exercise its discretion in deciding whether to award enhanced damages. Notably, for the first time since *Halo*, the decision states that the objective reasonableness of the accused infringer's position remains relevant for the district court to consider when deciding what enhanced damages, if any, are appropriate. The decision posits that *Halo* adopted language from *Octane Fitness* regarding the lack of a precise formula in weighing the totality of the circumstances, and that *Octane Fitness* referred back to a list of nonexclusive factors in

the 1994 Supreme Court decision in *Fogerty v. Fantasy, Inc.* (a copyright decision addressing the fees for an exceptional case). Accordingly, the Federal Circuit concluded that objective reasonableness (both in the factual and legal components of the case), frivolousness, motivation, and the need in particular circumstances to advance considerations of compensation and deterrence were all factors that a district court should consider when assessing whether to enhance damages.

The instructions to the district court preserve a bifurcated approach to enhancement of damages. First, a district court should make a predicate determination (guided by *Halo*) assessing subjective willfulness. Second, the district court must make a discretionary determination of whether and how much to enhance damages if the infringement is determined to be willful.

**CBM APPELLATE REVIEW**

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***Patents / CBM / Review of Institution Decision***

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**CUOZZO EXPANDED TO CBMS TO BAR APPELLATE REVIEW OF INSTITUTION DECISIONS**

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*SightSound Tech., LLC v. Apple Inc.*, Case Nos. 15-1159, -1160 (Fed. Cir., Dec. 15, 2015) (Dyk, J.)

Addressing the bar on appellate reviewability of the Patent Trial and Appeal Board's (PTAB or Board) decisions, the US Court of Appeals for the Federal Circuit concluded that § 324(e) bars review of the Board's decision to institute a Covered Business Method (CBM) patent review, even when the Board relies on grounds not alleged in the CBM petition. *SightSound Tech., LLC v. Apple Inc.*, Case Nos. 15-1159, -1160 (Fed. Cir., Dec. 15, 2015) (Dyk, J.).

Apple filed petitions seeking CBM review of two SightSound patents relating to methods for selling digital audio over telecommunications lines. Apple's petition was limited to multiple anticipation grounds under § 102 but did not specifically include obviousness grounds under § 103. Nevertheless, the Board determined that the petition showed a reasonable likelihood that the challenged claims were anticipated *or obvious* and instituted review accordingly.

In its institution decision, the Board stated that it was exercising its "discretion to institute a covered business method review" on § 103 obviousness grounds, even though they had not been raised in the petition. The Board pointed to the "references themselves" as providing the necessary motivation to combine. After SightSound argued that the Board's institution on § 103 obviousness grounds improperly deprived it of a fair opportunity to respond to those new grounds, the Board authorized SightSound to file a sur-reply along with a new declaration addressing obviousness. In its final written decision, the Board held that the patents were invalid as obvious under § 103. SightSound appealed.

On appeal, SightSound argued that Board exceeded its authority to issue a final decision based on a ground that had not been raised by the petitioner in the initial petition. The Federal Circuit characterized the argument as an appellate challenge to the Board's decision to institute CBM review, a challenge that is specifically barred by § 324(e). Equating § 324(e) (applicable to CBMs and post-grant reviews) with § 314(d) (applicable to *inter partes* reviews, or IPRs), the Court reiterated its reasoning from *In re Cuozzo Speed Technologies*, 793 F.3d 1268 (Fed. Cir. 2015) and applied the same interpretation to CBM appellate review as it had previously applied to IPRs: nothing in the statute limits the Board's authority to base its final decision on grounds not raised in the petition, and the statute bars appellate review of the grounds on which the Board instituted review. The Federal Circuit therefore concluded that it did not have jurisdiction to review the Board's decision to institute under § 103.

The Court also rejected SightSound's argument that the patents did not qualify as "covered business method" patents under the statute. Even though the challenged claims admittedly required technical components, the Court agreed with the Board that merely using known technology to perform financial activities nature does not transform the method into a "technological invention" that could escape CBM review. Ultimately, the Court agreed with the essence of the Board's claim construction and affirmed the Board's final determination that the challenged claims were unpatentable as obvious.

**Patents / AIA / CBM Eligibility****ADVERTISEMENT AND SUBSIDY PROGRAM QUALIFIES AS FINANCIAL PRODUCT OR SERVICE UNDER BROAD CBM DEFINITION**

*Blue Calypso, LLC v. Groupon, Inc.*, Case Nos. 2015-1391; -1393; -1394; -1396; -1397; -1398; -1399; -1401 (Fed. Cir., Mar. 1, 2016) (Chen, J) (Schall, J, dissenting in past)

The US Court of Appeals for the Federal Circuit upheld the broad applicability of the financial prong of the eligibility test for covered business method (CBM) review, agreeing with the Patent Trial and Appeal Board's (PTAB's or Board's) decision to institute a CBM patent review of peer-to-peer advertising system patents. *Blue Calypso, LLC v. Groupon, Inc.*, Case Nos. 2015-1391; -1393 - 1394; -1396 - 1399; -1401 (Fed. Cir., Mar. 1, 2016) (Chen, J) (Schall, J, dissenting in past).

Petitioner Groupon filed for CBM review of five patents owned by Blue Calypso pursuant to § 18(a) of the America Invents Act (AIA). The patents all relate to a peer-to-peer advertising system that uses mobile communication devices. A "subsidy program" is described to induce customers (subscribers) to increase exposure of an advertisement. After examining the claims, the Board concluded that they met the statutory definition of a CBM patent, granted the petition and instituted review.

Blue Calypso argued that the US Patent and Trademark Office and the Board exceeded their statutory authority by interpreting the statutory CBM definition in an overly broad way that improperly captured the Blue Calypso patents. CBM review is limited to patents "that claim[] a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions." Blue Calypso asserted that its patents are not CBM patents because they relate to a method for managing and distributing advertising content, which is not "a financial product or service" that traditionally originated in the financial sector.

The Board declined to limit the application of CBM review to patent claims tied to the financial sector, consistent with recent Federal Circuit case law. The Board considered the legislative history of the AIA, which explained that the definition of a CBM patent encompasses patents "claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity." The Board construed the claim term "subsidy" as "financial assistance given by one to another," and, significantly, Blue Calypso did not challenge that interpretation. Based on this interpretation, the Board concluded that the claims are directed to methods in which advertisers financially induce "subscribers" to assist with their advertising efforts, and thus are financial in nature and subject to CBM review.

The Federal Circuit agreed with the Board, finding that the claims at issue have an express financial component in the form of subsidy, or financial inducement that encourages consumers to participate in the distribution of advertisements.

Blue Calypso alternatively contended that the challenged claims fall within the technological invention exception for CBM review, because the claims are computer-based and contemplate hardware, software, a network and communication devices. The Federal Circuit looked to the applicable Board rules and practice guide to determine whether a patent claims a technological invention, considering whether "the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem using a technical solution." Citing *Allice*, the Court rejected the argument that merely reciting the use of a computer would satisfy the technological invention exception, noting that "the presence of a general purpose computer to facilitate operations through un inventive steps does not change the fundamental character of an invention." On this issue, the Court found that the elements of the Blue Calypso patents are nothing more than general computer system components used to carry out the claimed process of incentivizing consumers to forward advertisement campaigns to their peers. "Blue Calypso has not pointed to any technological aspect in the claims that rises above the general and conventional."

Accordingly, the Federal Circuit concluded that the Board acted within its authority in conducting CBM review of the challenged claims of the Blue Calypso patents.

## CBM INSTITUTION

***PTAB: The Supreme Court Alice Decision Only "Clarified" the Law******PTAB: THE SUPREME COURT ALICE DECISION ONLY "CLARIFIED" THE LAW***

*Apple Inc. v. Smartflash LLC*, Case Nos. CBM2015-00015, -00018 (PTAB, Dec. 8, 2015) (Elluru, APJ)

Addressing estoppel issues in the context of a covered business method (CBM) proceeding, the Patent Trial Appeal Board (PTAB or Board) concluded that a clarification in existing patent-ineligibility case law was not an exception to estoppel under § 325(e)(1). *Apple Inc. v. Smartflash LLC*, Case Nos. CBM2015-00015, -00018 (PTAB, Dec. 8, 2015) (Elluru, APJ).

Apple filed petitions seeking CBM review of two Smartflash patents relating to data storage systems. After instituting the CBM proceedings, the Board issued an order estopping Apple from arguing that the patents were unpatentable pursuant to § 101. Under 35 USC. § 325(e)(1), a petitioner may not maintain a ground for unpatentability that the petitioner could have raised during a previous post-grant review. Apple had previously challenged these same patents as being direct to obvious subject matter under § 103, but had not challenged patent eligibility under § 101. Apple argued that because the *Alice* decision happened after the previous final decision, the case law on which it would rely did not exist at the time of the original challenge. The Board disagreed, stating that § 325(e)(1) does not make exceptions for intervening case law that *merely clarifies* jurisprudence. Further, *Bilski* and *Mayo* had already issued at the time of the original challenge, finding computer-based method claims invalid under § 101.

After finding that Apple was estopped from challenging the claims under § 101, the Board dismissed Apple as a petitioner, explaining that there were no remaining grounds for Apple to present. Further, the Board held it would not hear any arguments as neither proceeding had a petitioner any longer.

Without a petitioner, Smartflash requested authorization to terminate the proceedings pursuant § 325(e)(1). The Board denied this request, holding § 325(e)(1) only speaks to actions of the petitioner and does not proscribe the actions of the Board. The Board explained that there remains a public interest in resolving the issues raised by these challenges. Smartflash requested a rehearing of the decision, arguing the Board misapplied the law and § 325(e)(1). The Board denied the motion for rehearing, explaining that its prior case law only established the Board could terminate the proceedings, not that it must. Therefore, the Board reiterated its denial of Smartflash's request for authorization to file a motion to terminate the proceedings. The Board did, however, grant Smartflash's request for an oral hearing on the merits, limiting it to 15 minutes for both cases. The Board reiterated that Apple would not be allowed to participate in the hearing.

**AIA / CBM / Jurisdiction**

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**DISCLAIMED CLAIMS MAY BE DISREGARDED IN CONSIDERING CBM PETITION**

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*Great West Casualty Co. v. Intellectual Ventures II LLC*, Case No. CBM2015-00171 (PTAB, Feb. 9, 2016) (Kim, APJ)

Addressing whether disclaimed claims should be considered when determining whether to institute a covered business method (CBM) review, the Patent Trial and Appeal Board (PTAB or Board) denied institution, finding that such claims should be disregarded and that the remaining claims were not demonstrably finance related. *Great West Casualty Co. v. Intellectual Ventures II LLC*, Case No. CBM2015-00171 (PTAB, Feb. 9, 2016) (Kim, APJ).

The petitioner requested CBM review of a patent directed to distributing content through one or more distributed information access points to a centralized access point, which purportedly helps users identify and access desired information. In its preliminary response, the patent owner indicated that it had disclaimed certain claims of the patent. The petitioner argued that the disclaimed claims should be considered in deciding whether to institute the CBM review, and that even if the disclaimed claims were not considered, the remaining claims were sufficiently financial in nature. The petitioner further argued that several portions of the specification illustrated the financial nature of the claimed invention.

With respect to the disclaimed claims, the Board cited US Court of Appeals for the Federal Circuit precedent for the proposition that disclaimed claims are to be treated as though they never existed. The Board acknowledged that other panels have taken disclaimed dependent claims into consideration, but explained that this was limited to instances where the independent claims (on which the disclaimed claims depend) include limitations that encompass finance-related subject matter. In this case, the Board found little overlap between the disclaimed and remaining claims.

The Board also found that the petitioner failed to show that the remaining claims were finance related. The petitioner argued that claim elements such as “server” and “content objects” were finance related. The Board disagreed, finding that, on their face, these claim terms were not related to finance. Turning to the specification, the Board found that the specification as a whole was directed to technology of general applicability, and although portions of the specification pertained to finance, those portions “were insufficient to convert the otherwise general terminology of [the remaining claims] into finance-related subject matter.”

**AIA / CBM / Subject Matter Eligibility****FINANCIAL HOOK FOR CBM REVIEW CAN BE SHALLOW BUT MUST BE ROOTED IN CLAIMS**

*Qualtrics, LLC, v. OpinionLab, Inc.*, Case No. CBM2016-00003 (PTAB, Apr. 13, 2016) (DeFranco, APJ); *Google Inc. v. Zuili*, Case No. CBM2016-00008 (PTAB, Apr. 25, 2016) (White, APJ)

Addressing the eligibility standard for covered business method (CBM) patent reviews, the Patent Trial and Appeal Board (PTAB or Board) recently issued two decisions in cases involving very similar technology that may signal the Board's increased focus on the claims of the challenged patent as the basis for eligibility. *Qualtrics, LLC, v. OpinionLab, Inc.*, Case No. CBM2016-00003 (PTAB, Apr. 13, 2016) (DeFranco, APJ); *Google Inc. v. Zuili*, Case No. CBM2016-00008 (PTAB, Apr. 25, 2016) (White, APJ).

In *Qualtrics*, the challenged patent was directed to a system and method for soliciting "page-specific" feedback from website users. Viewable icons on web pages allow parties to obtain feedback from website users through a rating scale or question box that appears in the browser's window. The underlying software collects and stores users' reactions for subsequent reporting to interested parties.

After reviewing the challenged claims, the Board found that the patent was not eligible for CBM review. Petitioners argued that the invention related to a financial product because the specification stated that the "claimed invention may be used in connection with websites that conduct 'commercial transactions.'" The Board rejected that argument, explaining that nothing in the claims themselves was "rooted in the financial sector," and that the claims were not "limited to a monetary transaction." Even though the specification mentioned the invention's possible applicability to the financial sector, no claim language necessarily tied the claims to the commercial transaction described in the specification. And even though the specification indicated that the invention might be available "for a fee" and may provide a "value" for the website, that language was merely incidental to the broader applicability of the claimed invention. Accordingly, the Board found that none of the claims were eligible for CBM review.

At the other end of the spectrum, the panel in the *Google* case found that at least one challenged claim was eligible for CBM review. As in *Qualtrics*, the patent at issue was directed to providing website content. The claims described various ways of identifying clicks on a website and distinguishing between valid and invalid clicks. The patent owner argued that because the specification indicated that the invention could be used broadly for almost any type of web search provider, and because there was no requirement that fees be paid to use the claimed invention, the claims were not directed to a financial product or service.

The Board disagreed, focusing on the language of claim 1 that limited the web pages to those "associated with a plurality of merchants." Using the word "merchants" as a hook, the Board tied this language to examples in the specification showing that the invention uses "advertising and that an objective of the invention is to 'fairly invoice merchants' by identifying fraudulent click activity." After determining that the claims were not directed to a technological invention, the Board determined that the challenged claims were eligible for CBM review.



**AIA / CBM / Patent Eligibility****CBM DECISIONS SHOW LIMITS OF ENFISH**

*Life Techs. Corp. v. Unisone Strategic IP, Inc.*, Case No. CBM2015-00037 (PTAB, June 28, 2016) (Bonilla, APJ); *Informatica Corp. v. Protegrity Corp.*, Case No. CBM2015-00021 (May 31, 2016) (Turner, APJ); *HP Inc. v. Big Baboon, Inc.*, Case No. CBM2016-00020 (PTAB, June 28, 2016) (Ward, APJ)

Recent covered business method (CBM) review decisions by the Patent Trial and Appeal Board (PTAB or Board) demonstrate that the US Court of Appeals for the Federal Circuit's *Enfish* decision will not act as a panacea to save the patent eligibility of software inventions. Rather, *Enfish*'s impact will be limited to cases involving software that improves the functioning of computers, as opposed to using generic computers to facilitate business practices. *Life Techs. Corp. v. Unisone Strategic IP, Inc.*, Case No. CBM2015-00037 (PTAB, June 28, 2016) (Bonilla, APJ); *Informatica Corp. v. Protegrity Corp.*, Case No. CBM2015-00021 (May 31, 2016) (Turner, APJ). Another recent decision declining to institute CBM review on eligibility grounds is not to the contrary. *HP Inc. v. Big Baboon, Inc.*, Case No. CBM2016-00020 (PTAB, June 28, 2016) (Ward, APJ).

In *Life Technologies*, the PTAB instituted CBM review of claims to computerized methods and systems for aggregating inventory information from multiple customers in order to facilitate more economical inventory management. The claimed technology used generic computers, and the patent specification taught that several commercially available software products could be used in the invention. In the PTAB's final written decision, it found that the claims were directed to the abstract idea of inventory management. Addressing *Enfish*, the PTAB recognized "that the Federal Circuit recently has stated that the first step of our [*Alice* eligibility] analysis should not be *pro forma* when the claims are directed to improvements in software." Nonetheless, the PTAB found that the claims were directed to an abstract idea because they were not directed to "a specific improvement in the way computers operate." Because the claims also were insufficiently limited to confer eligibility under step two of the *Alice* test, the PTAB determined the claims patent ineligible.

In *Informatica*, the PTAB also struck down software-related claims as patent ineligible. The claims were drawn to a "data security system" wherein a first database stores encrypted entries and, when queried, automatically generates a call to a second database that stores "protection attributes," such as user permissions. The system provided access to data in the first database only when the second database's "rules" were satisfied. In its final written decision, the PTAB concluded that the claims were directed to the abstract idea of "determining whether access to data should be granted based on whether one or more rules are satisfied." Citing *Enfish*, the PTAB again recognized "that the first step of our [eligibility] analysis should not be *pro forma* when the claims are directed to improvements in software." However, the PTAB found that the claims were not "directed to a specific improvement to the way computers operate," rejecting the patent owner's argument that providing or restricting database access was a problem unique to computers. Accordingly, and because the claims were insufficiently limited to confer eligibility at *Alice* step two, the PTAB found the claims patent ineligible.

In the third case, *HP v. Big Baboon*, the PTAB declined to institute CBM review of claims directed to a web-enabled "circular automated business process" that aggregated information from different departments within one or more businesses to provide an "integrated decision-making environment for a particular business function." The petitioner argued that the claims were patent ineligible as "directed to the abstract economic concept of gathering information from across a business and using the information to make decisions." The PTAB rejected this characterization because the challenged claims did not "recite any 'gathering' steps, and Petitioner does not explain sufficiently how the limitations of [the] claim . . . are directed to the concept of 'gathering' information." The PTAB concluded that the petitioner failed to show that the challenged claims were "more likely than not directed to patent ineligible subject matter under 35 USC § 101," and accordingly declined to institute review.

**AIA / CBM / Subject Matter Eligibility****INCOMPLETE PREEMPTION DOES NOT RESULT IN PATENT-ELIGIBLE SUBJECT MATTER**

*Care N' Care Insurance Co. and TriZetto Corp. v. Integrated Claims Systems, LLC*, Case No. CBM2015-00062 (PTAB, July 28, 2016) (Jung, APJ)

In a final written decision of a covered business method (CBM) patent review, the Patent Trial and Appeal Board (PTAB or Board) found the challenged claims unpatentable on multiple grounds and clarified that, for the purpose of determining whether claims are ineligible as abstract ideas under *Alice*, the absence of complete preemption does not necessarily demonstrate patent eligibility. *Care N' Care Insurance Co. and TriZetto Corp. v. Integrated Claims Systems, LLC*, Case No. CBM2015-00062 (PTAB, July 28, 2016) (Jung, APJ).

Care N' Care filed a CBM petition against a patent owned by Integrated Claims. The challenged patent was directed to “an attachment integrated claims (AIC) system for preparing and processing forms with integrated attachments,” which were described as being “digital insurance claims including Prior Approval Claim (PAC) Applications containing both a text form and an integrated digitized attachment.” The CBM petition included grounds of invalidity based on anticipation, obviousness and ineligible subject matter.

The PTAB found that because one of the challenged claims recited a method “wherein the unitary data stream comprises an insurance claim form” the claimed method was “used in” the administration or management of insurance claims and therefore within the penumbra of “financial product or service” under § 18(d)(1) of the AIA. As for the “technological invention” carve-out in § 18(d)(1), the PTAB considered “whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem using a technical solution.” In finding the carve-out inapplicable, the PTAB agreed with the petitioner that the claims as a whole did not recite a novel and unobvious technical feature, and that the invention was directed to a business, rather than a technical, problem.

The PTAB next analyzed the subject matter eligibility of the challenged claims under the Supreme Court of the United States’ two-part *Alice* test. Addressing the first part of the test, the PTAB determined that the subject matter of the challenged claims, when considered as a whole, was directed to the abstract idea of transmitting or copying information from a source to a destination.

The patent owner creatively argued that because the claims did not fully preempt the alleged abstract idea, the claims were directed to patent-eligible subject matter. As support, the patent owner provided examples of methods falling outside the scope of the claims and also pointed to its complaint in the parallel litigation, which did not allege that any system or method would infringe the challenged patent. The PTAB did not agree, noting that the US Court of Appeals for the Federal Circuit explained in *Ariosa Diagnostics* that “[w]hile preemption may signal patent ineligible subject matter, the absence of complete preemption does not demonstrate patent eligibility.”

Next, citing to the Federal Circuit’s recent *Enfish* decision, the PTAB explained that the first step of the *Alice* test “cannot simply ask whether the claims *involve* a patent ineligible concept,” and that “some improvements in computer-related technology when appropriately claimed are undoubtedly not abstract, such as a chip architecture, an LED display, and the like.” The PTAB also noted that according to the Federal Circuit, the “first step in the *Alice* inquiry . . . asks whether the focus of the claims is on the specific asserted improvement in computer capabilities . . . or, instead, on a process that qualifies as an ‘abstract idea’ for which computers are invoked merely as a tool.” Here, the PTAB determined that the asserted improvement provided by the challenged patent’s invention was not an improvement in computer functionality but rather was simply an improvement to data processing performed by a common computer system.

Moving to the second step of the *Alice* test, the PTAB found that the claim limitations, considered individually and as an ordered combination, failed to provide the “something more” that would imbue the claims with patent-eligible status. The PTAB also separately analyzed the claims under the machine-or-transformation test, which under *Ultramercial* provides “a useful clue in the second step of the *Alice* framework.” Here, the PTAB determined that any computer or network elements recited in the claims were merely conventional or used for post-solution activity, and thus the claims failed to meet the “machine” prong

of the test. Similarly, the PTAB found the claims lacking any “transformation” that might meet the other prong. For these reasons, the PTAB found the claims invalid as directed to ineligible subject matter.

As separate grounds of unpatentability, the PTAB found all of the challenged claims anticipated or obvious.

**CBM DEFINITIONS**

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***AIA / CBM / Jurisdiction***

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**A PATENT CAN BE A CBM PATENT FOR ONE PROCEEDING AND NOT FOR ANOTHER**

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*Square, Inc. v. Protegrity Corp.*, Case No. 2014-00182 (PTAB, Mar. 2, 2016) (Petravick, APJ)

The Patent Trial and Appeal Board (PTAB or Board) found challenged claims directed to data security to be subject to covered business method (CBM) patent review notwithstanding the absence of claim limitations directed to a financial product or service, and concluded that the patent was subject matter ineligible under § 101. *Square, Inc. v. Protegrity Corp.*, Case No. 2014-00182 (PTAB, Mar. 2, 2016) (Petravick, APJ).

Square filed a petition for CBM review of Protegrity's patent on grounds of patent ineligible subject matter under § 101, characterizing the claims as directed to the business method disclosed in the patent specification. A CBM patent is one that "claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions." America Invents Act § 18(d)(1). The legislative history indicates that "financial product or service" should be interpreted broadly.

Protegrity argued that the challenged claims were not directed to a financial product or service because "not a single word in a single *claim* of the . . . patent is purportedly directed to a 'financial product or service'" (emphasis in original). The Board nevertheless instituted, explaining in its final written decision that it does not interpret the statute as requiring "literal recitation of terms of data processing of financial products or services." Patent claims must only be broad enough to cover a financial product or service. In this regard, the Board noted that the patent discloses protection attributes that are used to protect against unauthorized access of data portions in a database, and that "banking is a field where protection against unauthorized access to databases that are used for administering and storing sensitive information is desired. . . . Banking is a financial activity."

The Board further noted that the patent specification included a figure depicting a "financial manager" as a person authorized to access the data element types disclosed in the patent. In addition, the Board pointed out that a declarant on behalf of the patent owner testified that the standard examples of market concern include protection of data items such as credit card numbers, credit card PIN numbers and salary information. Looking at the totality of circumstances, the Board agreed with Square that a preponderance of the evidence showed that at least one claim of the patent encompasses activities "that are financial in nature, incidental to a financial activity, or complementary to a financial activity."

The Board rejected the patent owner's argument that previous Board decisions demonstrate that the challenged patent is not a CBM patent. The panel noted that the prior Board decisions are neither precedential nor binding on the current panel. In addition, the panel explained that review of the allegedly conflicting decisions shows that "whether the patent is a covered business method patent rests upon the specific facts of those proceedings."

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## **NO CBM CARVE OUT FOR GRAPHICAL USER INTERFACES**

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*IBFX, Inc. v. Trading Techs. Int'l, Inc.*, Case No. CBM2015-00181 (PTAB, Mar. 7, 2016) (Plenzler, APJ)

Addressing the scope of covered business method (CBM) patent review and clarifying the application of the “real party in interest” in joint defense groups, the Patent Trial and Appeal Board (PTAB or Board) determined that a patent directed to graphical user interfaces for electronic trading does not fall within a category of patents exempted from CBM review, and refused to expand the meaning of a “real party in interest” to cover members of a joint defense group. *IBFX, Inc. v. Trading Techs. Int'l, Inc.*, Case No. CBM2015-00181 (PTAB, Mar. 7, 2016) (Plenzler, APJ).

Trading Technologies asserted several patents in district court against various e-trading companies. After forming a joint defense group, the defendants coordinated efforts to file multiple CBM petitions for the asserted patents. In this proceeding, the challenged patent is directed to a method for displaying a graphical user interface that dynamically displays the market depth of a traded commodity and allows the user to place electronic trades more efficiently.

Trading Technologies argued that the petition was improper because none of the patent’s claims were directed to a CBM and were instead part of a category of technological inventions that were exempted from CBM review. Trading Technologies cited Senator Chuck Schumer’s (D-NY) comments about the America Invents Act—namely, that CBM review was not meant to target “novel software tools and graphical user interfaces that are used by electronic trading industry workers to implement trading or asset allocation strategies,” and that, “generally speaking, it is not the understanding of Congress that such patents would be reviewed and invalidated under [the CBM review process].” The Board rejected those statements as inconsistent with the wording of the law as passed, and it reiterated its view, affirmed in *Versata*, that a CBM review may be proper where at least one claim is directed to a “financial product or service,” which broadly encompasses claims that are “financial in nature, incidental to a financial activity or complementary to a financial activity.”

Trading Technologies also suggested that the petition was improper because all members of the joint defense group should have been named as “real parties in interest.” Trading Technologies described defendants’ multiple CBM filings as abusive “litigation gamesmanship” and part of a larger “scheme of coordination” among joint defense group members. The Board rejected this argument, stating that mere coordination among defendants does not make joint defense group members real parties in interest to each other’s CBM petitions, absent a showing that the would-be co-defendants exercised control over the filing of each other’s petitions.

**AIA / CBM / Eligibility for Covered Business Method Patent Review**

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**PTAB STILL DIVIDED OVER WHAT PATENTS QUALIFY FOR CBM REVIEW**

*AT&T Mobility LLC v. Intellectual Ventures II LLC*, CBM2015-00185 (PTAB May 4, 2016) (Braden, APJ); *Apple Inc. v. Mirror World Techs., LLC*, CBM2016-00019 (PTAB May 26, 2016) (Giannetti, APJ) (McKone, APJ concurring)

Last month, we noted two recent Patent Trial and Appeal Board (PTAB) decisions that appeared to signal a more exacting standard for defining what patents may qualify as covered business method patents, focused on finding a hook *in the claims* for a financial product or service. . Despite those decisions, PTAB panels are still split on how to assess whether the patent is directed to a financial product or service. Two recent decisions, *AT&T Mobility LLC v. Intellectual Ventures II LLC*, CBM2015-00185 (PTAB May 4, 2016) (Braden, APJ) and *Apple Inc. v. Mirror World Techs., LLC*, CBM2016-00019 (PTAB May 26, 2016) (Giannetti, APJ) (McKone, APJ concurring), show divided interpretations over how explicitly the claims must be tied to a financial product or service.

The PTAB panel in *AT&T Mobility* found that the challenged patent did not claim a method or apparatus for a financial product or service. The claims of the challenged patent were directed to a system for providing directory call assistance to cellular telephone users with the appropriate back-end switching translations. Although the specification explained that such switching translations were helpful for billing, the claims did not specifically recite a "billing" limitation. In denying institution, the panel was careful to clarify that it did not require a "literal recitation of financial product or services in a claim," only that a claim term be "rooted" in the financial sector. The panel determined that the claimed invention was one of general applicability and thus dismissed the statements in the specification showing the invention's potential benefits to the financial sector and applicability to the financial activity of "billing." Mere examples of *potential usefulness* to the financial sector were insufficient to make the patent eligible for CBM review.

In contrast, the majority in *Mirror World* determined that the challenged patent was eligible for CBM review, even without identifying any terms in the claims that were arguably rooted in the financial sector. The claims were directed to organizing data streams from multiple sources through a time-ordered storage model with filters for organizing, locating, summarizing and monitoring incoming data. The claims were generic to streams of "data units" and did not identify, financial or otherwise, any particular purpose or field of use for such data stream operations. Nevertheless, the majority found that examples in the specification, showing that the claimed device *could be* used in the financial sector, were sufficient to make the patent eligible for CBM review. The majority rejected the notion that a claimed invention could have "general applicability" and avoid CBM review when the specification specifically provided financial-related embodiments showing that the claims covered potential uses in the financial sector.

The concurrence dissented from the majority's CBM eligibility determination, advocating instead for a stricter application in which the claim language itself must explicitly or inherently indicate the financial nature of the invention. Interpreting the Federal Circuit's decision in *Blue Calypso* as a clear directive to seek out such explicit or inherent language *in the claims*, the concurrence would have found the patent to be one of general applicability with merely a potential for use in the financial sector. Accordingly, it would have found the patent ineligible for CBM review. The concurrence warned that CBM review would be overly expansive if all that was required to show CBM eligibility was that the claims were broad enough to cover possible use in the financial sector.

**AIA / CBM / Financial Product or Service****FOR CBMS, THE NAME OF THE GAME IS A FINANCIALLY LIMITED CLAIM**

*BMC Software, Inc. v. zIT Consulting GmbH*, Case No. CBM2016-00044 (PTAB, Aug. 23, 2016) (Giannetti, APJ); *Plaid Technologies Inc. v. Yodlee, Inc. and Yodlee.com, Inc.*, Case No. CBM2016-00037 (PTAB, Aug. 16, 2016) (Zecher, APJ)

In two recently denied petitions for covered business method (CBM) review, the Patent Trial and Appeal Board (PTAB or Board) provided further guidance on what claimed subject matter is eligible for CBM review. *BMC Software, Inc. v. zIT Consulting GmbH*, Case No. CBM2016-00044 (PTAB, Aug. 23, 2016) (Giannetti, APJ); *Plaid Technologies Inc. v. Yodlee, Inc. and Yodlee.com, Inc.*, Case No. CBM2016-00037 (PTAB, Aug. 16, 2016) (Zecher, APJ). In doing so, the PTAB underscored that claims with general utility devoid of any terms tied to a financial-related activity are not subject to CBM review.

In the *BMC* decision, the PTAB observed that, according to the America Invents Act (AIA), a CBM patent is “a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service.” *BMC* argued that the challenged patent—which related to managing mainframe computer system usage for large mainframe computers—met the requirements of the CBM statute because it claimed a method used in the management of a financial product. Admitting that the claims did not include any financial limitations on their face, *BMC* maintained that the claims should be considered financial in nature because the specification described the claimed method as managing a licensing contract.

Reviewing the claims and the specification, the PTAB found the claims had only general utility and lacked any financial limitations. The PTAB disagreed with the petitioner’s argument that the claimed subject matter produced a financial result by reducing costs. According to the PTAB, “[s]aving money is not necessarily a financial activity under the covered business method patent review statute,” because, *reductio ad absurdum*, if it were, “then every patent that led to a cost reduction would qualify for review.” The PTAB discounted *BMC*’s citation of prior non-binding PTAB authority, explaining that “we do not find covered business method patent review available for patents that claim generally useful technologies that also happen to be useful to financial applications.”

The PTAB similarly found that the claims challenged by *Plaid Technologies* were not tied to any financial limitations and had only general utility. In that case, the challenged patent was generally related to the field of internet navigation and, in particular, to a method and apparatus for gathering summary information from users or websites and presenting that information as HTML to the users or websites via either push or pull technology. Quoting the US Court of Appeals for the Federal Circuit’s recent CBM analysis in *Blue Calypso*, the PTAB explained that “§ 18(d)(1) [the CBM statute of the AIA] directs us to examine *the claims* when deciding whether a patent is a [CBM] patent” (emphasis in original). The PTAB further explained that while the Federal Circuit in *Versata* recognized that the AIA term “financial product or service” should be interpreted broadly, there are limits to the breadth of that term: “As the Federal Circuit explained, ‘[t]he plain text of the statutory definition contained in § 18(d)(1) . . . on its face covers a wide range of *finance-related activities*’” (emphasis in original). The PTAB then examined a number of prior CBM denials, noting that for each case, the claims at issue were found to have only general utility.

## IPR APPELLATE REVIEW

*Patents / AIA / IPR / Constitutionality***POST-GRANT PTAB PROCEDURES ARE CONSTITUTIONAL**

*MCM Portfolio LLC v. Hewlett-Packard Co.*, Case No. 15-1091 (Fed. Cir., Dec. 2, 2015) (Dyk, J.)

In a case of first impression, the US Court of Appeals for the Federal Circuit upheld the constitutionality of *inter partes* review (IPR) proceedings. The Federal Circuit ruled that because patents were a public right, Congress could delegate adjudicatory authority to an Article I court such as the Patent Trial and Appeal Board (PTAB or “Board”) at the US Patent and Trademark Office (PTO) without violating Article III or the Seventh Amendment. *MCM Portfolio LLC v. Hewlett-Packard Co.*, Case No. 15-1091 (Fed. Cir., Dec. 2, 2015) (Dyk, J.).

The case arose from an IPR involving a flash memory patent. MCM Portfolio (MCM) sued Hewlett-Packard (HP) on a patent covering error correction technology in flash drive readers. HP responded by petitioning the PTAB for an IPR, asserting that the involved patent was invalid for obviousness. The PTAB instituted an IPR proceeding, eventually invalidating the claims. MCM appealed.

The Federal Circuit first discussed a threshold issue of whether, under the statute, it had jurisdiction to review institution decisions. MCM argued that it could and that the IPR should have been time-barred since MCM had already sued one of HP’s suppliers on the same patent. However, the Court, citing 35 USC. § 314(d), concluded that it lacked jurisdiction to review institution decisions.

The Federal Circuit then moved on to the constitutionality challenges under Article III and the Seventh Amendment. MCM argued that only an Article III court has the right to invalidate a patent and that assigning that authority to the executive interfered with separation of powers and violated Article III. MCM also argued that the Seventh Amendment precludes IPR proceedings as they deprive patent owners of a trial by jury. The Court rejected both arguments.

With respect to the Article III argument, the Federal Circuit concluded that Congress could grant the PTO the authority to review patents since they are a “public right.” Public rights are those that either exist between a person and the government or that are “so closely integrated to a public regulatory scheme” that agencies may resolve them. The Court explained that because patents flow entirely from a federal legislative regime, Congress may authorize the PTO to resolve questions of validity, particularly since the Court had already approved a similar process, *ex parte* reexamination, when Congress introduced that proceeding.

Turning to the Seventh Amendment argument, the Federal Circuit concluded that the IPR process was constitutional, again noting that a patent is a public right. Citing Supreme Court precedent, the Court explained that when Congress authorizes agencies to adjudicate a public right, the Seventh Amendment does not apply, since such a circumstance would defeat the very purpose of having an expert agency rule on those issues.



**Patents / AIA / IPR****FEDERAL CIRCUIT REMANDS PTAB'S DENIAL OF MOTION TO AMEND IN IPR**

*Nike, Inc. v. Adidas AG*, Case No. 14-1719 (Fed. Cir., Feb. 11, 2016) (Chen, J)

Addressing a decision by the Patent Trial and Appeal Board (PTAB or Board) denying a motion to amend claims under *inter partes* review (IPR), the US Court of Appeals for the Federal Circuit remanded the matter to the Board for failure in part to follow the Board's own prior decisions. *Nike, Inc. v. Adidas AG*, Case No. 14-1719 (Fed. Cir., Feb. 11, 2016) (Chen, J).

After the Board's institution of IPR proceedings, the patent owner, Nike, brought a motion to amend, which proposed canceling all 46 claims at issue and substituting new claims 47–50. In its final written decision, the Board granted the request to cancel claims 1–46 but denied entry of the substitute claims because the patent owner did not persuade the Board that the substitute claims were patentable over the prior art applied in the IPR “and over prior art not of record but known to the patent owner.” On appeal, the patent owner argued that the Board erroneously shifted the burden of proving patentability of the substitute claims, that the Board's determination that the substitute claims were obvious was erroneous, and that it was improper for the Board to require the patent owner to establish patentability over art not of record but known to the patent owner.

With regard to the first issue (the patent owner's burden), the Federal Circuit noted that while 35 USC § 316(e) places the burden of proving unpatentability on the petitioner as it relates to any patent claim included in the Board's decision instituting IPR proceedings, § 316(a)(9) indicates that the patent owner has an affirmative duty to justify why *newly drafted* claims should be entered. The Court found that when the two statutes are read together, § 316(e) does not necessarily apply to claims that were not in existence at the time a petition was filed or when the IPR proceeding was instituted. Thus the Board did not err by placing the burden on the patent owner to establish patentability of the amended claims over the prior art.

The Court did, however, vacate the Board's determination that the substitute claims would be rendered obvious based on procedural issues. The Court rendered this decision in part because the Board's final written decision lacked discussion or any acknowledgement of secondary considerations, and also because the Board improperly grouped substitute claims 48 and 49 together in its determination of patentability with respect to those claims (thus contravening its own prior decision in *Idle Free Sys., Inc. v. Bergstrom*).

As for the issue of distinguishing over prior art known to the patent owner, the patent owner provided a simple statement in its motion that its proposed substitute claims were patentable over prior art known to the patent owner, but not part of the record in the proceedings. The Federal Circuit held that the patent owner's failure to address any specific prior art not of record was not fatal. The Board's own “Representative Decision” on Motions to Amend, *MasterImage 3D, Inc. v. RealD Inc.*, found that prior art known to the patent owner “should be understood as no more than the material prior art that Patent Owner makes of record in the current proceeding pursuant to its duty of candor and good faith to the Office.” During oral argument, the US Patent and Trademark Office (PTO) acknowledged that the Board read its own decision “too aggressively,” and that the patent owner's statement about the substitute claims' patentability in its motion to amend would satisfy its obligation of candor to the PTO.

Thus, the Court found that, absent an allegation of conduct violating the duty of candor, the patent owner's statement regarding the patentability of its substitute claims over other art known but not of record was adequate, and did not support a denial of the patent owner's motion to amend.

**AIA / IPR / Appeals / Obviousness****PRESUMPTIONS CAN APPLY IN INTER PARTES PTAB PROCEEDINGS**

*PPC Broadband, Inc. v. Corning Optical Commc'n RF, LLC*, Case Nos. 15-1361; -1366; -1368; -1369 (Fed. Cir., Feb. 22, 2016) (Moore, J)

Addressing issues of claim construction and obviousness, the US Court of Appeals for the Federal Circuit affirmed, vacated and remanded in part the Patent Trial and Appeal Board's (PTAB's or Board's) obviousness conclusion, finding that the Board failed to give certain claim terms their broadest reasonable interpretations. *PPC Broadband, Inc. v. Corning Optical Commc'n RF, LLC*, Case Nos. 15-1361; -1366; -1368; -1369 (Fed. Cir., Feb. 22, 2016) (Moore, J).

Corning Optical filed several *inter partes* review (IPR) petitions challenging various claims of three of PPC's patents directed to coaxial cables. The Board instituted on the petitions and eventually concluded that various claims of each patent would have been obvious. PPC appealed.

The Federal Circuit began its analysis by addressing the difference in claim construction standards between the district court and the Board. In proceedings where the applicant may amend the claim language, the Board must give the claims their broadest reasonable interpretation consistent with the specification. By contrast, district courts construe claims using the framework laid out in *Phillips*, seeking to reach a construction that most accurately delineates the scope of the claimed invention.

In this case, the Federal Circuit affirmed the Board's conclusion that the term "continuity member" did not require temporal continuity or continuous contact, finding the Board's construction was "not unreasonable" in light of the ordinary meaning of "continuity" and disclosure in the specification. Here, the result hinged on the claim construction standard applied. While the Court found that the Board's construction was not correct under *Phillips*, it nevertheless upheld the Board's conclusion based on the broadest reasonable interpretation of "continuity member." The Court clarified, however, that even under their broadest reasonable interpretations, certain claims required temporal continuity by virtue of their additional limitations. These limitations require that the continuity member "maintain electrical continuity" during certain specified periods of operation of the connector. Because the Board did not make any fact findings regarding temporal continuity in the prior art, the Court vacated the conclusion of obviousness with respect to the claims that included the additional limitations.

Similarly, the Court vacated the Board's holdings regarding the term "encircle or surround." Although the Board gave this term its broadest reasonable interpretation, the Board arrived at its construction by simply selecting what it considered to be the broadest dictionary definition. The Board's approach did not take into account how the claims or the specification informed the construction.

Finally, the Federal Circuit addressed certain secondary considerations of nonobviousness, finding that the Board's conclusions with respect to long-felt but unresolved need, failed attempts and copying were supported by "substantial evidence." With respect to commercial success, however, the Court reversed the Board, finding that the Board erred in concluding that PPC's connector did not embody all of the features of the claims. In this case, Corning did not dispute that PPC's connectors are commercial embodiments of the claimed connectors, and it was error for the Board to find to the contrary without further explanation. Since the evidence showed that the PPC connectors embodied the claimed invention, the court noted that there was a presumption that any commercial success of these products is due to the patented invention. The Court noted that this presumption would not apply in the *ex parte* context, because the Board cannot gather evidence regarding commercial success. However, in the case of IPRs, the presumption applies because Corning had the means to rebut PPC's evidence, but chose not to do so.

**Patents / IPR / Procedure****PRIOR ART REFERENCES INTRODUCED AFTER IPR INSTITUTION ARE PERMISSIBLE TO SHOW STATE OF ART**

*Genzyme Therapeutic Products Ltd. v. Biomarin Pharmaceutical Inc.*, Case Nos. 15-1720; -1721 (Fed. Cir., June 14, 2016) (Bryson, J)

Addressing issues related to introducing additional prior art references after institution of an *inter partes* review (IPR), the US Court of Appeals for the Federal Circuit affirmed a Patent Trial and Appeal Board (PTAB or Board) invalidity ruling, concluding that the opposing party was given proper notice of references not originally cited in the PTAB's institution decisions. *Genzyme Therapeutic Products Ltd. v. Biomarin Pharmaceutical Inc.*, Case Nos. 15-1720; -1721 (Fed. Cir., June 14, 2016) (Bryson, J).

Genzyme sued Biomarin alleging infringement of two patents directed to treating Pompe disease with injections of human acid  $\alpha$ -glucosidase. Biomarin filed petitions requesting IPR of the two patents, and Genzyme filed responses to both IPRs. Biomarin filed a reply to the patent owner responses, citing two *in vivo* studies of enzyme replacement therapy for Pompe disease. The PTAB held the disputed claims of the two patents to be unpatentable as obvious. In its final written decisions, the PTAB referred to the state of the art in the two *in vivo* studies to conclude that "a person of ordinary skill in the art would have had a reasonable expectation of success" at the time of invention to achieve the results recited in the disputed claims. Genzyme appealed the invalidity rulings by the PTAB.

On appeal, Genzyme argued that the PTAB violated the notice requirements of the Administrative Procedure Act (APA). The Federal Circuit disagreed, noting that the provisions imposed by the APA have been interpreted to mean that an agency may not change theories in midstream without giving respondents reasonable notice of the change and the opportunity to present argument under the new theory. The Federal Circuit found no evidence that the PTAB changed theories midstream in this case, and explained that the grounds on which the PTAB invalidated the disputed claims in its final written decisions were the same as those in its institution decisions.

The Federal Circuit explained that "[t]he purpose of the trial in an *inter partes* review proceeding is to give the parties an opportunity to build a record by introducing evidence—not simply to weigh evidence of which the Board is already aware." Therefore the institution decision need not refer to every piece of evidence on which the PTAB relies in its final written decision. Here, Genzyme was denied neither notice nor an opportunity to respond to the *in vivo* studies. Indeed, Genzyme addressed the studies' relevance in its responses to the petitions, and also failed to exercise its available procedural options to respond to Biomarin's arguments or to try to exclude the studies. The Federal Circuit also agreed that the therapy strategy disclosed in the studies supported the PTAB's conclusion that a person of ordinary skill would have had a reasonable expectation of success based on the grounds set forth in the institution decisions. The Federal Circuit therefore affirmed the PTAB's final written decisions.

The Federal Circuit also noted that the introduction of new evidence after IPR institution is permissible as long as the opposing party has notice and an opportunity to respond to such new evidence irrespective of whether that evidence was cited in the PTAB's institution decision.

**Patents / IPR Stay / Preliminary Injunction**

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**IPR STAY FACTORS AND EXPLAINING PRELIMINARY INJUNCTION RATIONALE**

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*Murata Machinery USA v. Daifuku Co., Ltd.*, Case No. 15-2094 (Fed. Cir., Aug. 1, 2016) (Stoll, J)

In a decision clarifying the applicable test for staying a district court case during an *inter partes* review (IPR), the US Court of Appeals for the Federal Circuit confirmed that district courts have broad discretion in determining what factors to consider. In addition, the Court warned that when ruling on preliminary injunction motions, district courts must explain the reasoning behind their decisions. *Murata Machinery USA v. Daifuku Co., Ltd.*, Case No. 15-2094 (Fed. Cir., Aug. 1, 2016) (Stoll, J).

The case concerns two sets of patents related to “automated material handling systems,” which are robotic machinery installed in semiconductor manufacturing cleanrooms to manipulate the components. Murata and Daifuku both manufacture such automated systems. In September 2013, Murata initially sued Daifuku on three patents. Almost a year later, Murata sought leave to add two more patents to the case. Daifuku then filed IPRs on the three original patents and moved to stay the district court litigation.

The two parties clashed over the appropriate factors that courts should consider when deciding IPR-based motions for a stay. Both parties agreed that courts should consider (1) stage of the proceedings, (2) potential for the stay to simplify issues in the case, and (3) undue prejudice to the non-moving party or a clear tactical advantage. Murata, however, argued that courts should also consider a fourth factor: the potential for a stay to reduce the burden of litigation on the parties and the court. The district court applied Murata’s proposed test but nevertheless granted Daifuku’s stay motion. The district court also granted Murata leave to add the two new patents to the case, but noted that they would fall under the stay as well.

Murata amended its complaint to add the new patents and moved to lift the stay with respect to those patents. It also moved for a preliminary injunction based on the newly added patents. This time Murata argued against the stay based on the three-prong test, omitting the “litigation burden” factor it previously had included. The district court denied Murata’s motion to lift the stay and its motion for a preliminary injunction, but provided only cursory denial regarding its treatment of the preliminary injunction motion. Murata appealed.

The Federal Circuit affirmed the denial of the stay but remanded the preliminary injunction decision for a more detailed opinion.

With respect to the stay, the Federal Circuit agreed that the district court appropriately applied the four-factor test. Murata had argued that the district court should not have considered the fourth factor because Congress specifically included it in considerations for covered-business-method-related stays, but not for IPR-related ones. The Federal Circuit disagreed, because the power to stay a case is inherent to the district courts and is not granted by Congress. District courts therefore have discretion to consider a wide variety of factors, including the burden of litigation. The Federal Circuit also noted that Murata had previously advocated for this fourth factor, making its new position less credible.

The Federal Circuit also addressed the district court’s cursory denial of the preliminary injunction. Although the Federal Circuit did not find that such a denial was inappropriate given the stay, citing Fed. R. Civ. P. 52(a)(2), it remanded the case back to the district court for a fuller explanation of the reasoning behind the decision, noting that a district court must “state its findings and conclusions” in support of its decision to grant or deny a preliminary injunction.

**AIA / IPR / Remand Procedure**

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**PTAB REJECTS CONSIDERATION OF NEW ISSUES ON REMAND**

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*Corning Optical Communications RF, LLC v. PPC Broadband, Inc.*, Case No. IPR2013-00340 (PTAB., Aug. 4, 2016) (Lee, APJ)

Addressing the scope of a remand from the US Court of Appeals for the Federal Circuit, the Patent Trial and Appeal Board (PTAB or Board) declined to consider evidence and arguments presented for the first time on remand. *Corning Optical Communications RF, LLC v. PPC Broadband, Inc.*, Case No. IPR2013-00340 (PTAB., Aug. 4, 2016) (Lee, APJ).

Corning Optical filed a petition requesting *inter partes* review of several claims on a coaxial cable connector. The PTAB issued a final written decision (FWD) finding the claims to be unpatentable over the prior art. The patent owner appealed. On appeal, the Federal Circuit vacated the PTAB's determination of unpatentability and remanded.

On remand, the PTAB directed the parties to identify which issues the PTAB must reconsider on remand and whether those issues require additional briefing or submission of new evidence. The patent owner argued that the petitioner had failed to identify two entities as real parties-in-interest, requiring dismissal of the petition and termination of the proceeding. Although the patent owner had not raised this issue before the PTAB's FWD in the present proceeding, the patent owner had timely raised this issue in a related proceeding.

The PTAB generally declined to consider any issues on remand not presented before the FWD. Specifically, the PTAB declined to consider the real party-in-interest issue, finding that "Patent Owner did not raise it before the Federal Circuit while the case was on appeal, and has not sufficiently explained in [its response to the PTAB's order] why we should consider the new issue now at this late stage."

The panel explained that because the "2014 FWD was vacated only for specific errors," it "need only correct those errors . . . Nothing more is required."

**PATENTS / IPR / FWD****PTAB MUST PROVIDE EXPLANATION IN SUPPORT OF CONCLUSORY FINDINGS**

*In re: Warsaw Orthopedic, Inc.*, Case Nos. 15-1050; -1058 (Fed Cir., Aug. 9, 2016) (Wallach, J)

Addressing the obligation of the Patent Trial and Appeal Board (PTAB or Board) to articulate “logical and rational” reasons for its conclusions, the US Court of Appeals for the Federal Circuit remanded a portion of a PTAB *inter partes* review decision for additional explanation to support conclusory findings in the final written decision. *In re: Warsaw Orthopedic, Inc.*, Case Nos. 15-1050; -1058 (Fed Cir., Aug. 9, 2016) (Wallach, J).

The patent at issue in this case relates to a method of spinal surgery that “insert[s] an artificial implant between two adjacent vertebrae” from a patient’s side. This lateral approach to spinal surgery aims to avoid complications that may arise when the surgery is performed from the front or back of a patient. After the PTAB found that two independent claims of the patent at issue would have been obvious over a combination of three prior art references, Warsaw appealed.

Warsaw made three arguments on appeal:

- The PTAB misinterpreted one of the three references relied on for its obviousness determination because the reference does not disclose dimensions that meet the claim limitation “substantially the full transverse width” in two of the representative claims.
- The PTAB erred in its motivation to combine analysis by relying on reasoning of what a person having ordinary skill in the art “could” have been motivated to do instead of what such a person “would” have been motivated to do.
- The PTAB did not adequately explain how one of the references (Jacobson) disclosed a key limitation of one of the patent’s independent claims.

The Federal Circuit affirmed the PTAB’s decision on the first two issues. The Court explained that “[o]bviousness does not require the prior art to reach expressly each limitation exactly,” and pointed out that the PTAB determined that a person having ordinary skill in the art “would have” been motivated to combine the three prior art references, and provided a reasoned explanation for reaching that conclusion.

Addressing Warsaw’s third argument—that the PTAB did not adequately explain how the Jacobson reference disclosed the claimed “elongated portions” limitation—the Federal Circuit agreed with Warsaw. The Court found that the PTAB’s single conclusory sentence finding that Jacobson disclosed the subject limitation failed to meet the PTAB’s independent obligation to make an administrative record of its findings based on “logical and rational” reasoning. The Court noted that if, on appeal, it can follow the logic of the PTAB ruling, it may affirm “even if that path is less than perfectly clear.” In this case, the Federal Circuit could not reasonably discern that the PTAB’s decision as to the “elongated portions” limitation followed the proper path, and remanded this issue to the PTAB for additional explanation.

## IPR CLAIM AMENDMENTS

*AIA / IPR / Motion to Amend***MOTION TO AMEND IN IPR MUST ESTABLISH PATENTABILITY OVER PRIOR ART FROM ORIGINAL PROSECUTION**

*Prolitec, Inc. v. ScentAir Technologies, Inc.*, Case No. 15-1020 (Fed. Cir., Dec. 4, 2015) (Prost, C.J.) (Newman, J., dissenting)

Addressing whether a patentee must show that proposed claim amendments in an inter partes review (IPR) overcome not only the prior art in the IPR but also the prior art from the original prosecution, the US Court of Appeals for the Federal Circuit affirmed the Patent Trial and Appeal Board (PTAB or Board) and concluded that it was reasonable to require that showing in this particular case. *Prolitec, Inc. v. ScentAir Technologies, Inc.*, Case No. 15-1020 (Fed. Cir., Dec. 4, 2015) (Prost, C.J.) (Newman, J., dissenting).

ScentAir petitioned for institution of an IPR proceeding against Prolitec's patent on a replaceable cartridge for air fresheners. The question of patentability turned on claim construction, with the patent owner advancing narrow constructions requiring certain claimed elements to be permanent and non-adjustable based on its position that the purpose of the invention was to provide disposable cartridges for one-time use. But the Board viewed the specification discussion regarding one-time use as merely optional and declined to interpret the claims narrowly. The Board also rejected the patent holder's argument that the claims required a three-chamber device, which would have required the claimed "secondary chamber" to be interpreted as the third chamber.

Prolitec separately filed a motion to amend the claims to expressly require the "permanent" limitation it advanced during claim construction. In opposition, ScentAir resurrected a prior art reference from the original prosecution as meeting that narrower limitation. Prolitec's reply denied anticipation by that reference but did not dispute that it taught the "permanent" limitation from its amendment. Based on this record, the Board denied the motion and found that Prolitec failed to demonstrate patentability over the original prosecution prior art in combination with the prior art at issue in the IPR. Prolitec appealed.

The Federal Circuit agreed with the Board's claim constructions and affirmed its findings regarding unpatentability. Turning to the motion to amend, the Federal Circuit reiterated its holding in *Proxyconn* that the Board can require the patent holder to establish patentability over the prior art. The Court further explained that the prior art subject to that burden can include prior art from the original prosecution. The Court cautioned, however, that doing so was reasonable in this case only because the Board based its holding on the entire record for the motion and indicated that a patent holder's required showing can be first made in a reply brief when the prior art is raised in an opposition brief.

Judge Newman dissented, arguing that the Board violated the IPR statute and the US Patent and Trademark Office's own regulations by not automatically entering an amendment that responded to a grounds of unpatentability in the IPR.

## **BURDEN ON MOTION TO AMEND IN IPR**

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*In re Aqua Products, Inc.* Case No. 15-1177 (Fed. Cir., May 25, 2016) (Prost, J)

Applying its own precedent, the US Court of Appeals for the Federal Circuit confirmed that the burden remains on the patent owner to demonstrate the patentability of substitute claims over the art of record in an *inter partes* review (IPR), and therefore the Patent Trial and Appeal Board (PTAB or Board) need only consider those arguments raised by the patent owner for patentability. *In re Aqua Products, Inc.* Case No. 15-1177 (Fed. Cir., May 25, 2016) (Prost, J).

Aqua Products sued Zodiac alleging infringement of a patent relating to a swimming pool cleaner. In response, Zodiac filed an IPR petition. During the IPR proceeding, the PTAB denied Aqua Products' motion to amend claims. Aqua Products appealed, arguing that the PTAB erred by placing the burden on the patentee to show non-obviousness. Aqua Products also argued that the PTAB abused its discretion by not considering all of the new claim limitations and the objective *indicia* of non-obviousness.

Citing *Microsoft v. Proxyconn* and *Nike v. Adidas*, the Federal Circuit panel declined to revisit its prior holdings that the patent owner has the burden to "demonstrate the patentability of substitute claims over the art of record." The Federal Circuit also found no abuse of discretion in the PTAB's decision to rebut only the sole argument for patentability raised by Aqua Products. As the Court explained, "[t]o hold otherwise would require the Board to fully reexamine the proposed claims in the first instance, effectively shifting the burden from the patentee to the Board." Because Aqua Products' motion to amend focused on a single claim limitation, "the [PTAB] had no obligation to address the other amendments or to consider the issue of objective *indicia* of non-obviousness, which Aqua [Products] did not raise" in its motion to amend.



**AIA / IPR / Motion to Amend**

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**BUCKING THE TREND: PTAB GRANTS MOTION TO AMEND, ALLOWS GROUPING OF REFERENCES**

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*Shinn Fu Company of America and Shinn Fu Corp. v. The Tire Hanger Corp.*, IPR 2015-00208, Paper 24 (PTAB, Apr. 22, 2016) (DeFranco, APJ)

In a rare move, the Patent Trial and Appeal Board (PTAB or Board) granted a motion to amend in an *inter partes* review (IPR), allowing entry of substitute claims to replace the original claims acknowledged by the patent owner as being unpatentable. This is only the sixth time the Board has granted such a motion. *Shinn Fu Company of America and Shinn Fu Corp. v. The Tire Hanger Corp.*, IPR 2015-00208, Paper 24 (PTAB, Apr. 22, 2016) (DeFranco, APJ).

The petitioner filed a request for IPR of a patent directed to a method of handling the wheel of a motor vehicle while the vehicle is elevated on a hydraulic lift for repair. The patent owner elected not to file a response to the challenger's petition, thereby waiving any arguments in defense of the patentability of the challenged claims. Instead, the patent owner filed a motion to amend, requesting to replace the original claims with a new claim set that included additional claim limitations. During oral argument, the patent owner acknowledged that the original claims were not patentable.

In an IPR proceeding, claims are not amended (or added) as a matter of right; the patent owner must request authorization from the Board. In doing so, the patent owner bears the burden to establish that it is entitled to the proposed new or amended claims, and also must demonstrate the patentability of such claims over all known prior art.

In response to the patent owner's motion, the petitioner argued that the patent owner failed to distinguish the proposed substitute claims from relevant prior art cited on the face of the patent. The Board disagreed, explaining that there is "no requirement that a patent owner analyze expressly every individual reference cited during prosecution of the challenged patent, particularly where, as here, there are many different permutations of the cited prior art." Instead, when the references are duplicative, it is acceptable to group the references together according to their teachings without necessarily individually addressing every reference that contains essentially the same teaching. The Board thus concluded that the patent owner met its burden of proof in demonstrating that the proposed substitute claims were patentable over the relevant prior art and were entitled to entry.

**AIA / IPR / Motion to Amend**

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**PTAB GRANTS LATE MOTION TO AMEND, BUT AMENDED CLAIMS FAIL TO BREATHE LIFE INTO PATENT**

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*Alcohol Monitoring Systems, Inc. v. Soberlink, Inc.*, Case No. IPR2015-00556 (PTAB, May 3, 2016) (McKone, APJ)

Addressing the standards for a motion to amend claims during an *inter partes* review (IPR) proceeding, the Patent Trial and Appeal Board (PTAB or Board) granted a motion to amend the claims in an IPR, but ultimately denied entry of the substitute claims as unpatentable. *Alcohol Monitoring Systems, Inc. v. Soberlink, Inc.*, Case No. IPR2015-00556 (PTAB, May 3, 2016) (McKone, APJ).

The challenged patent relates to remote sobriety monitoring using a breath testing and identification device. Several claims of the patent-in-question were challenged in an earlier related IPR and found to be unpatentable. Claims not addressed in the earlier IPR were at issue in this proceeding. Following the PTAB's decision to institute IPR, instead of filing a response defending the challenged claims, the patent owner filed a motion to amend, requesting cancellation of all claims and entry of substitute claims. Requests solely to cancel claims typically are granted without substantive review. A request that seeks to substitute claims is not entered automatically, but only upon the patent owner demonstrating the patentability of the substitute claims. Amendments may not seek to enlarge the scope of the claims or introduce new matter.

In response to the patent owner's motion to amend, the petitioner argued that the substitute claims were impermissibly broadened. As a result of the patent owner's failure to provide substantive argument or evidence to the contrary, the PTAB found that the original motion to amend failed to meet the requirements of a proper amendment under § 316(d)(3). The patent owner then filed a reply, accompanied by a revised set of proposed substitute claims alleged to address the petitioner's arguments. Under § 316(d)(1)(B), a patent owner is authorized to file one motion to amend; additional motions to amend are unauthorized and may only be permitted at the PTAB's discretion. Although the patent owner did not comply with the rules in pursuing the second amendment, the PTAB ruled that the amendment should nevertheless be considered, as it eliminated one of the disputes between the parties by restoring in some respects the claim language to its original scope.

When seeking entry of an amendment to the claims in an IPR, the patent owner bears the burden of proof to establish that it is entitled to the relief requested. In considering the substitute claims, the PTAB first reviewed whether the substitute claims introduced new subject matter. In its reply to the petitioner's opposition, the patent owner admitted that it had attached an incorrect version of its claim chart in its motion to amend, and provided an amended version that the PTAB declined to consider. The PTAB concluded that the patent owner's evidence (even if considered in view of the amended claim chart) was insufficient to demonstrate written description support for the substitute claims. The PTAB then turned to the prior art, finding that the patent owner failed to meet its burden to demonstrate that any of the substitute claims were patentable over the prior art. For these reasons, the PTAB denied entry of the substitute claims.

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## **PTAB REFUSAL TO PERMIT CLAIM AMENDMENTS REMANDED**

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*Veritas Techs. LLC v. Veeam Software Corp.*, Case No. 15-1894 (Fed. Cir., Aug. 30, 2016) (Taranto, J)

Addressing the standard for granting a motion to amend claims in *inter partes* review (IPR), the US Court of Appeals for the Federal Circuit rejected a conclusion by the Patent Trial and Appeal Board (PTAB or Board) that the patent owner must show that newly added claim features were not independently known in the prior art. *Veritas Techs. LLC v. Veeam Software Corp.*, Case No. 15-1894 (Fed. Cir., Aug. 30, 2016) (Taranto, J).

The patent at issue relates to computer systems and methods for performing restores from backups while applications are active and accessing the data being restored. Veeam challenged the claims of the patent in an IPR and argued that the claims were invalid as being obvious in view of a combination of prior art references. The primary reference disclosed a block-level restoration system that uses two channels to provide an application on-demand access to lost data blocks while the lost data blocks are being restored.

After the PTAB instituted trial, Veritas filed a conditional motion to add two new claims if the PTAB found the existing claims to be unpatentable. Veritas argued that the new claims recited more expressly what Veritas was urging as the proper construction of the existing claims. In particular, the new claims related to a “file-level” data restoration, rather than a broader “block-level” restoration, as recited in the existing claims. Veritas argued that the newly added features specific to “file-level” restoration, in combination with other known features, were not in the prior art.

Applying the broadest reasonable interpretation standard, the PTAB declined Veritas’s proposed claim construction and canceled the existing claims upon finding them to be obvious in view of the prior art. The PTAB also denied Veritas’s motion to amend, stating that Veritas had failed to address whether each newly added feature in each proposed claim, as distinct from the claimed combination of features, was independently known in the prior art. Veritas appealed.

On appeal, the Federal Circuit affirmed the PTAB’s claim construction and finding that the existing claims were obvious. However, the Court vacated the PTAB’s denial of the motion to amend, stating that it was arbitrary and capricious in requiring Veritas to show that the newly added features were not separately known in the prior art. The Court noted that novel and non-obvious inventions often are only a combination of known individual features. Thus, the failure to show that the newly added features were not independently known should not have been fatal to the motion to amend. The case was remanded.

**IPR CLAIM CONSTRUCTION**

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***Patents / AIA / Claim Construction (BRI)***

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***EVEN UNDER BRI, “A” DOES NOT MEAN “TWO”***

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*In re Varma*, Case No. 15-1502 (Fed. Cir, Mar. 10, 2016) (Taranto, J)

The US Court of Appeals for the Federal Circuit determined that the Patent Trial and Appeal Board (PTAB or Board) erred in interpreting the claim term “a statistical analysis” as “two statistical analyses” under the broadest reasonable interpretation (BRI) standard. *In re Varma*, Case No. 15-1502 (Fed. Cir, Mar. 10, 2016) (Taranto, J).

This appeal arose from reexamination proceedings in which the challenged patents were directed to statistical analyses of investment data. The claims recited “a statistical analysis request corresponding to two or more selected investments.” The prior art taught a statistical analysis request of a single investment, but also taught that multiple such requests can cover multiple investments. The Board found that these prior art teachings met the “statistical analysis” limitation, implicitly interpreting “a statistical analysis” to cover “two statistical analyses.” The patent owner appealed.

On appeal, the Federal Circuit found the Board’s interpretation unreasonably broad. The Court framed the issue as “whether ‘a’ can serve to negate what is required by the language following ‘a’: in this instance a ‘request’ (a singular term) that ‘correspond[s]’ to ‘two or more selected investments.’” The Court explained that the article “a” cannot do so, finding that the claimed request must itself correspond to at least two investments. By analogy, the Court reasoned that “[f]or a dog owner to have ‘a dog that rolls over and fetches sticks,’ it does not suffice that he have two dogs, each able to perform just one of the tasks.” The Court vacated the Board’s rejection of the claims for reconsideration under the correct claim construction.

**Patents / AIA / IPR****OPPORTUNITY FOR RESPONSE WHEN CLAIM CONSTRUCTION CHANGES**

*SAS Institute, Inc. v. ComplementSoft, LLC*, Case Nos. 15-1346; -1347 (Fed. Cir., June 10, 2016) (Stoll, J) (Newman, J, dissenting in part)

Addressing claim construction and procedural issues during an *inter partes* review (IPR), the US Court of Appeals for the Federal Circuit vacated a Patent Trial and Appeal Board (PTAB or Board) patentability determination for failing to provide the parties with an opportunity to address a claim construction presented for the first time in the PTAB's final written opinion. *SAS Institute, Inc. v. ComplementSoft, LLC*, Case Nos. 15-1346; -1347 (Fed. Cir., June 10, 2016) (Stoll, J) (Newman, J, dissenting in part).

ComplementSoft brought suit against SAS for infringement of a patent relating to an integrated development environment. SAS then filed a request for IPR of all 16 claims of the patent. The PTAB instituted IPR only for claims 1 and 3–10. As part of the institution decision, the PTAB construed the term “graphical representations of data flows” in claim 4. In its final written decision, the PTAB concluded that claims 1, 3 and 5–10 were unpatentable as obvious over the prior art. The PTAB found claim 4 to be patentable based on a new construction that was significantly different from the construction in its institution decision. SAS sought rehearing, which the PTAB denied. In denying SAS's request for rehearing, the PTAB concluded that the new construction was not prejudicial because SAS could have presented its construction arguments for the term in the IPR petition. SAS appealed and ComplementSoft cross-appealed.

On appeal, SAS argued that it was improper for the PTAB to change its interpretation of the claim term in the final written decision without affording the parties an opportunity to respond. The Federal Circuit agreed, finding that the PTAB failed to provide the parties with an adequate opportunity to address the new construction.

The Court noted that IPR proceedings are formal administrative adjudications and are therefore subject to the requirements of the Administrative Procedure Act (APA). As part of the APA, “persons entitled to notice of an agency hearing shall be timely informed of . . . the matters of fact and law asserted.” The Court interpreted this “notice” provision to apply to both the patent owner and the petitioner, as both are interested parties standing to lose significant rights in the proceeding. In this case, because neither party proposed the PTAB's new construction, the Court found it unreasonable to expect the parties to have briefed or argued hypothetical constructions in the alternative that were not asserted by their opponent. According to the Court, while it is unclear whether SAS will be able to show claim 4 to be unpatentable under the PTAB's claim construction in the written decision, SAS should nevertheless have the opportunity to address the issue. For these reasons, the Court vacated the PTAB's decision with regard to patentability of claim 4 and remanded to allow the parties to address the new construction.

SAS also argued that the PTAB's final written decision was deficient for failing to address the patentability of all claims challenged in the IPR petition, including those claims for which the PTAB did not institute IPR. The Court found this argument foreclosed by the recent decision in *Synopsis*.

In dissent, Judge Newman argued that the written decision should address the patentability of all of the challenged claims, contending that the PTAB's practice of deciding the validity of only some of the challenged claims negates the intended legislative purpose of the America Invents Act.

**Patents / IPR / Claim Construction****IPR INSTITUTION DECISIONS NOT APPEALABLE, BROADEST REASONABLE INTERPRETATION REMAINS STANDARD**

*Cuozzo Speed Techs., LLC v. Lee*, Case No. 15-446 (US, June 20, 2016) (Breyer, J) (Thomas, J, concurring) (Alito, J, concurring in part and dissenting in part, joined by Sotomayor, J)

The Supreme Court of the United States (Justice Breyer writing for the majority) affirmed a US Court of Appeals for the Federal Circuit decision barring judicial review of most decisions regarding institution of *inter partes* review (IPR) by the US Patent and Trademark Office (PTO) and authorizing the PTO to construe a patent claim in IPR according to the broadest reasonable interpretation (BRI) standard. The Supreme Court held that the statutory text forbids most appeals regarding the institution decision, and that the statute grants the PTO the authority to determine the standard for claim construction in IPR. *Cuozzo Speed Techs., LLC v. Lee*, Case No. 15-446 (US, June 20, 2016) (Breyer, J) (Thomas, J, concurring) (Alito, J, concurring in part and dissenting in part, joined by Sotomayor, J).

**Background**

Cuozzo is the owner of a patent directed to a speedometer that shows a driver when the vehicle's speed exceeds the speed limit. Garmin filed a petition seeking IPR of all 20 of the patent's claims. Garmin's petition described how claim 17 of the patent was obvious in light of prior art references, and the Patent Trial and Appeal Board (PTAB or Board) agreed to reexamine claim 17, along with claims 10 and 14. While the petition had not expressly challenged claims 10 and 14 on the same grounds as claim 17, claim 17 was dependent on claim 14, which was dependent on claim 10. Therefore, the PTAB reasoned that Garmin had implicitly challenged claims 10 and 14, and eventually issued a final written decision finding claims 10, 14 and 17 invalid as obvious. Cuozzo appealed.

On appeal, Cuozzo argued that the PTAB improperly instituted review at least with respect to claims 10 and 14 because Garmin had not expressly challenged those claims on the grounds on which the PTAB instituted review. Cuozzo also argued that the PTAB improperly construed the claims according to the BRI standard, when it should have applied the standard used in district courts, where claims are given their ordinary meaning as understood by a person of skill in the art.

The Federal Circuit rejected both of Cuozzo's arguments, finding that the statutory text renders the decision on institution "nonappealable," and that the application of the BRI standard was a reasonable, and hence lawful, exercise of the PTO's statutorily granted rulemaking authority. Cuozzo then petitioned the Supreme Court for *certiorari*, which was granted.

**Institution Decisions Are Final and Not Appealable**

The Supreme Court agreed with the Federal Circuit that the decision on institution is not appealable here. First, the statute expressly states that the PTO's determination on institution is "final and nonappealable." Second, the dispute at issue, involving a legal question of whether the petition was pleaded "with particularity," is the kind of issue that must be forbidden by the statute's unambiguous language. While the Supreme Court recognized that there is a strong presumption in favor of judicial review, this presumption may be overcome by clear statutory text. Even so, the Supreme Court emphasized that its holding applies only to grounds for attacking the institution decision that are tied to the application and interpretation of the statute. Specifically, constitutional challenges are not addressed.

**Use of BRI Standard Is Reasonable**

The Supreme Court also agreed with the Federal Circuit that the statute gives the PTO the legal authority to construe claims according to the BRI standard. The Supreme Court found that the statute does not unambiguously direct the PTO to use one claim construction standard or the other; hence the agency has leeway to enact rules that are reasonable in light of the text, nature and purpose of the statute.

The Supreme Court explained that adopting the BRI standard is a reasonable exercise of the PTO's rulemaking authority and that the BRI standard encourages the applicant to draft the claim narrowly, protecting the public from overly broad claims while encouraging disclosure enabling the public to better understand the lawful limits of the claim. In addition, the Supreme Court noted that the PTO has used the BRI standard for more than 100 years.

### **The Dissent**

In dissent, Justice Alito (joined by Justice Sotomayor) found that the PTO's decision on institution of an IPR proceeding should be subject to judicial review. Alito noted that the Supreme Court applies a strong presumption favoring judicial review of administrative action, and interpreted the statutory language to bar interlocutory appeals of the institution decision, while allowing review of institution-related issues in an appeal from the PTO's final written decision.

## IPR ESTOPPEL

**Patents / AIA / Assignor Estoppel****PTAB FLUSHES ASSIGNOR ESTOPPEL AS DEFENSE IN IPR PROCEEDING**

*MAG Aerospace Industries, Inc. v. B/E Aerospace, Inc.*, Case Nos. 2015-1370; 2015-1426 (Fed. Cir., Mar. 23, 2016) (Prost, J); *B/E Aerospace, Inc. v. MAG Aerospace Industries, Inc.*, IPR2014-01510, Paper 106 (PTAB, Mar. 18, 2016) (Kauffman, APJ)

Addressing the issue of whether assignor estoppel applies to a party challenging the validity of a patent, the US Court of Appeals for the Federal Circuit and the Patent Trial and Appeal Board (PTAB or Board) reached different conclusions in the same case. *MAG Aerospace Industries, Inc. v. B/E Aerospace, Inc.*, Case Nos. 2015-1370; 2015-1426 (Fed. Cir., Mar. 23, 2016) (Prost, J); *B/E Aerospace, Inc. v. MAG Aerospace Industries, Inc.*, IPR2014-01510, Paper 106 (PTAB, Mar. 18, 2016) (Kauffman, APJ).

In *MAG*, the Federal Circuit affirmed a district court's ruling that barred B/E from arguing that the patents-in-suit are invalid under the doctrine of assignor estoppel. *MAG* owns US patents directed to the quick repair of vacuum toilets, such as those used on commercial aircrafts, and filed a complaint in district court accusing B/E of infringing these patents. B/E counterclaimed on the basis of non-infringement and invalidity. In response to B/E's invalidity counterclaim, *MAG* moved for summary judgment on an affirmative defense of assignor estoppel. Under the doctrine of assignor estoppel, when a patent owner or inventor assigns a patent to another party, the previous owner cannot challenge the validity of the patent. Here, one of the inventors of the patents-in-suit now works for B/E. The inventor previously assigned the patents-in-suit to his former employer, which then assigned them to *MAG*. *MAG* argued that the inventor was in privity with B/E and thus assignor estoppel bars B/E from attacking the validity of the patents.

The district court granted *MAG*'s motion for summary judgment, finding that the inventor was in privity with B/E for the following reasons:

- B/E used the inventor's knowledge to conduct the allegedly infringing activities.
- The inventor was hired specifically to develop the toilets that were accused of infringement.
- The inventor was the director of engineering for B/E and later became the vice president and general manager of B/E.

On appeal, the Federal Circuit held that the district court did not abuse its discretion in concluding that assignor estoppel applies, and that B/E was correctly barred from arguing that the patents-in-suit were invalid.

In *B/E*, the PTAB held that assignor estoppel could not be used to prevent a petitioner from challenging the validity of a patent. While defending itself in district court, B/E concurrently challenged the validity of the patents-in-suit in *inter partes* review (IPR) proceedings before the Board. During the IPR proceedings, *MAG* argued that the doctrine of assignor estoppel prevented B/E from seeking IPR of the patents because the inventor was in privity with B/E. The Board rejected *MAG*'s argument and held that assignor estoppel is not applicable to IPR. The Board concluded that assignor estoppel is an equitable doctrine and does not "provide an exception to the statutory mandate that any person who is not the owner of a patent may file a petition for *inter partes* review." As a result, while B/E was unable to challenge the validity of the patents-in-suit in district court, it was able to challenge the validity of those patents in an IPR proceeding.



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## **PTAB REDUNDANCY DOCTRINE IS LEGAL BUT UNHELPFUL**

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*Shaw Industries Group, Inc. v. Automated Creel Systems, Inc.*, Case Nos. 15-1116; -1119 (Fed. Cir., Mar. 23, 2016) (Moore, J) (Reyna, J, concurring)

Addressing the Patent Trial and Appeals Board's (PTAB's or Board's) reliance on the so-called redundancy doctrine in connection with instituting grounds for *inter partes* review (IPR), the US Court of Appeals for the Federal Circuit explained that conclusory reliance on the doctrine left district courts and the International Trade Commission in doubt regarding the grounds to which estoppel should apply, and was difficult to square with the requirements of the Administrative Procedure Act, which requires the Board to provide a reasoned basis for its decisions. *Shaw Industries Group, Inc. v. Automated Creel Systems, Inc.*, Case Nos. 15-1116; -1119 (Fed. Cir., Mar. 23, 2016) (Moore, J) (Reyna, J, concurring). In an eight-page concurrence, Judge Reyna expounded on the redundancy doctrine's impact on the integrity of the patent system.

Automated Creel Systems (ACS) is the owner of a patent relating to supplying yarn and other stranded materials to a manufacturing process by way of a creel (a bar with skewers for holding bobbins in a spinning machine). One set of claims (the non-interposing claims) involved creel magazines having two spools, and another set of claims (the interposing claims) involved magazines with more than two spools. ACS filed an infringement action in February 2012 naming Shaw as a defendant. Soon afterward Shaw filed a petition for IPR challenging all 20 claims of the patent based on 15 separate grounds of unpatentability. The Board instituted IPR on all claims except claim four. Shaw later filed a second IPR petition, requesting review of claim four.

Regarding the interposing claims, the Board instituted IPR on two of Shaw's three proffered grounds, but denied the third (based on Payne) without substantive explanation, merely citing to its authority under 37 CFR § 42.108. For the second IPR petition, the Board instituted IPR based on two of the six proposed grounds, denying the others as redundant. The Board found that 35 USC § 315(b) did not bar the second IPR, because ACS's voluntarily dismissal of its complaint without prejudice effectively converted the action into a legal nullity.

Reaching its final decision for the two consolidated IPRs, the Board found that Shaw had not shown the interposing claims to be unpatentable based on the instituted grounds, but made the proper showing for the non-interposing claims. Shaw appealed to the Federal Circuit as to the interposing claims. ACS appealed as to claim four, arguing that Shaw's second petition was barred under 35 USC § 315(b). Shaw also petitioned for a writ of *mandamus* instructing the US Patent and Trademark Office (PTO) to reevaluate its "redundancy decision" (with respect to the Payne-based ground). The PTO director was granted intervenor status in the appeal.

The Federal Circuit found that it could not review the Board's decisions on institution, including those denying grounds as being redundant. While noting that the Board's institution on certain obviousness grounds might not have actually made the proceedings more efficient, as compared to review on the denied grounds of anticipation, the Federal Circuit noted that its recent *St. Jude* decision made clear that the Court does not have the authority to review an IPR institution decision. In so holding, the Court rejected Shaw's argument that its authority to review an IPR's final written decision effectively permits a revisit of issues initially determined in the institution decision.

Addressing Shaw's petition for a writ of *mandamus*, the panel looked to the requirements spelled out by the Supreme Court of the United States in *Cheney v. US Dist. Court for DC*. The Federal Circuit noted that Shaw's argument was predicated on its concern that the IPR statutory estoppel provisions would prevent it from raising the Payne-based ground in future proceedings. But the Court noted that, as the PTO as intervenor had argued, the estoppel provisions of 35 USC § 315(e) apply only to those grounds raised during an IPR or those that reasonably could have been raised, but not to those grounds for which institution was denied. For these reasons, the Court denied Shaw's petition for a writ of *mandamus*.

Turning to Shaw's appeal of the Board's determination that Shaw had not sufficiently shown that the interposing claims would have been obvious over the cited references, the panel found that the Board's language as to a particular feature was unclear ("ambiguous at best") and remanded for further fact findings on the issue. Regarding the cross-appeal, the Court cited its decision in *Achates Reference Publishing v. Apple*, holding that the Court lacks jurisdiction to review the Board's determination to initiate an IPR based on an assessment of the time-bar of § 315(b). As to claim four, the panel found that the Board's factual findings were supported by substantial evidence, and saw no error in the Board's conclusion of obviousness.

**AIA / § 315(e)(1) Estoppel****PTAB DENIES SUBSEQUENT CHALLENGE ON GROUNDS PETITIONER “REASONABLY COULD HAVE RAISED”**

*Praxair Distribution, Inc. v. INO Therapeutics LLC*, Case No. 2016-00781 (PTAB, Aug. 25, 2016) (Pollock, APJ)

Addressing the issue of whether to grant a second *inter partes* review (IPR) after all of the claims had previously been adjudicated, the Patent Trial and Appeal Board (PTAB or Board) determined that the petitioner and its foreign subsidiary were estopped from requesting or maintaining the later-filed IPR. *Praxair Distribution, Inc. v. INO Therapeutics LLC*, Case No. 2016-00781 (PTAB, Aug. 25, 2016) (Pollock, APJ).

INO Therapeutics is the owner of a patent that describes methods of distributing a pharmaceutical product aimed at reducing the risk or preventing the occurrence in a human patient of an adverse event associated with a medical treatment comprising inhalation of nitric oxide.

Praxair previously requested IPR of claims 1–19 of the patent, asserting that one of ordinary skill in the art would have been referred to the US Food and Drug Administration approved INOMAX® label for new warnings and precautions related to patients with left ventricular dysfunction. The PTAB agreed and determined that all claims but claim 9 were unpatentable. Applying US Court of Appeals for the Federal Circuit precedent, the PTAB determined that “providing information” to medical practitioners lacks a functional relationship to the claim elements where the methods of administering the drug can be performed irrespective of whether that knowledge is conveyed.

Praxair filed a second request for IPR because of its concern that the Federal Circuit might reverse the PTAB’s prior determination that the step of “providing . . . information” should not be given patentable weight. To bolster its argument, Praxair offered the PTAB two “recently discovered” prior art references that, according to Praxair, disclosed the provided “information.”

Under 35 USC § 315(e)(1), a petitioner may not request or maintain subsequent proceedings on a ground that it raised or reasonably could have raised during the prior proceeding. The PTAB turned to the legislative history and concluded that the phrase “reasonably could have raised” broadly encompasses “prior art which a skilled searcher conducting a diligent search reasonably could have been expected to discover.”

INO Therapeutics argued that the two articles produced by the petitioner were catalogued and accessible at dozens of libraries in the United States, including the Library of Congress and the National Library of Medicine, and that both articles are readily identified by searching Google Books using keywords from the patent specification.

The PTAB found that the newly asserted references were not obscure texts unlikely to be discovered upon a reasonably diligent search of the relevant prior art by a skilled researcher. The PTAB did, however, note that the petitioner failed to identify the actual searcher, his or her skill level, experience in the field and searching methodology, so it had little evidence to find that Praxair conducted a diligent search.

Ultimately, the PTAB determined that because Praxair had previously challenged claims 1–19 of the patent, which resulted in a final decision, it was now estopped under § 315(e)(1) from requesting or maintaining the current proceeding with respect to any of those claims.

**AIA / IPR / § 315(e)(1) Estoppel**

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**PTAB USES § 315(E)(1) ESTOPPEL TO NARROW IPR SCOPE**

*Ford Motor Company v. Paice LLC & The Abell Foundation, Inc.*, Case No. IPR2015-00784 (PTAB, Oct. 21, 2016) (Medley, APJ); *Ford Motor Company v. Paice LLC & The Abell Foundation, Inc.*, Case No. IPR2015-00792 (PTAB, Oct. 25, 2016) (DeFranco, APJ)

In two recent final written decisions (FWDs) rendered in *inter partes* review (IPR) proceedings, the Patent Trial and Appeal Board (PTAB or Board) narrowed the scope of the proceedings by terminating the proceedings with respect to claims that had already received a FWD in a prior IPR by the same petitioner. *Ford Motor Company v. Paice LLC & The Abell Foundation, Inc.*, Case No. IPR2015-00784 (PTAB, Oct. 21, 2016) (Medley, APJ); *Ford Motor Company v. Paice LLC & The Abell Foundation, Inc.*, Case No. IPR2015-00792 (PTAB, Oct. 25, 2016) (DeFranco, APJ). In doing so, the PTAB emphasized that once a petitioner has received a FWD against claims in one IPR, the PTAB will dismiss those claims from any future IPR involving the patent and the same petitioner.

Ford filed IPR petitions against two of Paice's patents directed to hybrid vehicle engine management systems. For each of the two challenged patents, Ford had filed earlier IPR petitions resulting in the institution of a trial. None of those earlier IPRs had been finally decided at the time of institution of the two newer IPRs. Subsequent to institution in the later IPRs, Ford prevailed in FWDs for the earlier IPRs against each of the two patents, with a number of the claims in each patent being found unpatentable.

After the FWDs in the earlier IPRs, Paice filed its patent owner response for the later IPRs, arguing that, under 35 USC § 315(e)(1), Ford was estopped from maintaining its challenges in the newer IPRs against the claims challenged in the earlier proceedings. In each case, Ford made no arguments as to why it could not have raised the new challenges in the earlier proceeding. In the FWD for each of the newer IPRs, the PTAB agreed with Paice, dismissing the earlier-adjudicated claims from the later proceeding.

Underpinning the decision in each case was the fact that Ford had nowhere argued that it could not have reasonably raised its newer challenges in the earlier proceedings. The PTAB noted for one of the IPRs that the main prior art reference was listed on the face of the challenged patent and was cited during prosecution of the application for the patent. For the other IPR, Ford had relied on the same prior art that it had used in the earlier proceeding. Because the estoppel provisions of § 315(e)(1) prohibit maintaining a challenge against a claim based "on any ground that the petitioner raised or reasonably could have raised" in the earlier IPR, the PTAB dismissed the claims from the later IPRs.

## IPR INSTITUTION

**Patents / IPR / Institution Decision****DECISION TO INSTITUTE IPR NEED NOT BE BINARY**

*Synopsys, Inc. v. Mentor Graphics Corp.*, Case Nos. 14-1516; -1530 (Fed. Cir., Feb. 10, 2016) (Dyk, J) (Newman, J, dissenting)

Addressing whether the Patent Trial and Appeal Board (PTAB or Board) may institute *inter partes* review (IPR) with respect to some but not all of the claims challenged in a petition, the US Court of Appeals for the Federal Circuit upheld the Board's authority to choose the claims on which to institute review. *Synopsys, Inc. v. Mentor Graphics Corp.*, Case Nos. 14-1516; -1530 (Fed. Cir., Feb. 10, 2016) (Dyk, J) (Newman, J, dissenting).

Mentor owns a patent concerned with detecting bugs (*i.e.*, errors) in the source code of microchips. Synopsys petitioned for IPR of 29 claims on multiple grounds. After the petition was filed, Synopsys acquired an entity that Mentor had sued more than one year prior to the filing of the petition, and Mentor argued that Synopsys' petition should therefore be time barred. Nonetheless, the Board instituted IPR.

The Board limited the scope of the review to 12 claims and only on one ground: anticipation by a prior art reference to Gregory. Mentor filed a contingent motion to amend along with proposed substitute claims. In its final written decision, the Board found that three of the challenged claims were anticipated, while the other reviewed claims were not anticipated. The Board did not consider whether the other reviewed claims might be invalid for obviousness. The Board also denied the motion to amend the invalidated claims, finding that Mentor had not shown that the proposed substitutes were patentable over Gregory or generally patentable over the prior art. Synopsys appealed the Board's decision to review some but not all claims as well as its decision that two of the reviewed claims were not anticipated. Mentor cross-appealed regarding the time bar and the Board's denial of Mentor's motion to amend.

The Federal Circuit affirmed the denial of Mentor's motion to amend, finding that the Board's ruling that Mentor had not shown the proposed amendments patentable over Gregory was sufficient to defeat the motion under *Proxycorr* and *Prolitec*. Accordingly, the Court declined to decide whether the Board could require a showing of "general patentability over the prior art." The Federal Circuit also declined to review the Board's refusal to find the IPR time barred in light of Synopsys' post-petition acquisition of an alleged infringer, explaining that the institution decision was not reviewable under *Achates*. Finally, the Court also affirmed the Board's holding with respect to the non-anticipation of claims 1 and 28 as supported by substantial evidence.

Addressing an issue of first impression, the Federal Circuit affirmed the Board's authority to institute review with respect to some but not all claims. The Court distinguished the phrase "any patent claim challenged by the petitioner" used in the statute regarding a final written decision from the phrase "claims challenged in the petition" used in connection with the institution standard. In doing so, the Court endorsed the US Patent and Trademark Office's efficiency-driven system for IPR in which the Board determines both whether *and to what extent* it will institute review, and that the decision is unreviewable. The panel majority found "no statutory requirement that the [B]oard's final decision address every claim raised in a petition for *inter partes* review," but only a requirement that the Board "address claims as to which review was granted." The language of the law "is quite clear" that the Board can choose to review some claims but not others.

Judge Newman, in dissent, argued that efficiency concerns cannot authorize derogation from the plain language of the statute, which in her view requires a binary, all-or-nothing (unreviewable) institution decision followed by an appealable, substantive decision with respect to each of the challenged claims. Newman argued that letting the Board pick and choose which claims it wants to review creates an "absence of finality [that] negates the AIA's purpose of providing an alternative and efficient forum for resolving patent validity issues."

**AIA / PTAB / Precedents****PTAB PROVIDES PROCEDURAL GUIDANCE, DESIGNATES FIVE OPINIONS AS PRECEDENTIAL**

*Garmin Int'l, Inc. v. Cuozzo Speed Techs. LLC*, Case No. IPR2012-00001 (PTAB, Mar. 5, 2013) (Lee, APJ); *Bloomberg, Inc. v. Markets-Alert Pty, Ltd.*, Case No. CBM2013-00005 (PTAB, May 29, 2013) (Chang, APJ); *Oracle Corp. v. Click-to-Call Techs, LP*, Case No. IPR2013-00312 (PTAB, Oct. 30, 2013) (Zecher, APJ); *MasterImage 3D, Inc. v. RealD Inc.*, Case No. IPR2015-00040 (July 15, 2015) (Lee, APJ); *Lumentum Holdings, Inc. v. Capella Photonics, Inc.*, Case No. IPR2015-00739 (Mar. 4, 2016) (Tartal, APJ)

On May 10, 2016, the Patent Trial and Appeal Board (PTAB or Board) designated five post-grant trial decisions as precedential, bring the total number of precedential decisions in *inter partes* review (IPR) and covered business method (CBM) proceedings to eight. Of the five decisions, two address additional discovery and the remaining three address, respectively, the one-year time period for filing a petition, the amendment of claims and the requirements for PTAB consideration of a petition. A summary of the holdings follows.

The PTAB upgraded *Garmin Int'l, Inc. v. Cuozzo Speed Techs. LLC*, Case No. IPR2012-00001 (PTAB, Mar. 5, 2013) (Lee, APJ) from informative to precedential. In the decision, the PTAB identified five factors that it considers when deciding whether additional discovery is “necessary in the interest of justice.” The factors include the following:

- Whether there is more than a possibility and a mere allegation that the discovery will produce something useful
- Whether the discovery request is asking the other party’s litigation positions and underlying basis for those positions
- Whether the requester has the ability to obtain the information by other means
- Whether the instructions to locate the documents are easy to understand
- Whether the request is unduly burdensome

This case is the subject of a decision by the Supreme Court of the United States issued on June 20, 2016.

In *Bloomberg, Inc. v. Markets-Alert Pty, Ltd.*, Case No. CBM2013-00005 (PTAB, May 29, 2013) (Chang, APJ), the PTAB addressed a motion for additional discovery in a CBM review. Because CBM reviews share the same public policy, statutory and regulatory considerations or discovery as IPRs, the PTAB held that the *Garmin* factors are helpful in determining whether to grant additional discovery in a CBM review. The PTAB slightly modified the factors for the CBM context, however, because of the heightened standard of “for good cause” in granting additional discovery.

In *Oracle Corp. v. Click-to-Call Techs, LP*, Case No. IPR2013-00312 (PTAB, Oct. 30, 2013) (Zecher, APJ), the PTAB only made Section III.A of the order precedential. In that section, the PTAB rejected the patent owner’s argument that the petition was barred pursuant to 35 USC § 315(b), which requires filing of an IPR petition within one year of service of a complaint. The original complaint on which the patent owner relied, however, was dismissed voluntarily without prejudice, pursuant to a joint stipulation. The US Court of Appeals for the Federal Circuit holds that the effect of such dismissals leaves the parties as though the action had never been brought. Therefore, the patent owner could not rely on the earlier filed complaint to bar the petition.

In *MasterImage 3D, Inc. v. RealD Inc.*, Case No. IPR2015-00040 (July 15, 2015) (Lee, APJ), the PTAB clarified the burden of the patent owner in a motion to amend. The patent owner has the burden to show a patentable distinction over the prior art of record and the prior art known to the patent owner. The PTAB clarified that prior art of record includes (1) material art from the prosecution history of the patent, (2) material art of record in the current proceeding, and (3) any material art of record in another proceeding before the US Patent and Trademark Office. Prior art known to the patent owner is no more than material prior art the patent owner makes of record in the current proceedings under its duty of candor and good faith. Finally, the PTAB explained that “once Patent Owner has set forth a *prima facie* case of patentability of narrower substitute claims over the prior art of record, the burden of production shifts to Petitioner.”

In *Lumentum Holdings, Inc. v. Capella Photonics, Inc.*, Case No. IPR2015-00739 (Mar. 4, 2016) (Tartal, APJ), the PTAB denied a motion to terminate and held that 35 USC § 312(a) was not jurisdictional. Rather, § 312(a) merely sets forth requirements that a petition must satisfy, including naming all parties of interest. A lapse in compliance with § 312(a) does not deprive the PTAB of jurisdiction or preclude it from permitting such lapse to be rectified.

**Patents / IPR / Institution / Appealability****RECONSIDERATION OF INSTITUTION DECISIONS IS ALSO “FINAL AND NONAPPEALABLE”**

*Medtronic, Inc. v. Robert Bosch Healthcare Sys., Inc.*, Case Nos. 15-1977; -1986; -1987 (Fed. Cir., Oct. 20, 2016) (Dyk, J)

In an opinion addressing whether a decision by the Patent Trial and Appeal Board (PTAB or Board) to reconsider a decision on institution is “final and nonappealable,” the US Court of Appeals for the Federal Circuit reaffirmed its original panel decision holding that a determination by the PTAB to discontinue *inter partes* review (IPR) is not reviewable on appeal. *Medtronic, Inc. v. Robert Bosch Healthcare Sys., Inc.*, Case Nos. 15-1977; -1986; -1987 (Fed. Cir., Oct. 20, 2016) (Dyk, J).

Bosch sued Cardiocom, a division of Medtronic, in district court, alleging infringement of two patents owned by Bosch. Cardiocom petitioned for IPR of those two patents, but the petitions were denied. Medtronic then filed three petitions seeking IPR of the two patents, listing Medtronic as the sole real party in interest. After the PTAB instituted IPR proceedings, Bosch moved to terminate the proceedings, alleging that Medtronic had failed to name all real parties in interest. The PTAB granted Bosch’s motions, vacated the institution decisions and terminated the proceedings. Medtronic appealed.

Bosch moved to dismiss the appeal for lack of jurisdiction, asserting that the PTAB’s decisions were not appealable under 35 USC § 314(d). The Federal Circuit dismissed the appeal and denied Medtronic’s *mandamus* relief. Medtronic then petitioned for rehearing, and, following the Supreme Court of the United States’ decision in *Cuozzo Speed Technologies v. Lee*, the Federal Circuit recalled the mandate and requested supplemental briefing addressing the issue of appealability in view of *Cuozzo*.

The Federal Circuit concluded that the PTAB’s decision to reconsider institution of IPR is, like the original institution decision, “final and nonappealable” under § 314(d). As the Supreme Court explained in *Cuozzo*, § 314(d) operates to bar questions “closely related” to the application and interpretation of statutes related to the US Patent and Trademark Office’s decision to institute IPR. A reconsideration of the decision to institute proceedings is “closely related” to the original decision, especially when the PTAB’s reconsideration is predicated on a failure to meet the statutory requirements for institution. Medtronic argued that *Cuozzo* did not bar review here because the PTAB exceeded its statutory authority when it terminated the proceedings on a non-merits issue. The Federal Circuit disagreed, finding that administrative agencies possess inherent authority to reconsider their decisions.



**IPR INSTITUTION / PETITION**

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***AIA / IPR / Pre-Institution Decisions***

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**DISCRETION TO DISMISS IPR PETITION PRE-INSTITUTION**

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*Samsung Elecs Co., Ltd v. NVIDIA Corp., Case Nos. IPR2015-01270; -01314 (PTAB, Dec. 8, 2015) (Bunting, APJ)*

Addressing whether a petitioner seeking *inter partes* review (IPR) is entitled to withdraw its petition prior to an institution decision, the Patent Trial and Appeal Board (PTAB or Board) concluded that where the petitioners were time-barred permission to withdrawal was not required and that the Board has discretion to dismiss petitions in order to promote efficiency and minimize unnecessary costs. *Samsung Elecs Co., Ltd v. NVIDIA Corp., Case Nos. IPR2015-01270; -01314 (PTAB, Dec. 8, 2015) (Bunting, APJ)*.

Samsung filed two IPR petitions. After NVIDIA filed its preliminary responses, but before the PTAB determined whether to institute the IPRs, Samsung filed a motion to dismiss both petitions. In its motion, Samsung noted that it was served with a complaint asserting infringement in the stayed district court action more than a year beforehand.

NVIDIA opposed Samsung's motion on several grounds. NVIDIA first argued that termination is only allowed after an institution decision and that no provision allows termination prior to institution. NVIDIA also argued that dismissal would cause prejudice because it expended significant resources in opposing Samsung's IPR petitions.

Rejecting both arguments, the Board granted Samsung's motion. The Board first rejected the argument that a petitioner cannot withdraw its petition before institution, reasoning that the rules do not expressly preclude termination of an IPR during the preliminary proceeding state. The Board also rejected NVIDIA's prejudice argument, reasoning that it failed to consider the requirements of IPR proceedings should trial be instituted. However, the Board noted that Samsung would be time-barred from filing additional IPR petitions on the challenged patents. Under these circumstances, the Board exercised its discretion and dismissed the petitions.

**AIA / IPR / Procedure****LATE REQUEST FOR FURTHER BRIEFING TO SUPPLEMENT IPR PETITION NOT ALLOWED**

*Hewlett-Packard Co. v. US Philips Corporation*, IPR2015-01505 (PTAB, Dec. 16, 2015) (Chagnon, APJ)

Addressing the timing and availability of motions or presentation of substantive arguments in the context of an *inter partes* review (IPR), the Patent Trial and Appeal Board (PTAB or Board) dismissed the petitioner's belated request for additional briefing, finding that it could hamper the Board's ability to decide on the IPR within statutory requirements and that the proposed arguments should have been presented in the IPR petition. *Hewlett-Packard Co. v. US Philips Corporation*, IPR2015-01505 (PTAB, Dec. 16, 2015) (Chagnon, APJ).

Hewlett-Packard (HP) filed three separate IPR petitions challenging patents owned by Philips. HP requested the IPRs based on three non-patent references, which it alleged render the claims of the patent invalid as obvious. In its Preliminary Response, the patent owner argued that HP failed to provide evidence the non-patent references were publicly available. Prior art that may be used as a ground of invalidation in an IPR is limited to patents or printed publications. For non-patent prior art, a "printed publication" requires public availability.

In order to address the patent owner's public availability argument, HP sought a telephone conference to request authorization to file a reply to the Preliminary Response. The patent owner opposed, submitting substantive arguments to the PTAB by email. The rule regarding filing of motions or other substantive correspondence in IPR proceedings, 37 C.F.R. § 42.20(b), expressly prohibits the filing of a motion without prior authorization from the Board.

The Board denied HP's request for additional briefing, noting that HP waited for six weeks after the patent owner's response before contacting the Board. By statute, the Board is required to make a determination on whether to institute the IPR within three months from the filing of the patent owner's Preliminary Response. The Board reasoned that allowing additional briefing at such a late date could hinder the Board's ability to reach a decision within the allowed time.

The Board further reasoned that an IPR may not be instituted unless the information presented *in* the petition shows a reasonable likelihood that the petitioner would prevail with respect to at least one challenged claim. Here, HP had the burden of establishing a reasonable likelihood of success *in* its petition, including making a threshold showing that the cited references are "printed publications" within the meaning of the rules. IPR petitions are limited to a strict 60-page limit. The Board further stated that allowing HP to file a reply "would be tantamount to providing additional pages for the Petition."

Finally, the Board ordered the parties to limit email communications to the Board to requests for a conference call and avoid substantive discussions. Allowing substantive communications in email would circumvent the requirements in the IPR Rules that motions or other substantive correspondence may only be filed after authorization from the Board.

**AIA / IPR / Petitions****NO INSTITUTION BASED SOLELY ON UNSUPPORTED EXPERT TESTIMONY**

*Johns Manville Corporation v. Knauf Insulation Inc.*, Case No. IPR2015-01633 (PTAB, Jan. 4, 2016) (McKelvey, APJ)

Addressing whether a petitioner's unsupported expert testimony, unchallenged by the patent owner, is sufficient to carry an *inter partes* review (IPR) petition at least through the institution phase, the Patent Trial and Appeal Board (PTAB or Board) said no and denied the IPR petition. *Johns Manville Corporation v. Knauf Insulation Inc.*, Case No. IPR2015-01633 (PTAB, Jan. 4, 2016) (McKelvey, APJ).

The petitioner filed an IPR petition alleging that various claims of Knauf's patent were inherently anticipated under §102(b) by a prior art patent to Gogek. The claims at issue are, in general, directed to a material comprising non-woven mineral fibers held together by a binder, wherein the material contains a certain residual level of ionic species per kilogram as assessed in a leach test. Petitioner argued that Gogek inherently taught the claimed product in one of his disclosed examples and provided expert testimony to that effect. Specifically, Petitioner's three experts collaborated to prepare "insulated blocks" as taught in Gogek "Example 3" and then tested those blocks for residual ionic species as required by the challenged claims.

The Gogek process for making insulated blocks included use of "asbestos fines." One of Petitioner's experts explained that because asbestos fines are no longer commercially available (due to its carcinogenic properties) "Superwool 607," which is a form of glass wool, was used instead. Petitioner's expert stated that use of Superwool 607 was equivalent to use of asbestos fines that use of Superwool 607 would not change the physical properties of the insulated blocks made in accordance with Example 3, and that use of Superwool 607 would not change the level of residual ionic species in the blocks as assessed by a leach test. No evidence was cited in support of these conclusory statements, nor was any analysis provided comparing Superwool 607 to the "asbestos fines" taught in Gogek. In its preliminary response, the patent owner argued that because Superwool 607 is not asbestos fines, the petitioner had not made the insulated blocks taught in Gogek. The patent owner did not, however, present evidence to dispute the expert's claims that Superwool 607 was equivalent to asbestos fines.

The petitioner argued that the PTAB should credit its expert's testimony at this stage in the proceedings, particularly where the patent owner did not dispute its argument that Superwool 607 was equivalent to asbestos fines. The PTAB disagreed, explaining that it was entitled to broad discretion in determining the amount of weight to be accorded witness testimony and could decide not to credit unsupported expert testimony. The PTAB stated that the patent owner "had no reason to mount a detailed challenge in its Preliminary Response given the lack of underlying support for [the petitioner's expert's] opinion." Furthermore, the PTAB explained that in "IPR proceedings, it is up to the petitioner to make out its case; it is not the responsibility of a patent owner to challenge a case which has not been made." Accordingly, the PTAB concluded that petitioner had failed to establish that, following trial on the merits, there is a reasonable likelihood that it will prevail.

**Patents / AIA / Institution Decisions****DENYING INSTITUTION ON “REDUNDANT” GROUNDS IS PROPER**

*Harmonic, Inc. v. Avid Technology, Inc.*, Case No. 15-1072 (Fed. Cir., Mar. 1, 2016) (Stoll, J)

Addressing the authority of the Patent Trial and Appeal Board (PTAB or Board) to determine the specific grounds for institution, the US Court of Appeals for the Federal Circuit concluded that the Board can make a final and non-appealable decision to deny institution of a subset of grounds contained within an *inter partes* review (IPR) petition on the basis that the non-instituted grounds are “redundant” to the instituted ground. *Harmonic, Inc. v. Avid Technology, Inc.*, Case No. 15-1072 (Fed. Cir., Mar. 1, 2016) (Stoll, J).

Harmonic’s IPR petition alleged that the patent at issue was invalid in view of seven different prior art grounds. The Board instituted an IPR proceeding on one set of challenged claims based on one of those seven grounds. The Board did not institute four other grounds because they were deemed to be redundant to the instituted ground. In addition, the Board did not institute as to another set of challenged claims, which disposed of the remaining two grounds. The Board ultimately determined that the instituted ground did not render a subset of the first set of challenged claims unpatentable. Harmonic appealed.

On appeal, Harmonic asserted that the Board erred by failing to consider all prior art grounds contained in Harmonic’s IPR petition. The Federal Circuit noted that while it has jurisdiction to hear appeals from final written decisions, it does not have jurisdiction to hear appeals regarding institution decisions. This is because § 314(d) prescribes that “determination by the Director whether to institute an *inter partes* review under this section shall be final and nonappealable.” In addition, the Federal Circuit found that the US Patent and Trademark Office possesses the authority to promulgate its pertinent rule, 37 CFR § 42.108, which states that “the Board may authorize the review to proceed on . . . *all or some* of the grounds of unpatentability asserted for each claim.” Therefore, the Board can rightfully make a final and non-appealable decision to (1) institute an IPR proceeding, (2) institute an IPR proceeding on a subset of the grounds contained within the IPR petition, or (3) deny institution of an IPR proceeding.

Turning to the merits, the patent at issue is directed to a method for eliminating interruptions in decompressed video streams. To avoid these interruptions, the patent switches between multiple video buffers to decompress the data at a rate that is faster than the video display rate. Importantly, the subset of challenged claims found not to be unpatentable requires this switching to happen after a “predetermined period of time.” After reviewing the prior art cited in connection with the instituted ground, the Board found that the prior art references did not disclose or suggest the switching of data streams after a predetermined period of time with sufficient particularity. Consequently, the Board found that Harmonic failed to prove that group of claims to be obvious. The Federal Circuit concluded that the Board did not err and affirmed the Board’s findings.

**AIA / IPR / Inherency****POSSIBLE, PROBABLE FEATURES OF PRIOR ART DO NOT ESTABLISH INHERENCY**

*Alarm.com Inc. v. Vivint, Inc.*, Case No. IPR2015-02204, Paper No. 14 (PTAB, Mar. 31, 2016) (Boudreau, APJ); *Benitec Biopharma Ltd. v. Cold Spring Harbor Lab.*, Case No. IPR2016-00016, Paper No. 8 (PTAB, Mar. 31, 2016) (Snedden, APJ)

In two different decisions denying *inter partes* review (IPR) petitions, the Patent Trial and Appeal Board (PTAB or Board) reiterated that inherency assertions must be premised on features that necessarily arise from the prior art reference. *Alarm.com Inc. v. Vivint, Inc.*, Case No. IPR2015-02204, Paper No. 14 (PTAB, Mar. 31, 2016) (Boudreau, APJ); *Benitec Biopharma Ltd. v. Cold Spring Harbor Lab.*, Case No. IPR2016-00016, Paper No. 8 (PTAB, Mar. 31, 2016) (Snedden, APJ).

In one case, Alarm.com sought IPR of Vivint's patent for a remote equipment monitoring system with various functions carried out by a "server." The primary reference asserted was a manual for a prior art system called ScadaWare. Vivint asserted that the manual failed to disclose the claimed "server," and disputed Alarm.com's reliance on features divided between two separate components of the system. Alarm.com responded that it was possible to program one of the two components to carry out both functions, and that this reprogramming probably occurred in practice. The Board found this rationale to be insufficient, explaining that "it is not enough to find that a prior art device is capable of being modified to operate in a manner that would anticipate the claims." The Board also rejected the argument that the second component of the system *could* perform the functions. Treating the argument as being based on inherency, the Board explained that inherency "may not be established by probabilities or possibilities. The mere fact that a certain thing may result from a given set of circumstances is not sufficient." For these reasons, the Board refused to institute IPR.

In another case, Benitec sought IPR of Cold Spring's patent related to methods for silencing gene expression using RNA interference, without triggering an anti-viral response. The claimed method called for RNA molecules having a nucleotide length within a specific range. Benitec primarily relied on a later-filed patent that claimed priority to an earlier-filed provisional application. Anticipation turned on the question of whether the provisional application supported any claim of the later-filed patent, as required by *Dynamic Drinkware*. Because the patent and its provisional application listed different ranges of nucleotide lengths, Benitec relied on a portion of the provisional listing nucleotide length as an important consideration for avoiding an anti-viral response and claimed that the permissible lengths were already "widely known" in the art. The Board treated this as an inherency argument but pointed to the lack of any expert submission by Benitec that could have shown that the claimed range would have necessarily flowed from the provisional application. The Board thus rejected the petitioner's anticipation position, as well as a "kitchen sink" obviousness position, and denied institution.

## IPR INSTITUTION / PRELIMINARY

**Patents / IPR / Obviousness / Secondary Considerations****"SUBSTANTIAL EVIDENCE" REVIEW DOOMS PTAB APPEAL**

*Merck & Cie v. Gnosis S.P.A.*, Case No. 14-1779 (Fed. Cir., Dec. 17, 2015) (Hughes, J.) (Newman, J. dissenting) (Gnosis I), reh'g denied (Apr. 26, 2016).

Addressing the issue of obviousness in the context of an *inter partes* review (IPR), the US Court of Appeals for the Federal Circuit affirmed a decision by the Patent Trial and Appeal Board (PTAB or Board) under a substantial evidence standard, finding that the contested claims of the patent-at-issue were invalid as obvious. *Merck & Cie v. Gnosis S.P.A.*, Case No. 14-1779 (Fed. Cir., Dec. 17, 2015) (Hughes, J.) (Newman, J. dissenting) (Gnosis I).

The patent at issue, owned by Merck, related to methods of using folates to lower levels of homocysteine in the human body. Gnosis instituted *inter partes* review of certain claims, and the PTAB found that all of the claims-at-issue were obvious under § 103 in light of three prior art references. The PTAB also considered objective indicia of non-obviousness and concluded that Merck failed to demonstrate an adequate nexus between the novel features of the patent-at-issue and the evidence of commercial success, licensing, copying and industry praise. It also found that evidence of long-felt but unmet need, unexpected results and industry skepticism was unpersuasive. Merck appealed.

The Federal Circuit agreed with the PTAB that the asserted claims were obvious, concluding that the PTAB's factual findings with respect to both motivation to combine and lack of adequate nexus for the secondary considerations were supported by substantial evidence. In addressing the motivation to combine, the Federal Circuit emphasized that the prior art must be considered as a whole. As to the secondary considerations of non-obviousness, the Federal Circuit noted that Merck's evidence of commercial success, copying and industry praise were based on products that had material features beyond those disclosed and claimed in the patent-at-issue. The Court also noted that Merck failed to show an adequate nexus between the objective indicia factors and the novel features of the asserted claims. Similarly, the Federal Circuit found Merck's evidence of licensing to be weak because the licensing agreement covered several other patents, and it was difficult to determine the extent to which the licensing agreement was the result of the novel features of the patent-at-issue as opposed to those other patents.

Judge Newman dissented on several grounds, voicing her concern that the PTAB and the majority departed from the "explicit and implicit provisions of the [America Invents Act] statute." First, she noted that the lower burden of proof in the PTAB—preponderance of the evidence to prove invalidity—established a powerful incentive to challenge patent validity in the PTAB instead of the district court. Second, Judge Newman noted the AIA's provision for finality after the PTAB decision and any appeal to the Federal Circuit, arguing that that the majority's deferential "substantial evidence" standard of review was at odds with the benefits that Congress intended. Finally, Judge Newman disagreed with the majority's holding, stating that the record did not support a motivation to combine the prior art references or a reasonable expectation of success. Rather, according to Newman, such a conclusion only comes from hindsight reconstruction using the teachings of the inventors. She also stated that the majority discounted Merck's evidence of objective indicia of non-obviousness for the same reasons.

The same day, the Federal Circuit issued another opinion affirming a decision by the PTAB in a companion case, finding that the contested claims of the patent-at-issue were invalid for obviousness. *South Alabama Med. Sci. Found. v. Gnosis S.P.A.*, Case Nos. 14-1778, -1780, -1781 (Fed. Cir., Dec. 17, 2015) (Hughes, J.) (Newman, J. dissenting) (*Gnosis II*). At issue in this case were three patents owned by South Alabama Medical Science Foundation (SAMSF) that related to administering the natural stereoisomer of 5-methyl-tetrahydrofolic acid and other vitamins to treat symptoms associated with folate deficiency.

For the same reasons discussed in *Gnosis I*, the Federal Circuit concluded that the PTAB's factual findings of a motivation to combine the prior art references and lack of adequate nexus with the merits of the claimed invention with respect to the objective indicia of non-obviousness were supported by substantial evidence. The Court noted that the PTAB did err in discounting SAMSF's licensing evidence, stating that the relevant inquiry is "whether there is a nexus between the patent and the licensing activity itself, such that the factfinder can infer that the licensing 'arose out of recognition and acceptance of the subject matter claimed' in the patent." However, the Federal Circuit held the PTAB's error was harmless because the licensing

evidence was not enough to overcome the strong evidence of obviousness found in the prior art and expert testimony. Judge Newman dissented for the same reasons as in *Gnosis I*.

**AIA / IPR / Procedure**

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**THREE MOST IMPORTANT THINGS AT PTAB: RULES, RULES, RULES**

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*Republic Tobacco, LP v. Fan Bao*, Case No. IPR2015-00072 (PTAB, Jan. 4, 2016) (Chagnon, APJ)

In a decision highlighting the importance of closely following the procedural rules for *inter partes* reviews (IPR), the Patent Trial and Appeal Board (PTAB or Board) refused to exclude allegedly improper evidence, holding that the patent owner failed to preserve their objection by not filing a timely motion to exclude. *Republic Tobacco, LP v. Fan Bao*, Case No. IPR2015-00072 (PTAB, Jan. 4, 2016) (Chagnon, APJ).

The petitioner filed a reply to the Patent Owner's Response attaching several exhibits in support. A week later the patent owner filed a paper titled "Patent Owner's Objection to Untimely and Improper Evidence Submitted by Republic Tobacco, L.P.," claiming that the supporting exhibits were new evidence, rather than a proper rebuttal. Unsure how to classify the filing, the Board considered three possible categories: a sur-reply, a motion to strike and a motion to exclude under 37 C.F.R. § 42.64.

The Board rejected the first two categories citing the same reason—both require prior authorization from the Board. Because the patent owner did not seek authorization, the Board refused to place the filing in either category.

The Board next considered whether the filing qualified as an evidentiary objection under Rule 42.64. Under § 42.64(b)(1), if a party objects to evidence after the IPR has been instituted, the objection must be filed within five business days of service of the evidence to which the objection is directed. Under § 42.64(c) the objecting party must file a separate motion to exclude in order to preserve the objection. Here, although the Board concluded that the patent owner's filing could be considered as a timely objection, it found that the patent owner nevertheless failed to file the required motion to exclude by the deadline for motions to exclude; that fell on the same day as the patent owner filed its objections. Consequently, the Board declined to consider the patent owner's filing and allowed the evidence into the proceeding.



**AIA / IPR / PTAB Procedure****"SUPPLEMENTAL EVIDENCE" VERSUS "SUPPLEMENTAL INFORMATION"**

*CaptionCall, LLC, v. Ultratec, Inc.*, Case Nos. IPR2015-00636; -00637 (PTAB, Jan. 6, 2016) (Benoit, APJ)

Addressing the requirements to offer supplemental evidence and information, the Patent Trial and Appeal Board (PTAB or Board) denied the patent owner's requests for authorization to file a motion to submit supplemental declarations, making it clear that parties wishing to offer supplemental evidence or information must follow specific rules for doing so. *CaptionCall, LLC, v. Ultratec, Inc.*, Case Nos. IPR2015-00636; -00637 (PTAB, Jan. 6, 2016) (Benoit, APJ).

Petitioner CaptionCall filed petitions for *inter partes* review (IPR) of two of Ultratec's patents. After the Board instituted proceedings, the patent owner, Ultratec, filed its patent owner's response, which included two declarations: one from Ms. Kretschman and one from Mr. Ludwick.

CaptionCall filed and served objections challenging Ms. Kretschman's qualifications and the basis for her opinions as presented in her declaration. In accordance with 37 C.F.R. § 42.64(b)(2), which requires supplemental evidence to be served within 10 business days of service of the objection, Ultratec served a supplemental declaration by Ms. Kretschman. Ultratec then requested permission to file the supplemental declaration of Ms. Kretschman as supplemental evidence, intending to render unnecessary the filing of a motion by CaptionCall to exclude Ms. Kretschman's original declaration. CaptionCall argued that filing the supplemental declaration was unnecessary and premature, since § 42.64 already addresses this situation. The Board agreed, further noting that if CaptionCall is not satisfied that its objections have been overcome by Ms. Kretschman's supplemental declaration, CaptionCall may preserve its objections by filing a motion to exclude under § 42.64(c), and in response, "[Ultratec] may file the supplemental evidence with its Opposition to [CaptionCall]'s Motion to Exclude."

Ultratec also sought to supplement Mr. Ludwick's declaration to include a limited explanation of certain background facts and experiences on which he based his opinions and also to respond to the final written decision in *CaptionCall, LLC v. Ultratec, Inc.*, Case No. IPR2014-00780 (PTAB, Dec. 1, 2015). The Board concluded that Mr. Ludwick's supplemental declaration is not supplemental evidence, as it was not made in response to an objection, but instead would be treated as a late submission of supplemental information, which is governed by § 42.123(b). The late submission of supplemental information required Ultratec to make two showings: why the supplemental information reasonably could not have been obtained earlier, and that the consideration of the supplemental information would be in the interests of justice. CaptionCall argued that Ultratec did not, and cannot, meet these requirements because the information could have been obtained earlier. The Board agreed, noting that Ultratec did not adequately explain the three-week delay between the related *CaptionCall* final decision and the request to supplement the declaration. The Board also found that Ultratec did not sufficiently show why allowing Mr. Ludwick to supplement his declaration at this late stage of the proceeding is in the interest of justice. For these reasons, the Board did not authorize the patent owner to file a motion to submit a supplemental declaration of Mr. Ludwick.

**AIA / IPR / Institution****PTAB: ON SECOND THOUGHT, YOUR IPR IS INSTITUTED**

*AVX Corp. v. Greatbatch Ltd.*, Case IPR2015-00710 (PTAB, Jan. 13, 2016) (Tornquist, APJ) (Rose, APJ, dissenting)

In what could be a first, the Board granted-in-part a petitioner's rehearing request, reversing its earlier decision not to institute an *inter partes* review (IPR). In reversing, the majority of the Board acknowledged that the petition and supporting declaration had in fact explained how the primary prior art reference taught a key term under the board's construction. *AVX Corp. v. Greatbatch Ltd.*, Case IPR2015-00710 (PTAB, Jan. 13, 2016) (Tornquist, APJ) (Rose, APJ, dissenting).

AVX filed a petition seeking *inter partes* review (IPR) of Greatbatch's patent directed to capacitors having hermetic seals and structure allowing for testing of those seals, with the capacitors intended use being for electromagnetic interference (EMI) shielding in implantable medical devices. After reviewing the petition, the supporting evidence and Greatbatch's preliminary response, the Board initially declined to institute the IPR. Central to the Board's initial decision was its construction of the claim term "laminar delamination gap," which relates to the testing structure. The Board construed the term to mean, under the broadest reasonable interpretation (BRI) claim construction standard, "a very thin space between layers of material allowing passage of helium gas to the outer edges of the capacitor," just as the district court had done in the related litigation. In making its decision, the Board stated that AVX had not convincingly shown that the primary prior art reference, relied upon by AVX for teaching the testing structure for all asserted grounds of unpatentability, disclosed the "laminar delamination gap."

In the rehearing decision, the Board agreed that it had indeed overlooked AVX's argument that the "gas flow passage" depicted in one of the primary prior art reference's figures disclosed the "very thin space" required by its construction for "laminar delamination gap." The Board rejected Greatbatch's argument that the size of the gap between the depicted insulator and washer of the prior art would be "substantial," noting that Greatbatch's own exhibit—relied upon as purportedly teaching that brazing as taught by the prior art reference would necessarily result in a substantial gap—actually taught that "[a] braze fillet should ideally be very small." In granting the rehearing request, the Board made it clear that overlooking a key material statement in a petition is sufficient grounds to grant rehearing and reverse a prior denial of institution.

Also unusual was the inclusion of a dissent. According to the dissent, the majority relied upon argument and evidence that were not present in the petition. In particular, the dissent noted that AVX's petition, by advancing a claim construction without any "very thin" limitation, "gives short shrift" to showing anticipation under a claim construction requiring the "lamination delamination gap" to be "very thin." The dissent also pointed out that the petitioner's rehearing petition advanced a new argument, to the effect that the primary prior art reference disclosed the "laminar delamination gap" by describing certain gaps as "minute." The dissent also noted the inclusion in the rehearing motion of an annotated version of a drawing from the primary prior art reference, the annotations being absent in the original petition. The majority, however, considered the visual annotations to effectively correspond to the arguments in the petition without constituting new argument or evidence.

**AIA / IPR / Jurisdiction**

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**PTAB EXERCISES EXCLUSIVE JURISDICTION OVER PATENTS INVOLVED IN IPR**

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*Alarm.com Inc. v. Vivint, Inc.*, Case IPR2015-01995 (PTAB, Jan. 28, 2016) (Boudreau, APJ)

Addressing the issue of jurisdiction during an *inter partes* review (IPR), the US Patent and Trademark Office's Patent Trial and Appeal Board (PTAB or Board) exercised exclusive jurisdiction over several requests for certificates of correction, which were filed after IPR petitions had already been filed. *Alarm.com Inc. v. Vivint, Inc.*, Case IPR2015-01995 (PTAB, Jan. 28, 2016) (Boudreau, APJ).

The petitioner, Alarm.com Inc., filed nine IPR petitions seeking review of certain claims in four patents owned by the patent owner, Vivint. After the petitions were filed, the patent owner filed requests for certificates of correction with respect to each of the four patents. The patent owner did not request authorization from the Board prior to filing the requests and did not notify the Board upon their filing. Instead, the patent owner filed preliminary responses in four of the IPR proceedings and referenced the corresponding requests for certificates of correction.

Because the requests were filed after the petitions, the Board exercised jurisdiction over the patent owner's requests for certificates of correction in the related proceedings and stayed the requests pending the decision on institution in the related proceedings. The Board ordered that, for any claims for which correction is sought and for which IPR is instituted, consideration of the requests by the Certificate of Correction Branch would be stayed during the pendency of trial. During trial, the Board would make a determination whether or not the certificates of correction should be granted. If the Board determines not to institute review of any claims for which correction is sought, the patent owner's requests would be returned to the Certificate of Correction Branch for further action.

The Board distinguished the patent owner's requests from non-precedential decisions granting requests relating to certificates of correction. The Board noted that such requests had previously been granted when a patent owner sought authorization from the Board prior to filing a request or motion; when a patent owner sought to correct a claim not involved in an IPR proceeding; when a patent owner sought correction of an error by the USPTO, rather than by the patentee; and when a patent owner merely sought to file a copy of a certificate of correction that issued from a request filed before the petition was filed.

## IPR INSTITUTION / REAL PARTIES IN INTEREST

**AIA / IPR / Real Party-in-Interest****BOARD TO PETITIONER: NO RPI, NO IPR**

*Corning Optical Comm's RF, LLC v. PPC Broadband, Inc.*, IPR2014-00440, -00441, -00736 (PTAB, Dec. 9, 2015) (Bonilla, APJ.); *Mako Surgical Corp. v. Blue Belt Techs., Inc.*, Case IPR2015-00630 (PTAB, Dec. 17, 2015) (Medley, APJ).

In two separate *inter partes* reviews addressing the requirement to disclose the real-parties-in-interest (RPI), the Patent Trial and Appeal Board (PTAB or Board) explained that although it is unreasonable to require the petitioner to name all of the patent owner's real-parties-in-interest, it must include all of the petitioner's real-parties-in-interest in the petition. *Corning Optical Comm's RF, LLC v. PPC Broadband, Inc.*, IPR2014-00440, -00441, -00736 (PTAB, Dec. 9, 2015); (Bonilla, APJ.); *Mako Surgical Corp. v. Blue Belt Techs., Inc.*, Case IPR2015-00630 (PTAB, Dec. 17, 2015); (Medley, APJ). In *Corning*, Petitioner Corning Optical filed three IPRs against the patent owner, PPC Broadband. In those petitions, the petitioner failed to list its parent and sister companies as real parties-in-interest. The patent owner did not initially raise the issue, and the IPRs were instituted. After the close of discovery the patent owner moved for (and was granted) additional discovery regarding whether the parent and sister company of the petitioner should have been listed as RPIs. After discovery, the patent owner moved to dismiss the IPRs. In its opposition, the petitioner maintained that the unnamed companies were not RPIs and argued that a failure to name all RPIs did not necessitate dismissal and, in any event, did not require rescinding the filing dates of the petitions. Although the petitioner's opposition suggested that "even if the Board finds that a non-named party is an RPI, Petitioner should be permitted to amend its Petition and retain its filing date," it never formally moved for such leave. The Board granted the patent owner's motion, dismissed the IPRs, and vacated its Decisions to Institute.

The petitioner filed a Request for Rehearing, alleging that the Board abused its discretion by granting the motion to dismiss. In support of its request, the petitioner argued that the Board committed legal error in assigning the burden of proof, misapprehended evidence relating the RPI inquiry and ought to permit the petitioner to amend its petitions in the interest of justice. The Board was not persuaded. With respect to the burden of proof, the Board explained that, although the ultimate burden of proof was with the patent owner, once the patent owner came forward with sufficient evidence regarding the RPI issue, the petitioner had an opportunity to "produc[e] additional evidence and present [ . . . ] persuasive argument based on new evidence or evidence already of record" in its opposition. With respect to the merits of the evidence, the Board concluded that it had properly considered all the evidence raised in the petitioner's Opposition to the Motion to Dismiss and continued to find it unpersuasive. As for the interest of justice, the Board noted that the petitioner's continued failure to move for leave to correct its petitions, even after all of the facts regarding RPI were in the record, suggested that the petitioner made a strategic decision not to correct the RPI. Even in the absence of any evidence of bad faith, the Board concluded that this was an error of law on petitioner's part that properly mandated dismissal under the Board's relevant decisions and § 312(a)(2).

Next in *Mako Surgical Corp.*, the petitioner Mako Surgical filed an IPR petition challenging certain claims of a patent directed to facilitating the implantation of an artificial component into an anatomical joint. The petition identified Blue Belt as the patent owner and also disclosed a pending litigation between the petitioner and Blue Belt related to the same patent. As part of its mandatory notice under 37 C.F.R. § 42.8, Blue Belt disclosed that it was the exclusive licensee of the patent at issue and identified Carnegie Mellon University (Carnegie Mellon) as the patent owner. The mandatory notice further identified counsel for Carnegie Mellon as backup counsel in the IPR. The Board instituted the IPR on all challenged claims.

After institution, Blue Belt filed its preliminary response and, on the same day, filed a contingent motion to amend each of the challenged claims if the Board did not terminate the IPR proceeding for failure to name Carnegie Mellon as a real-party-in-interest or based on the merits of the case. The contingent motion to amend was expressly joined by Carnegie Mellon.

Blue Belt also sought authorization to file a motion to terminate the IPR due to the petitioner's failure to name Carnegie Mellon as a real-party-in-interest. The Board denied authorization, explaining that § 312(a)(2) only requires that the petitioner identify all of *its* real parties in interest, not those of the patent owner. This position is further buttressed by 42 C.F.R. § 42.8, which requires each party to identify its own real-parties-in-interest in mandatory notices. According to the Board, the patent owner is in the best position to inform the Board of its real parties in interest, and the same is true for the petitioner. It would be unreasonable, the Board explained, to require the petitioner to name all of the patent owner's real-parties-in-interest. In this

case, Blue Belt named Carnegie Mellon as a real-party-in-interest in its mandatory notice, identified counsel for Carnegie Mellon as back-up counsel in the IPR, and it filed a contingent motion to amend that was joined by Carnegie Mellon. Thus, for purpose of the present IPR proceeding, the record was clear with respect to the real-parties-in-interest.

The Board also clarified that institution of an IPR is based on the likelihood of unpatentability of a patent's claims, independent of who actually owns the patent. Indeed, not even a change in ownership of the patent over the course of an IPR proceeding or settlement between the parties are detrimental to the Board's decision on whether to issue a final written decision on patentability.

**AIA / IPR / Real Parties in Interest****RETROACTIVE ESTOPPEL: ACTING AS REAL PARTY IN INTEREST MAY IMPORT ESTOPPEL EFFECTS FROM EARLIER-FILED PETITIONS**

*Kofax, Inc. v. Uniloc USA, Inc.*, Case No. IPR2015-1207 (PTAB, July 20, 2016) (Praiss, APJ)

In a decision that could significantly extend the estoppel effects of 35 USC § 315(e), the Patent Trial and Appeal Board (PTAB or Board) found that estoppel applies to all real parties in interest of an *inter partes* review (IPR) petition if even one of those petitioners was also party to an earlier-filed petition resulting in a final written decision. *Kofax, Inc. v. Uniloc USA, Inc.*, Case No. IPR2015-1207 (PTAB, July 20, 2016) (Praiss, APJ).

Section 315(e) states that a “petitioner in an *inter partes* review of a claim in a patent under this chapter that results in a final written decision . . . may not request or maintain a proceeding before the Office with respect to that claim on any ground that the petitioner raised or reasonably could have raised during that *inter partes* review.” This provision extends to any “real party in interest or privy of the petitioner.”

This case arises out of a series of IPR petitions challenging the same patent. The earliest such petition – IPR2014-1453 – listed Sega, Ubisoft, Kofax and Cambium Learning Group as petitioners. The PTAB instituted a trial on the 1453 petition. While the 1453 trial was pending, Kofax filed a second petition, IPR2015-1207, for the same patent (the Kofax petition). Kofax was the only listed petitioner. After the PTAB instituted trial on the Kofax petition, Ubisoft, Zebra Technologies and Cambium filed a follow-on petition and requested joinder.

Before resolving the joinder motion and before issuing a final decision on the Kofax petition, the PTAB issued a final written decision in the earlier-filed 1453 petition. Subsequently, the PTAB dismissed the Kofax petition, determining that under § 315(e), Kofax was estopped from maintaining its petition because it could have raised these grounds in the earlier-filed 1453 petition. Estoppel also applied to Ubisoft and Cambium as real parties in interest to the 1453 petition. Although Zebra was not itself a petitioner in the earlier 1453 proceeding, the PTAB found that estoppel also applied to Zebra because Zebra was a real party in interest with Ubisoft and Cambium in the follow-on petition.

The PTAB was not persuaded by Zebra’s argument that estoppel should be limited to petitioners and real parties in interest to proceedings that result in a final decision. The PTAB explained that § 315(e) does not contain any “temporal limitation for real parties in interest or privies of a petition,” and so the estoppel provisions also extend to all real parties in interest of petitioners in the earlier proceeding. According to the PTAB, Zebra’s eventual status as a real party in interest to a now-estopped petitioner would bring the same estoppel effect as if Zebra had itself been listed as a real party in interest in the earlier-filed 1453 petition. The PTAB also denied that Zebra was deprived of its due process rights, explaining that Zebra “had the opportunity to address [in the follow-on] proceedings the effect of estoppel in view of the final written decision in IPR2014-01453.”

**Patents / AIA / IPR / Appellate Review****PTAB RULINGS ON § 315(B) TIME-BAR, ASSIGNOR ESTOPPEL ARE NON-APPEALABLE**

*Wi-Fi One, LLC v. Broadcom Corp.*, Case No. 15-1944 (Fed. Cir., Sept. 16, 2016) (Bryson, J) (Reyna, J, concurring); *Husky Injection Molding Systems v. Athena Automation Ltd.*, Case Nos. 15-1726; -1727 (Fed. Cir., Sept. 23, 2016) (Lourie, J) (Plager, J, concurring in part and dissenting in part)

The US Court of Appeals for the Federal Circuit held that appellate review is not permissible for Patent Trial and Appeal Board (PTAB or Board) rulings on time-bar of an *inter partes* review (IPR) petition under § 315(b) or on assignor estoppel, based on § 314(d) and the Supreme Court of the United States' recent ruling in *Cuozzo Speed Technologies, LLC v. Lee*. *Wi-Fi One, LLC v. Broadcom Corp.*, Case No. 15-1944 (Fed. Cir., Sept. 16, 2016) (Bryson, J) (Reyna, J, concurring); *Husky Injection Molding Systems v. Athena Automation Ltd.*, Case Nos. 15-1726; -1727 (Fed. Cir., Sept. 23, 2016) (Lourie, J) (Plager, J, concurring in part and dissenting in part).

In *Wi-Fi One*, the Federal Circuit reaffirmed its decision in *Achates Reference Publishing v. Apple Inc.*, which stated that § 314(d) prohibits the Court from reviewing the PTAB's determination to initiate IPR proceedings based on its assessment of the time-bar of § 315(b), even if such assessment is reconsidered during the merits phase of the proceeding and restated as part of the PTAB's final written decision. The Federal Circuit found that *Cuozzo* did not implicitly overrule *Achates*, as the time-bar provision of § 315 does not fall into any of the three categories that were found to be explicitly reviewable in *Cuozzo*. Specifically, the § 315 time-bar provision does not fall into *Cuozzo's* first category because it does not implicate a constitutional concern, such as due process. In addition, the time-bar provision does not fall into *Cuozzo's* second or third categories because it is a question that is closely tied to the application and interpretation of a statute that is related to the PTAB's decision to initiate an IPR proceeding. The Federal Circuit also rejected the argument that *Cuozzo* limited the rule of preclusion to substantive patentability determinations made at the institution stage. The Federal Circuit therefore concluded that the PTAB's determination of whether an IPR petition is time-barred under § 315(b) is non-appealable.

Judge Reyna concurred in the decision based on the facts in the *Wi-Fi One* case but opined that the Federal Circuit's decision in *Achates* should be reconsidered *en banc*. In particular, Reyna believes that a legal distinction exists between an "institution" decision and a final decision. As such, a final decision concerning the time-bar provision of § 315 should be subject to review.

Similarly, in *Husky Injection Molding Systems*, the Federal Circuit found that the PTAB's decision on assignor estoppel is non-appealable. The Federal Circuit first considered whether the PTAB's decision on assignor estoppel falls into any of the three categories that were found to be explicitly reviewable in *Cuozzo*. Specifically, the Court concluded that assignor estoppel does not fall into *Cuozzo's* first category because it does not implicate a constitutional concern, such as due process. Assignor estoppel does not fall into *Cuozzo's* second category because it is not derived from a statute and thus cannot depend on other less closely related statutes. Finally, assignor estoppel does not fall into *Cuozzo's* third category because it does not present issues that are well beyond the PTAB's decision to initiate an IPR proceeding. The Federal Circuit then considered whether assignor estoppel relates to the PTAB's ultimate invalidation authority. The Court found that it did not, because, like the time-bar provision of § 315, the PTAB can still invalidate a claim based on a properly filed petition. The Federal Circuit therefore determined that the PTAB's decision on assignor estoppel is non-appealable.

Judge Plager dissented in *Husky Injection Molding*, arguing that decisions regarding assignor estoppel should be reviewable. Plager based his argument on the fact that the assignor estoppel could fall into *Cuozzo's* second category because it operates in connection with § 311, which could be considered less closely related to the decision to initiate an IPR proceeding. Alternatively, Plager argued that assignor estoppel could fall into *Cuozzo's* third category to the extent it presents questions of interpretation that reach beyond § 314.

## PGR

**AIA / Post-Grant Review (PGR)****IN FIRST SET OF POST-GRANT REVIEW DECISIONS, PTAB STRIKES DOWN PATENTS BASED ON ALICE**

*American Simmental Association v. Leachman Cattle of Colorado, LLC*, Case Nos. PGR-2015-00003; -00005 (PTAB, June 13, 2016) (Kim, APJ)

Addressing for the first time the issue of patent validity in the context of an America Invents Act post-grant review, the Patent Trial and Appeal Board (PTAB or Board) invalidated two livestock patents as unpatentable under § 101. *American Simmental Association v. Leachman Cattle of Colorado, LLC*, Case Nos. PGR-2015-00003; -00005 (PTAB, June 13, 2016) (Kim, APJ).

The patents at issue were directed to computer-implemented methods of evaluating the relative market value of livestock based on genetic quality considerations. In both cases, the patent owner argued that the patents were subject matter eligible under *Alice*, but also provided proposed amended claims that purported to cure any alleged § 101 deficiency. The PTAB rejected both arguments and further noted certain procedural imperfections in the patent owner's requests to amend the claims.

The PTAB began its § 101 analysis by applying the first step of the *Alice* test, which requires a determination of "whether the claim is 'directed to' a patent-ineligible abstract idea." On that issue, the PTAB concluded that the claims were directed to an abstract idea: namely, the fundamental principle of "determining an animal's relative economic value based on its genetic and physical traits."

The PTAB then turned to step two of the *Alice* test, which requires a "search for an 'inventive concept'—an element or combination of elements sufficient to ensure that the claim amounts to 'significantly more' than the abstract idea itself." Finding that the "significantly more" requirement had not been met, the PTAB explained that "all computer recitations in the challenged claims are recitations to generic computer hardware used in a conventional manner, which are insufficient to impart patentability under *Alice*." The patentee argued that "the claimed invention involves novel technical software that 'transforms genetic and performance information associated with the sale group into a dynamically-generated [sic] scorecard available to users on-demand.'" The PTAB rejected this argument, explaining that "the recitation of software in the claim . . . is at a highly abstract level" because the claims require only "taking in and outputting data, with no detail as to how that data is manipulated between input and output." Without such detail, the claims recite no more than simply "applying to software" the fundamental concept of "determining an animal's relative economic value based on its genetic and physical traits."

Turning to the patent owner's motions to amend, the PTAB explained that in post-grant review proceedings, the patent owner "has the burden of proving patentability of a proposed substitute claim." To meet this burden, "at a minimum" two requirements must be satisfied: (1) "the substitute claims [must] overcome all the grounds under which" the claims were found unpatentable, and (2) the patent owner's request must "meet all the procedural requirements concerning motions to amend set forth in [the] rules." In both cases, the patent owner failed to meet its burden on all claims from a substantive standpoint and on a subset of claims from a procedural standpoint.

With respect to the '005 case, the PTAB found that the patent owner failed to properly construe a new claim term as required for substitute claims. The PTAB explained that "when there is no clear relationship between claim language and the patent specification, it is incumbent on Patent Owner to provide either a claim construction or explanation to bridge the apparent gap." In the '003 case, the patent owner's proposed substitute claim did not include all of the limitations of the original claim, which was improper because the rules do not permit "enlarg[ing] the scope of the claims of the patent or introduc[ing] new matter." The PTAB elaborated that because "the natural inference is that removal of claim language is broadening . . . it was incumbent on Patent Owner to explain the justification for the removal of the claim language."



***AIA / PGR / Subject Matter Eligibility***

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**POST-GRANT REVIEW MAY BE USED TO INVALIDATE PATENTS DIRECTED TO PATENT-INELIGIBLE SUBJECT MATTER**

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*Netsirv v. Boxbee, Inc.*, Case No. PGR2015-00009 (PTAB, Aug. 2, 2016) (Saindon, APJ)

Addressing patent-eligible subject matter issues, the Patent Trial and Appeal Board (PTAB or Board) issued a final written decision in a post-grant review (PGR) finding all claims of a newly issued patent unpatentable under 35 USC § 101. *Netsirv v. Boxbee, Inc.*, Case No. PGR2015-00009 (PTAB, Aug. 2, 2016) (Saindon, APJ).

Netsirv filed a petition requesting PGR of all claims of an America Invents Act (AIA) patent directed to storage container tracking and delivery in the physical storage field. The PTAB instituted the PGR solely to determine whether the claims were unpatentable as being directed to patent-ineligible subject matter under § 101.

Under the *Alice* framework, the PTAB first determined that the claims were directed to an abstract idea: a bailment scheme using storage containers. The PTAB found that such bailment schemes have long been a prevalent economic practice and constitute an abstract idea. The PTAB also acknowledged the *Enfish* case, which explained that not all claims directed to improvements in computer-related technology are abstract, but found that because the claims merely used the computer as a tool and were not directed to the functionality of the computer itself, it was proper to proceed to the second step of the *Alice* test.

Under the second step, the PTAB analyzed the claims to determine whether they recited something significantly more than the abstract idea. In this case, the PTAB found that the claims only recited basic data operations and the mundane transfer and storage of data. Furthermore, the PTAB found nothing inventive in the nature of the data passed between computers. Hence, the PTAB concluded that the claims were directed to nothing more than a computerized application of a bailment scheme using storage containers.

## TRADEMARKS/TRADE SECRETS

### DEFEND TRADE SECRETS ACT

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#### *Trade Secrets / DTSA*

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## **THE NEW FEDERALIZATION OF TRADE SECRET LAW – WHAT YOU SHOULD KNOW ABOUT THE DTSA**

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### Defend Trade Secrets of 2016

On May 11, 2016, the Defend Trade Secrets Act of 2016 (DTSA) officially became law, creating for the first time a federal private civil cause of action for misappropriation of trade secrets. The DTSA is actually an amendment to the Economic Espionage Act, which was passed 20 years ago and provides for criminal prosecution of trade secret theft.

Prior to the DTSA, civil actions for trade secret misappropriation were governed solely by state law. Over the years, 48 out of 50 states have adopted some form of the Uniform Trade Secrets Act (UTSA). The two exceptions are Massachusetts, which adopted its own trade secret statute distinct from the UTSA, and New York, which has relied on common law alone.

Many viewed this state-by-state approach as inadequate. The application of state-specific nuances in the law led to unpredictability, and the lack of federal law governing conduct that increasingly involved interstate or foreign activities caused jurisdictional and choice-of-law issues, including concerns that US companies had insufficient recourse against trade secret thieves operating overseas. In such cases, access to federal courts was not automatic. Such access required either diversity of citizenship or supplemental jurisdiction based on another asserted claim arising under federal law.

In view of these concerns, Congress has proposed various federal trade secrets bills over the past several years. Finally, with broad bipartisan support, the DTSA passed in spring 2016.

Importantly, the DTSA does not preempt state trade secret misappropriation laws. Parties may still pursue claims based on state law. But in cases with a nexus to interstate commerce, plaintiffs also will have access to the new federal statutory regime. Some parties have argued that having access to both state and federal causes of action may actually create complexity rather than engendering a more harmonized body of law, but that remains to be seen. Based on the substantial overlap in the DTSA's and the UTSA's definitions of "trade secret" and "misappropriation," one might expect that DTSA and UTSA claims in the same case will not differ much from a substantive perspective. Likewise, DTSA remedies are similar to UTSA remedies: injunctive relief, compensatory damages (in the form of actual damages, unjust enrichment or reasonable royalties), enhanced damages for willful and malicious misappropriation (capped at two times compensatory damages), and attorneys' fees (in cases involving bad faith or willful and malicious conduct). Nonetheless, there are differences between the DTSA and the UTSA, and having a new federal cause of action available should compel plaintiffs to weigh carefully which claim or claims to pursue, and where to file such claim.

A key feature of the DTSA that has received significant attention is the *ex parte* seizure provision, 18 USC § 1836(b)(2), which is a new remedy not available under state versions of the UTSA, although UTSA plaintiffs may have had similar vehicles of relief, such as a temporary restraining order. Under the DTSA, per a plaintiff's expedited, unilateral request, courts may order law enforcement to seize property "necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action." This procedure is intended only for emergency situations to prevent or mitigate immediate and irreparable injury when less severe procedures would be ineffective. Indeed, this provision requires "extraordinary circumstances" and, if abused, can result in damages against the seizing party. To that end, the movant must post a bond sufficient to cover such damages if the seizure was unwarranted.

In addition, satisfying the threshold requirements for an *ex parte* seizure is not easy. A plaintiff must prove that the defendant actually possesses the misappropriated information and must identify "with reasonable particularity" the property to be seized and its location. Once seized, that property remains safeguarded by the court pending an expedited hearing on the propriety of the seizure.

Another key aspect of the DTSA remedies provision is the inclusion of employee mobility protections similar to protections in states that reject the “inevitable disclosure” doctrine. Section 1836(b)(3)(A)(i) restricts injunctive relief that would “prevent a person from entering into an employment relationship,” requiring that such relief be “based on evidence of threatened misappropriation and not merely on the information the person knows.” Notably, the law explicitly seeks to avoid conflicts with existing state employment laws—an area where disputes are expected to arise given that the DTSA is likely to be asserted against former employees.

Yet another employee protection of the DTSA is the immunity provided to whistleblowers who might disclose confidential information when reporting unlawful activities to government officials or as part of an anti-retaliation lawsuit. Under § 1833(b), employers are required to provide notice to employees of this immunity protection in any agreement governing the use of trade secret or other confidential information. As a result, it is important for companies to review and, if necessary, modify their standard employment and non-disclosure agreements to bring them into compliance with the DTSA.

The DTSA is silent on whether the plaintiff must first identify its asserted trade secrets with reasonable particularity before conducting any discovery. This is a fundamental statutory protection for defendants in certain states, such as California. Federal courts have grappled with whether this provision (Cal. Civ. P. Code § 2019.210) is applicable in federal cases under the *Erie* doctrine.

The DTSA recognizes the great economic harm inflicted on US businesses by theft of trade secrets, particularly by overseas entities. The law requires the US Attorney General and other agencies to report to Congress (within the next year and biannually thereafter) on the breadth and extent of this threat, as well as on any hurdles preventing trade secret owners from avoiding misappropriation by foreign actors and recommendations for further reducing the threat. At a time when many innovators are carefully evaluating whether to guard their intellectual property as trade secrets or patents (particularly in view of legal developments that have invalidated many patents), this new law signals that trade secret protection in the United States is becoming more muscular.

## JURISDICTION

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### *Trade Secrets / Federal Jurisdiction*

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## **NO WAIVER OF FORUM SELECTION CLAUSE DESPITE FILING DECLARATORY JUDGMENT ACTION IN NON-SELECTED FORUM**

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*Wellogix, Inc. v. SAP America, Inc. et al.*, Case No. 15-20184 (5th Cir., May 12, 2016) (per curium) (non-precedential)

Addressing waiver of a contractual forum selection clause, the US Court of Appeals for the Fifth Circuit affirmed a lower court's enforcement of the clause and subsequent dismissal of a trade secrets case, finding that the filing of a declaratory judgment action in a non-selected forum did not waive the party's right to enforce the forum-selection clause. *Wellogix, Inc. v. SAP America, Inc. et al.*, Case No. 15-20184 (5th Cir., May 12, 2016) (*per curium*) (non-precedential).

Wellogix and SAP entered into a license agreement to integrate the two companies' purchase-to-pay software functionalities for the oil and gas industry. The agreement governed the confidentiality of Wellogix's trade secrets and included a forum selection clause, which specified Germany as "[t]he place of jurisdiction for all disputes arising between the parties out of or in connection with [the agreement]."

According to Wellogix, shortly after entering into the agreement, SAP misappropriated Wellogix's confidential technology and used it to perform work under agreements with SAP's other business partners and customers. Wellogix consequently filed a trade secrets theft claim against SAP in Texas state court, which was removed to the US District Court for the Southern District of Texas. The district court dismissed Wellogix's trade secret claims for *forum non conveniens*, holding that the forum selection clause of the license agreement was mandatory and enforceable, and all of Wellogix's claims against SAP were properly decided in Germany.

Several years later, SAP filed a complaint for declaratory relief against Wellogix in the same district, seeking a declaration of non-infringement and invalidity of five of Wellogix's patents. Wellogix responded with counterclaims for patent infringement and, again, trade secrets theft. SAP moved for summary judgment to dismiss Wellogix's trade secrets claims based on the forum selection clause. The Southern District of Texas again enforced the clause and granted dismissal for *forum non conveniens*.

Unsatisfied with this ruling, Wellogix filed a post-judgment motion arguing, for the first time, that diversity jurisdiction did not exist. The district court concluded that Wellogix had litigated "without breathing any jurisdictional doubts" and thus it retained supplemental jurisdiction to affirm the dismissal. Wellogix appealed to the Fifth Circuit, arguing that the district court lacked supplemental jurisdiction and, alternatively, that SAP waived its right under the forum selection clause by filing the declaratory relief action.

The Fifth Circuit found neither of Wellogix's arguments persuasive. First, a federal court may dismiss a case for *forum non conveniens* without having to resolve any threshold jurisdictional issues where a foreign tribunal is "plainly the more suitable arbiter of the merits of the case." The district court thus did not abuse its discretion by enforcing the forum selection clause. Second, under both federal and Texas state law, SAP's declaratory relief action did not waive the clause either intentionally or by litigating contrary to the clause to prejudice Wellogix. SAP had consistently asserted and successfully enforced the clause in prior litigation with Wellogix. Further, while a party may waive its rights if it substantially invokes the judicial process in aspersion of a forum selection clause, causing detriment or prejudice to the other party, such facts were not before the Fifth Circuit. Indeed, SAP's declaratory relief action was necessitated by Wellogix's threat of infringement litigation in the Southern District of Texas. Moreover, Wellogix did not provide argument that any of SAP's subjective or objective conduct satisfied the waiver standard, and neither did it allege any prejudice.

## ATTORNEYS' FEES

*Trademarks / Award of Attorneys' Fees***EXTENDING THE REACH OF OCTANE FITNESS UNDER THE LANHAM ACT**

*Baker v. DeShong*, Case No. 14-11157 (5th Cir., May 3, 2016) (Stewart, J)

The US Court of Appeals for the Fifth Circuit adopted and applied the Supreme Court of the United States' rationale for an award of attorneys' fees in patent cases to a trademark case. In doing so, the Fifth Circuit aligned its interpretation of what constitutes an "exceptional" case under the Trademark Law (15 USC § 1117) with the meaning of an "exceptional" case under the Patent Laws (35 USC § 285). *Baker v. DeShong*, Case No. 14-11157 (5th Cir., May 3, 2016) (Stewart, J).

Clark Baker is a private investigator and former police officer who is CEO of the Office of Medical and Scientific Justice, Inc. (OMSJ). OMSJ identifies as a nonprofit corporation dedicated to investigating medical and scientific corruption cases. Through its websites, OMSJ markets services to defend individuals accused of concealing their HIV-positive status and subsequently transmitting the disease to uninfected individuals.

Jeffrey DeShong launched two websites critical of OMSJ: [www.hivinnocencegrouptruth.com](http://www.hivinnocencegrouptruth.com) and [www.hivinnocenceprojecttruth.com](http://www.hivinnocenceprojecttruth.com). DeShong acknowledged that his websites were created to deconstruct information posted on OMSJ's "HIV Innocence Group" website, and in particular to rebut what he considered OMSJ's false research and misrepresentations surrounding HIV and AIDS.

After DeShong launched the websites, Baker and OMSJ filed suit alleging trademark infringement under the Lanham Act and Texas state law claims for trademark infringement, defamation, and business disparagement. The district court dismissed the Lanham Act claims, finding that even if the allegations were accepted as true, a reasonable person could not confuse the content on DeShong's website with the OMSJ "HIV Innocence Group" trademark. The district court then declined to exercise jurisdiction over the state law claims. Eventually DeShong, through *pro bono* counsel, moved for attorneys' fees under § 1117(a) of the Lanham Act. The district court applied the Fifth Circuit's standard requiring clear and convincing evidence that a case be brought in bad faith in order to be deemed exceptional and denied an award of fees. DeShong appealed, arguing that the Supreme Court's 2014 decision in *Octane Fitness, LLC v. Icon Health and Fitness, Inc.* should control.

On appeal, the Fifth Circuit agreed with DeShong and adopted the *Octane Fitness* approach to awarding fees for an exceptional case. The Fifth Circuit identified the parallels between its previous bad faith standard and the US Court of Appeals for the Federal Circuit's previous two-part test, both of which had required a showing by clear and convincing evidence. The Fifth Circuit reasoned that the *Octane Fitness* approach was further warranted because the text of § 1117(a) of the Lanham Act is identical to the corresponding text in § 285 of the Patent Act (stating that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party"). In view of the similarity of the statutory language, the Fifth Circuit concluded that Congress intended the language to have the same meaning in both statutes. Accordingly, the Fifth Circuit concluded that an "exceptional" case under the Lanham Act is a case that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.

The applicable standard for a finding of an exceptional case in a trademark case is flexible, similar to the patent context, and defers to the discretion of a district court without requiring a rigid assessment of culpable conduct. An exceptional case need not be established through clear and convincing evidence; only preponderance is required. Going forward, district courts in the Fifth Circuit should address requests to award attorneys' fees under the Lanham Act on a case-by-case basis that considers the totality of the circumstances.

**Trademarks / Attorneys' Fees****NINTH CIRCUIT JOINS OCTANE FITNESS TREND FOR TRADEMARK CASES**

*SunEarth, Inc. v. Sun Earth Solar Power*, Case Nos. 13-17622; 15-16096 (9th Cir., Oct. 24, 2016) (Wilken, J)

In 2014, the Supreme Court of the United States issued its ruling in *Octane Fitness*, in which it examined the fee-shifting provision of the Patent Act and clarified the types of “exceptional” cases that would allow a court to award reasonable attorneys’ fees to the prevailing party. Instead of requiring bad faith or malicious conduct on the part of a losing patent litigant, *Octane Fitness* adopted a “totality of the circumstances” analysis, under which a prevailing party must show that a case is “exceptional” by a preponderance of the evidence. Although *Octane Fitness* was an interpretation of the Patent Act only, litigants and courts were quick to acknowledge that the language of the fee-shifting provision in the Lanham Act is “parallel and identical” to its patent counterpart. Almost immediately, district courts began examining fee awards in trademark cases under the new standard, and the US Courts of Appeals for the Third through Sixth Circuits adopted the *Octane Fitness* approach to those trademark disputes.

Now, an *en banc* panel of the US Court of Appeals for the Ninth Circuit has vacated an earlier panel ruling that affirmed a district court’s refusal to award attorneys’ fees sought by the prevailing party in a trademark dispute, stating that it was joining “the majority of our sister circuits” in concluding that *Octane Fitness* has altered the analysis of fee applications under the Lanham Act. *SunEarth, Inc. v. Sun Earth Solar Power*, Case Nos. 13-17622; 15-16096 (9th Cir., Oct. 24, 2016) (Wilken, J). The Court also applied the Supreme Court’s decision in *Highmark*, confirming that courts of appeal should review a district court’s award of fees for abuse of discretion instead of *de novo*.

The *SunEarth* appeal stems from a dispute over the scope and violation of an injunction pertaining to Sun Earth Solar Power and its subsidiary, NBSolar USA (collectively, SESP), regarding infringing use of the SUN EARTH trademark in the solar products space. When SunEarth, Inc., filed suit against SESP for violating the injunction through infringing activity, SunEarth requested attorneys’ fees under the Lanham Act’s “exceptional case” provision. The district court and the Ninth Circuit each concluded that the case was not exceptional because “SESP’s infringing conduct was the result of a negligent failure to investigate, not ‘malicious, fraudulent, deliberate, or willful’ infringement.” The original Ninth Circuit panel stated that it was bound to the more restrictive pre-*Octane Fitness* standard in view of a 2015 decision issued by the court in which the stricter standard was reiterated.

The *en banc* panel, however, focused on the need to interpret the fee-shifting provisions in the Patent Act and the Lanham Act “in tandem.” The Ninth Circuit now requires that district courts analyze a request for fees under the Lanham Act to examine the totality of the circumstances to determine if the case is exceptional. The Court confirmed that the Supreme Court’s non-exclusive *Octane Fitness* factors for assessing exceptional cases—such as frivolousness, motivation and objection unreasonableness in both the factual and legal components of the case—should be examined. With that guidance, the case was returned to the three-judge appellate panel to address the remaining issues.

**DAMAGES****Trademarks / Damages****WILLFULNESS REMAINS PREREQUISITE TO AWARD OF INFRINGER'S PROFITS**

*Romag Fasteners, Inc. v. Fossil, Inc., et al.*, Case Nos. 14-1856; -1857 (Fed. Cir., Mar. 31, 2016) (Dyk, J)

Addressing whether willfulness is a prerequisite to an award of a trademark infringer's profits, the US Court of Appeals for the Federal Circuit affirmed the district court's decision that absent a finding of willful infringement, the plaintiff was not entitled to an award of the defendant's profits earned from sales of infringing products. *Romag Fasteners, Inc. v. Fossil, Inc., et al.*, Case Nos. 14-1856; -1857 (Fed. Cir., Mar. 31, 2016) (Dyk, J).

Romag sells magnetic snap fasteners under its ROMAG registered trademark. Fossil sells handbags and small leather goods that are made by its authorized manufacturers and include ROMAG fasteners through an agreement with Romag. When Romag discovered that one of Fossil's authorized manufacturers had used counterfeit ROMAG fasteners in its products, Romag sued Fossil for trademark infringement, false designation of origin, and related state law claims.

After a seven-day trial, a jury found that Fossil had not willfully infringed the ROMAG trademark, but nevertheless made an advisory award of almost \$7 million of Fossil's profits. The district court held that Romag was not entitled to an award of Fossil's profits because the infringement was not willful. Romag appealed.

On appeal, the Federal Circuit reviewed the history of Lanham Act § 35(a) and the split among the circuits regarding whether proof of willfulness is necessary for an award of an infringer's profits. Prior to the 1999 amendments to the Lanham Act, several courts of appeal (the Second Circuit in *George Basch v. Blue Coral, Inc.*, along with the Third, 10th and District of Columbia Circuits) held that willfulness was required to recover an infringer's profits, while others (the Fifth, Sixth, Seventh and 11th Circuits) held that willfulness was not a prerequisite to such an award. The 1999 amendments to the Lanham Act added language to make the monetary remedies of § 1117(a) available only for "willful" trademark *dilution* under § 1125(c). Since the 1999 amendments, several courts of appeal (the First, Ninth and 10th Circuits) have held that willfulness remains a requirement for an award of profits for trademark *infringement* under § 1117(a), while others (the Third, Fourth, Fifth and Sixth Circuits) have found that the amendments show that Congress intended to remove any willfulness requirement for an award of profits for trademark *infringement*.

In light of the 1999 amendments, Romag argued that willfulness was not a requirement in the Second Circuit for an award of Fossil's profits. The Federal Circuit was not persuaded, reasoning that nothing in the 1999 amendments upset the Second Circuit's 1992 *Basch* decision. The Federal Circuit found that neither the plain text nor the legislative history of the amendments demonstrated that Congress intended to change the willfulness requirement for an award of damages under § 1117(a), let alone address the split among the circuits on this issue. The Federal Circuit found further support in the Second Circuit's 2014 decision in *Merck Eprova AG v. Gnosis S.p.A.*, which restated the Second Circuit's rule that willfulness is a prerequisite for awarding profits.

Petition for *certiorari* was filed on Aug. 12, 2016 and distributed for the Supreme Court's November 22, 2016 Conference. The petition remains pending.

**DISPARAGEMENT*****Cert Alert / Trademarks / Disparagement*****SUPREME COURT TO REVIEW REGISTRABILITY OF DISPARAGING TRADEMARKS**

*Lee v. Tam*, Docket No. 15-1293 (Sup. Ct., Sept. 29, 2016) (*certiorari* granted)

On September 29, 2016, the Supreme Court of the United States granted a petition for *certiorari* to consider the constitutionality of a provision of the US trademark laws directed to the registrability of disparaging trademarks. *Lee v. Tam*, Docket No. 15-1293 (Sup. Ct., Sept. 29, 2016) (*certiorari* granted). Argument is set for Jan. 18, 2017.

The sole question presented is whether the disparagement provision of the Lanham Act, 15 USC § 1052(a), which provides that no trademark shall be refused registration on account of its nature unless, among other things, it “[c]onsists of . . . matter which may disparage . . . persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute” is facially invalid under the Free Speech Clause of the First Amendment.

**Background**

Simon Shiao Tam is the lead singer of the Asian-American dance-rock band, The Slants—a name adopted, in Mr. Tam’s own words, to “take ownership” of Asian stereotypes. After the Board affirmed on examining the attorney’s refusal to register Mr. Tam’s application for THE SLANTS covering live music performances on the basis that the mark referred to people of Asian descent and would be disparaging to a “substantial component” of those people, Mr. Tam appealed. On appeal, Mr. Tam argued that the Board erred in finding mark disparaging and also challenged the constitutionality of §2(a) of the Lanham Act.

In its earlier panel decision opinion in this case, the Federal Circuit agreed with the Board that the relevant evidence, such as dictionary definitions, cultural slang and known ethnic slurs, news articles, the band’s own Wikipedia page and even past statements by Mr. Tam indicate that THE SLANTS likely refers to people of Asian descent and is likely offensive to a “substantial composite” of people of Asian descent. As to the constitutionality of §2(a) of the Lanham Act, the panel cited the 1981 precedent of its predecessor court (the CCPA), *In re McGinley*, and rejected Mr. Tam’s argument that §2(a) conditions the benefit of trademark registration on the relinquishment of speech.

In the panel decision, Judge Moore authored additional views noting Mr. Tam’s goals in seeking to register THE SLANTS, both as a source-identifier of the band’s services (*i.e.*, for commercial purposes) and also for the purpose of political and cultural commentary. She urged the court to revisit, the *In Re McGinley* case *en banc*. Specifically, Judge Moore referenced the wide criticism that the *McGinley* decision has received over the past 34 years and noted that the protection afforded to commercial speech has evolved “significantly.”

Soon after, the Federal Circuit *sua sponte* vacated the panel decision and requested that the parties file new briefs addressing, for *en banc* review, the question of whether “the bar on registration of disparaging marks in 15 USC. § 1052(a) [Lanham Act § 2(a)] violates the First Amendment.”

***En Banc* Decision**

Starting from the premise that the disparagement provision is not content or viewpoint neutral and can therefore only be justified on the basis of a compelling state interest, the Federal Circuit explained that § 2(a) denies important legal rights to private speech on the basis of government disapproval of the message content, which renders the provision subject to strict scrutiny. Proceeding to find that the disparagement provision cannot survive strict scrutiny, the Court stated that “Section 2(a) is a viewpoint-discriminatory regulation of speech, created and applied to stifle the use of certain disfavored messages.” The Court further explained that the government cannot escape strict scrutiny review by arguing that §2(a) regulates commercial speech since it is always a mark’s expressive character and not its source-identifying function that is the basis for a disparagement refusal.



The government cannot refuse to register disparaging marks because it disapproves of the expressive messages conveyed by the marks. It cannot refuse to register marks because it concludes that such marks will be disparaging to others.

The government argued that § 2(a) does not implicate First Amendment rights at all because §2(a) does not ban speech, as Mr. Tam remains free to use the unregistered THE SLANTS trademark in commerce; trademark registrations constitute government speech, which the government can grant or deny without implicating the First Amendment; and §2(a) merely withholds a government subsidy, not speech.

Responding to the first argument, the Federal Circuit relied on its own precedent to conclude that federal trademark registration “bestows *truly* significant and financially valuable” benefits upon the trademark owner and that denial of those benefits creates a “serious disincentive” to adopt a mark that the USPTO may deem to be disparaging. Moreover, the “may disparage” language of the statute was found to have a chilling effect on speech due to uncertainty surrounding the application of the law, which the Court confirmed by reviewing the record of the USPTO grants and denials of certain trademarks over the years, citing *inter alia*, the REDSKINS trademark cancellation case.

As for the second argument, that the trademark registration process and the accoutrements of registration, such as the use of the ® symbol and the issuance of a certificate of registration constitute government speech, the Federal Circuit distinguished this case from the Supreme Court’s 2015 decision in *Walter, Sons of Confederate Veterans* (specialty license plates) and concluded that trademark registration is not government speech, since the purpose of a trademark as a source-identifier of goods and services is “antithetical to the notion that a trademark is tied to the government.” Rather, the Court analogized the government’s arguments to a suggestion that the process of copyright registration is also government speech, which would allow the government to prohibit the registration of any works of authorship that were deemed disparaging to others—*i.e.*, censorship; a result that is inconsistent with the First Amendment.

As to the third argument, the Federal Circuit confirmed that trademark registration is a regulatory regime, not a government subsidy. Under the unconstitutional conditions doctrine, the Court concluded that the denial of an otherwise available benefit is unconstitutional where it has a “significant chilling effect” on private speech. Explaining that trademark registration is not a program through which the government conveys a message by using the (filing) receipts for funding, the Court found that the process does not implicate the government’s power to spend.

Although the Federal Circuit determined that §2(a) regulates expressive speech (rather than commercial speech), the Court went further and additionally reviewed the issue under the intermediate scrutiny standard for commercial speech in accordance with the 1980 Supreme Court case *Central Hudson Gas & Electric v. Public Service Commission* (holding that restrictions on commercial speech likely to deceive the public are permissible). The Court found that §2(a) would also fail constitutional muster under intermediate scrutiny, as there is nothing illegal or misleading about a disparaging trademark, and because there is insufficient government interest in the government’s disapproval of a message.

The Federal Circuit made it clear that it did not endorse Mr. Tam’s trademark, and it acknowledged that its decision likely would lead to an increase in registration of marks that offend communities of people. However, the Court concluded that since the government did not present a substantial government interest justifying the §2(a) proscription on disparaging marks, the proscription of §2(a) failed to pass constitutional muster.

### Concurrences & Dissents

In addition to the majority opinion, several members of the *en banc* panel authored and joined concurring and dissenting opinions. Judge O’Malley, joined by Judge Wallace, agreed with the majority that §2(a) is unconstitutional on its face, but further opined that §2(a) is also unconstitutionally vague under the Fifth Amendment due to the “may disparage” language, such that the proscription would be unconstitutional whether or not it survived the First Amendment challenge.

Judge Dyk issued an opinion concurring in part and dissenting in part, with Judges Lourie and Reyna joining in the dissent. Dyk agreed with the majority view that the proscription on registration of disparaging marks is unconstitutional as specifically applied to Mr. Tam, but argued that the majority “errs in going beyond the facts of this case.” In Dyk’s view, “the statute is constitutional as applied to purely commercial trademarks, but not as to core political speech, of which Mr. Tam’s mark is one example . . . The government need not support the inevitable consequence of this decision—the wider registration of marks that offend vulnerable communities.”

Judges Lourie and Reyna each filed dissenting opinions stating that they would affirm the PTO's decision to refuse registration of Mr. Tam's mark and would not overrule *McGinley*. Lourie's opinion noted that the statute was 70 years old and constituted "settled law." He focused on perceived interference with the longstanding congressional policy of delegating authority to the PTO to filter out certain undesirable marks from the federal registration system and stated that it is not clear that a trademark is protected non-commercial speech. Lourie focused on the observation that Mr. Tam may still use THE SLANTS trademark in commerce, with or without a registration. Similarly, in his dissent, Judge Reyna focused on his belief that trademarks are commercial speech subject to intermediate scrutiny and that § 2(a) directly advances a substantial government interest in the orderly flow of commerce.

Argument is set for January 18, 2017.

## INJUNCTIONS

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### *Trademarks / Modifying Permanent Injunctions*

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## **TRYING TO OUTHUSTLE A PERMANENT INJUNCTION**

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*LFP IP, LLC v. Hustler Cincinnati, Inc.*, Case No. 15-3135 (6th Cir., Jan. 13, 2016) (Sutton, J.)

Addressing the issue of modifying a permanent injunction for trademark infringement, the Court of Appeals for the Sixth Circuit held that an injunction may be modified if it is no longer “achieving its principal objects,” due to a change in factual circumstances. *LFP IP, LLC v. Hustler Cincinnati, Inc.*, Case No. 15-3135 (6th Cir., Jan. 13, 2016) (Sutton, J.).

Two siblings, Jimmy and Larry Flint, have been involved in a long-running business dispute stemming from their original business venture opening “The Hustler Club” bar and nightclub in Cincinnati. From this venture, Larry created the Hustler enterprise, which was eventually consolidated into a single corporation, LFP Inc. Jimmy worked on and off for the corporation before opening his own retail store, Hustler Cincinnati, in 2000, for which he paid licensing fees until the brothers had a falling out in 2009.

Larry’s corporations previously sued Jimmy, accusing Hustler Cincinnati of trademark infringement, unfair competition and several state-law violations. The district court granted summary judgment to Larry and his entities on the trademark infringement claims and issued a permanent injunction prohibiting Jimmy and his companies from using the HUSTLER trademark and using any trademark or variation thereof owned by Larry or his corporation. This decision was affirmed by the 6th Circuit.

Upon Jimmy’s opening of a new retail store marketed under the name “FLYNT Sexy Gifts,” Larry and his companies filed a motion for infringement of the “LARRY FLYNT” trademark and argued Jimmy should be held in contempt for violating the injunction. The district court denied the contempt motion, finding that the injunction did not directly prohibit Jimmy’s conduct at his new store. Based upon this ruling, Larry and his corporations filed a motion to change the scope of the injunction. Following an evidentiary hearing, the district court granted the motion, reasoning that Jimmy’s use of “FLYNT Sexy Gifts” was likely to cause confusion with the LARRY FLYNT trademark. The modified injunction prevented Jimmy and his companies from using the name “Flynt” in connection with the sale, promotion or advertising of adult entertainment products or services unless it is accompanied by the first name “Jimmy” in the same font size, color and style and on the same background color. Jimmy appealed the modification of the injunction.

On appeal, the 6th Circuit found that the district court properly justified its modification, finding that Jimmy’s marketing scheme would likely mislead consumers into thinking that his store was associated with Larry, the Hustler empire’s public figurehead. The district court properly crafted the injunction to respond to Jimmy’s conduct at his new store location and to target the specific actions that gave rise to its modification. The 6th Circuit clarified that the appropriate standard for modifying an injunction is not the “grievous wrong” standard, which the Supreme Court has essentially rejected since it was first promulgated in the 1932 case *United States v. Swift & Co.*, but rather, a district court may modify an injunction that is no longer “achieving its principal objects” due to a change in factual circumstances. Thus, the 6th Circuit found the district court properly modified the original injunction based on Jimmy’s new violations that violated Larry and his corporations’ trademark.

**Trademarks / Scope of Injunctive Relief****NOT WHAT THE DOCTOR ORDERED: INJUNCTION RULED TOO NARROW IN TRADEMARK INFRINGEMENT CASE**

*Guthrie Healthcare System v. ContextMedia, Inc.*, Case Nos. 14-3343-cv; 4-3728 (2d Cir., June 13, 2016) (Leval, J)

Addressing the scope of injunctive relief awarded in a trademark infringement case, the US Court of Appeals for the Second Circuit affirmed a district court's finding of a likelihood of confusion, but vacated, reversed and remanded the district court's decision concerning the scope of its injunction, finding that the narrow injunction entered did not sufficiently protect the trademark owner. *Guthrie Healthcare System v. ContextMedia, Inc.*, Case Nos. 14-3343-cv; 4-3728 (2d Cir., June 13, 2016) (Leval, J).

Guthrie Healthcare System is a health care provider that operates primarily in the rural counties along the New York and Pennsylvania border, a region known as the Twin Tiers. Guthrie recruits medical personnel from across the United States, and its charitable foundation conducts medical research and fundraising outside of the Twin Tiers region. Guthrie promotes its services and provides medical information over the internet. In 2001, Guthrie began offering and advertising its health care services under a logo consisting of stylized human figure colored in dark blue and orange (later registered with the US Patent and Trademark Office). In 2008, ContextMedia began selling to medical professionals media content to be played for patients in waiting rooms, under a logo nearly identical to Guthrie's stylized human figure. ContextMedia also promoted its products over the internet.

Largely because ContextMedia's logo was "jaw-droppingly similar" and because of the parties' close proximity in commerce, the Second Circuit did not hesitate in affirming the district court's determination that there was a likelihood of confusion and that thus ContextMedia was liable for trademark infringement. The Second Circuit, however, disagreed with the district court's injunction, which only enjoined ContextMedia from using its logo in the Twin Tiers region and permitted ContextMedia to use its logo over the internet.

The Second Circuit found the injunction problematic for several reasons. First, the injunction permitted ContextMedia to use its logo within the Twin Tiers region over the internet. Second, the injunction permitted ContextMedia to use its logo in two New York counties outside of the Twin Tiers region where Guthrie had health care facilities. Third, and most importantly, the Court rejected the injunction's narrow geographic scope. Guthrie used its logo outside of the Twin Tiers region to recruit medical personnel, to fundraise and to promote its services over the internet. The Court reasoned that this use "render[ed] Guthrie vulnerable to plausibly foreseeable confusions and harms" outside of the Twin Tiers region. As the Court recognized, the injunction also imposed a future harm on Guthrie: Guthrie could not expand its facilities beyond the Twin Tiers region without causing self-inflicted confusion with ContextMedia. The Court made clear that in reaching its decision, it did *not* hold that every senior user that proves likely confusion and infringement in its area of operation is automatically entitled to injunctions beyond that geographic area.

Ultimately, the Second Circuit affirmed the district court's injunction to the extent it enjoined ContextMedia from using its logo, expanded the injunction to include the two counties where Guthrie had facilities, but vacated the injunction to the extent it permitted ContextMedia to use its logo outside the Twin Tiers region and remanded for further proceedings. It is now up to the district court to determine whether the injunction could be tailored to allow limited use by ContextMedia outside of the Twin Tiers region and on the internet, considering Guthrie's interest in protection from confusion.

**Trademarks / Preliminary Injunction**

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**AMAZON.COM DOES NOT HAVE TO PUT OUT THE FIRE**

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*Wreal, LLC v. Amazon.com, Inc.*, Case No. 15-14390 (11th Cir., Oct. 28, 2016) (Rosenbaum, J)

Addressing an interlocutory appeal, the US Court of Appeals for the 11th Circuit affirmed a district court's denial of a preliminary injunction against Amazon.com for trademark infringement, agreeing that the plaintiff's motion was too little, too late. *Wreal, LLC v. Amazon.com, Inc.*, Case No. 15-14390 (11th Cir., Oct. 28, 2016) (Rosenbaum, J).

Wreal is an online internet protocol television (IPTV) service provider. Since 2007, Wreal has been streaming adult content through its website, FyreTV.com, and proprietary set-top boxes (STBs). The STBs, called the "FyreTV box" and the "FyreBoXXX," have been sold exclusively through Wreal's website to customers that sign up for a FyreTV account. Wreal registered the trademarks "FyreTV" and "FyreTV.com" with the US Patent and Trademark Office in October 2008.

In 2011, Amazon started using the mark "Fire" in connection with its Kindle Fire tablet. Amazon continued the use of the "Fire" brand, along with its "Amazon" house mark, as it launched several new generations of mobile devices and internet appliances. In April 2014, Amazon launched its STB, which it markets as the "Amazon Fire TV." Amazon was aware of Wreal's "Fyre TV" mark when it launched Fire TV but did not contact Wreal before launching its service.

Wreal filed a complaint two weeks after Amazon launched its STB, alleging trademark infringement and unfair competition. Relying on a theory of reverse-confusion, Wreal asserted that Amazon's dominant market position would likely cause consumers to mistakenly believe that Amazon was actually the source of Wreal's Fyre TV or FyreBoXXX. After filing its complaint, Wreal conducted no discovery, made only routine case management filings and waited five months to move for a preliminary injunction.

Wreal was on notice that to succeed on its preliminary injunction motions, it needed to explain its five-month delay, yet it never provided the district court with a reason. The district court found that Wreal's unexplained five-month delay in seeking a preliminary injunction fatally undermined any showing of irreparable injury, one of the four requirements for obtaining accelerated relief. The district court noted that a plaintiff concerned about a harm that it truly believed to be irreparable would and should act swiftly to protect itself. Wreal appealed.

The 11th Circuit affirmed the district court's denial of a preliminary injunction, describing Wreal's pace in filing its motion as "someone out on a meandering evening stroll rather than someone in a race against time." A delay in seeking a preliminary injunction of even only a few months, although not necessarily fatal, militates against a finding of irreparable harm. Consistent with its sister circuits, the 11th Circuit found that a party's failure to act with speed or urgency in moving for a preliminary injunction necessarily undermines a finding of irreparable harm.

## INTERNATIONAL MATTERS

*Trademarks / Trade / Customs / Labeling / Summary Judgment***FOR CUSTOMS PURPOSES, A TRADEMARK MAY BE REGISTERED OR UNREGISTERED**

*JBLU, Inc. v. United States*, Case No. 15-1509 (Fed. Cir., Mar. 2, 2016) (Moore, J)

The US Court of Appeals for the Federal Circuit reversed the US Court of International Trade's (CIT's) decision in favor of US Customs and Border Protection, finding that Customs' definition of "trademark" under the Tariff Act and its applicable regulations is unambiguous and includes unregistered trademarks and trademarks not subject to a pending application (in addition to registered marks and marks subject to a pending registration). *JBLU, Inc. v. United States*, Case No. 15-1509 (Fed. Cir., Mar. 2, 2016) (Moore, J).

JBLU, a California corporation registered as C'est Toi Jeans USA, imported jeans manufactured in China into the United States between September 11 and October 20, 2010. Multiple parts of the jeans were embroidered with "C'est Toi Jeans USA," "CT Jeans USA" and "C'est Toi Jeans Los Angeles." On October 8, 2010, JBLU filed trademark applications with the US Patent and Trademark Office (PTO) for C'est Toi Jeans USA and CT Jeans USA, but not C'est Toi Jeans Los Angeles. When the shipments arrived in the United States, Customs inspected the samples of jeans and determined that JBLU violated § 304 of the Tariff Act and the relevant regulations promulgated by Customs, 19 CFR §§ 134.46 and 134.47.

Under 19 CFR §§ 134.46, when words referring to a geographical location appear on an imported article or its container that "may mislead or deceive the ultimate purchaser as to the actual country of origin of the article," the article must also be marked with the country of origin in a manner that is legible, permanent, in close proximity to the geographical words, and in at least a comparable size." The more lenient requirements under § 134.37 specify that the country of origin marking must be legible and permanent, conspicuous, and either in close proximity to the geographical words or in some other conspicuous location. Customs determined that because JBLU's jeans were marked with "USA" or "Los Angeles," they also must meet the country of origin labeling requirements of § 134.46.

JBLU argued that its "Made in China" labels met the requirements of § 134.47. Customs agreed, but only as to the jeans that were marked with C'est Toi Jeans USA or CT Jeans USA and were imported *after* JBLU filed its trademark applications for those marks. Customs determined that the more stringent § 134.46 requirements applied to the jeans that were marked with C'est Toi Jeans USA or CT Jeans USA and were imported before JBLU filed its trademark application.

JBLU filed suit against the US government at the CIT. The CIT granted the government's motion for summary judgment, giving deference to Customs' definition of "trademark" as limited to trademarks registered with the PTO and trademarks subject to pending registration applications. The CIT found that C'est Toi Jeans USA, CT Jeans USA and C'est Toi Los Angeles were not trademarks under § 134.47, and that therefore the more stringent requirements of § 134.46 applied. JBLU appealed.

On appeal, JBLU argued that the trial court erred because an agency's interpretation of a regulation is given deference only when the regulation is ambiguous, and that the word trademark as used in § 134.47 unambiguously includes both common law trademarks and federally registered trademarks.

The Federal Circuit agreed. The Court looked to the definition of trademark in the dictionary and in the Lanham Act, neither of which limit the term to registered trademarks or trademarks subject to pending applications. The Court reasoned that trademark rights stem from use, not registration. The government acknowledged the Lanham Act and dictionary definitions, but argued that the use of the word trademark in the intellectual property context does not inform its meaning in the context of § 134.47. The Federal Circuit disagreed. The Court looked to various regulations and the Tariff Act, and found that when the regulations intended to limit a regulation to "registered trademarks," they expressly did so, whereas § 134.47 does not.

**Trademarks / Extraterritorial Application of Lanham Act****TRADER WOES: LANHAM ACT APPLIES EXTRATERRITORIALLY TO CANADIAN RESALE OF US GROCERY CHAIN'S PRODUCTS**

*Trader Joe's v. Michael Norman Hallatt*, Case No. 14-35035 (9th Cir., Aug. 26, 2016) (Christen, J)

A recent case from the US Court of Appeals for the Ninth Circuit illustrates how the Lanham Act may be applied extraterritorially to foreign activities that affect US commerce. *Trader Joe's v. Michael Norman Hallatt*, Case No. 14-35035 (9th Cir., Aug. 26, 2016) (Christen, J).

The California-based specialty grocery store chain Trader Joe's (TJ) operates more than a dozen stores in the state of Washington, including near the Canadian border. TJ has no store in Canada, but Canadian customers regularly travel across the border to shop at TJ's northern-Washington stores. Canadian resident Michael Hallatt bought large quantities of TJ-branded products from one of the TJ stores near the border and resold them at inflated prices at his own store in Canada, which he named "Pirate Joe's." Hallatt advertised his store using TJ trademarks, decorated his store to look like TJ stores and used TJ-like signs at his store. TJ demanded that Hallatt stop reselling TJ products, and Hallatt refused. After Hallatt was refused service at TJ stores near the border, he traveled to more distant TJ stores to continue buying TJ products, and he even paid third parties to buy TJ products for him.

TJ sued Hallatt for trademark infringement under the Lanham Act and for Washington state trademark law violations, but the Washington district court granted Hallatt's motion to dismiss TJ's federal and state trademark claims for lack of subject-matter jurisdiction, concluding that the Lanham Act did not apply to Hallatt's conduct in Canada. TJ appealed.

It is well settled that the Lanham Act applies extraterritorially to foreign conduct that affects US commerce. However, the Ninth Circuit faced two specific issues in resolving this appeal: (1) whether the extraterritorial application of the Lanham Act implicates federal courts' subject-matter jurisdiction, and (2) whether the alleged conduct by Hallatt affected US commerce in a manner sufficient to warrant extraterritorial application of the Lanham Act.

On the first issue, the Ninth Circuit agreed with TJ's contention that the extraterritorial reach of the Lanham Act is a non-jurisdictional merits question. The Ninth Circuit noted that it is the Lanham Act's "use in commerce" element and its broad definition of "commerce" that gives the statute extraterritorial reach, and that the "use in commerce" element goes to the merits of a federal trademark claim and is not a jurisdictional element. As such, the Court concluded the extraterritorial application of the Lanham Act does not implicate federal courts' subject-matter jurisdiction.

As to the second issue, the Ninth Circuit noted that TJ was not alleging that TJ products Hallatt resold from his Canadian store flowed back into the United States in a manner likely to confuse US consumers, but rather that Hallatt's activities harmed TJ's reputation and trademark goodwill because Hallatt transported and resold TJ products without proper quality control measures. The Court recognized that Hallatt's alleged attempt to pass his store off as an authorized TJ reseller could similarly harm TJ's reputation and diminish the value of TJ's marks, because Hallatt resold TJ goods at inflated prices and with inferior customer service, all of which may reflect poorly on the TJ brand.

The Court also considered other facts that favored extraterritorial application of the Lanham Act to Hallatt's conduct, including that (1) Hallatt sourced his inventory entirely from the United States; (2) Hallatt hired others in Washington to purchase TJ products on his behalf; and (3) Hallatt, albeit a Canadian citizen, held permanent resident status in the United States and regularly traveled between Canada and the United States for business. The Ninth Circuit concluded the alleged nexus between Hallatt's foreign conduct and US commerce to be sufficient to state a Lanham Act claim—namely, that Hallatt's conduct may cause TJ reputational harm that could decrease the value of TJ's US trademarks, and that Hallatt operated in US commerce streams when he bought TJ goods in the United States and hired locals to assist him.

The Ninth Circuit affirmed the dismissal of TJ's state law claims, however, finding that TJ failed to present sufficient facts pertaining to state trademark dilution or harm to a state resident or business.

## LIKELIHOOD OF CONFUSION

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### *Trademarks / Likelihood of Confusion*

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## **RAISE A GLASS TO THE SINGLE DISPOSITIVE DUPONT FACTOR**

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*Oakville Hills Cellar, Inc. v. Georgallis Holdings, LLC*, Case No. 16-1103 (Fed. Cir., June 24, 2016) (Lourie, J)

The US Court of Appeals for the Federal Circuit upheld a decision by the Trademark Trial and Appeal Board (TTAB) reiterating its determination that a single *DuPont* factor, such as the dissimilarity of the marks, can be dispositive in a likelihood of confusion analysis. *Oakville Hills Cellar, Inc. v. Georgallis Holdings, LLC*, Case No. 16-1103 (Fed. Cir., June 24, 2016) (Lourie, J).

The TTAB dismissed Oakville's opposition to Georgallis's MAYARI application based on Oakville's prior registration for MAYA, both of which are for "wine." The TTAB assessed the evidence of record and determined that the first *DuPont* likelihood of confusion factor (*i.e.*, the similarity or dissimilarity of the marks in their entireties as to appearance, sound, connotation, and commercial impression) led to a finding of no likelihood of confusion and was dispositive, notwithstanding the TTAB's conclusion that other factors (the similarity of the goods, channels of trade and conditions under which buyers make their sales decisions) tended to show a likelihood of confusion and that other factors were neutral.

The case turned on the evidence (or lack thereof) as to how a relevant consumer would interpret or pronounce the word MAYARI. Oakville's take was that consumers would look at MAYARI and immediately see MAYA with the addition of RI at the end (especially if only the first four letters of MAYARI were visible because of the wine bottle's positioning). The TTAB disagreed and stated that there was no evidence to show that the marks would be pronounced alike, as RI has no meaning alone and MAYARI is not a recognizable word. In contrast, MAYA is a common female name and also refers to the pre-Columbian civilization.

In addition, the record showed that the creation of the MAYARI mark was an amalgam of the names Maya and Arianna the daughters of Georgallis's owner. Therefore, despite the fact that both marks are also names of goddesses, the TTAB was not convinced that "customers would be aware of the more esoteric meanings of the marks," nor would consumers necessarily seek out the particular webpage on Georgallis's site describing the origin of the MAYARI mark (and even if they did, this would not necessarily affect the ultimate pronunciation of the mark).

The Federal Circuit agreed with the TTAB and pointed out that the mark MAYARI could be pronounced with emphasis on any of the English words contained therein, *i.e.*, MA-YARI, MAY-ARI, or MAYA-RI. Accordingly, although Oakville supplied some evidence as to potential pronunciations, it did not rise to the level of "substantial evidence," meaning "such relevant evidence as a reasonable mind would accept as adequate" to support Oakville's conclusion, whereas the TTAB provided "substantial evidence" showing that the marks are sufficiently dissimilar as to appearance, sound, meaning and commercial impression as to support a finding of no likelihood of confusion.



**Trademarks / Likelihood of Confusion****CIRCUIT TO DISTRICT COURT: PUCKER UP FOR A REMAND**

*JL Beverage Company, LLC v. Jim Beam Brands Co. et al.*, Case No. 13-17382 (9th Cir., July 14, 2016) (Wallace, J)

Addressing the application of the *Sleekcraft* likelihood-of-confusion factors in the context of a summary judgment motion, the US Court of Appeals for the Ninth Circuit reversed the district court's grant of summary judgment, finding numerous genuine disputes of material fact in connection with use of a colored lips design on vodka bottles as a trademark. *JL Beverage Company, LLC v. Jim Beam Brands Co. et al.*, Case No. 13-17382 (9th Cir., July 14, 2016) (Wallace, J).

In 2003, JL Beverage began using a lips logo on its Johnny Love Vodka bottles, with the lips colored to denote the flavor of the vodka (for example, green lips for apple-flavored vodka). JL Beverage registered its Johnny Love Vodka (& Design) mark in 2005. In 2011 Jim Beam began selling a line of flavored vodkas called Pucker Vodka. Jim Beam's bottle also featured a lips design, colored to denote the vodka's flavor. A former marketing employee of Jim Beam involved with the development of Pucker Vodka was apparently aware of JL Beverage and the Johnny Love Vodka brand. Prior to the launch of Pucker Vodka, Jim Beam's legal counsel conducted a trademark search, which revealed JL Beverage's Johnny Love Vodka (& Design) registration, as well as numerous other references to lips in connection with alcohol-related products.

JL Beverage sued Jim Beam for trademark infringement under both a forward and reverse confusion theory and sought a preliminary injunction, which the district court denied. Jim Beam later moved for summary judgment, which the court granted "for reasons articulated in the Order denying the Preliminary Injunction," further stating that "no issues of material fact remain which could provide Plaintiff a basis for success on any of its claims." JL Beverage appealed.

On appeal the Ninth Circuit reversed, explaining that the district court failed to apply the proper standard for deciding a summary judgment motion, as Jim Beam had the burden to demonstrate that no material facts were in dispute. In this case, Jim Beam did not dispute that some of the *Sleekcraft* factors favored a finding of a likelihood of confusion. With respect to disputed factors—such as the conceptual and commercial strength of the lips design mark, similarity of the parties' marks, and Jim Beam's intent in selecting the mark—the Ninth Circuit found that there were factual disputes that, when viewed in the light most favorable to JL Beverage, made summary judgment inappropriate.

Considering the conceptual strength of the lips design mark, the Court found that a reasonable fact-finder could view JL Beverage's colored lips design as suggestive—entitling JL Beverage to a higher degree of protection—because a consumer must use their imagination to connect the lip color to the vodka flavor. While the record contained evidence of multiple uses of lips in connection with alcohol beverages, none of those uses coordinated color to flavor, and most of them did not apply to liquor products. As for the mark's commercial strength, the Court observed that even if JL Beverage had a relatively weak market presence (and JL Beverage submitted evidence that indicated otherwise), a finding that the mark was commercially weak would support a finding of a likelihood of *reverse* confusion.

Given that JL Beverage's and Jim Beam's lip design marks bore many similarities, the Ninth Circuit concluded that the similarity of marks factor (often the most important factor in the likelihood-of-confusion analysis) presented genuine issues of material fact. Finally, according to the Court, there was a genuine dispute of material fact concerning Jim Beam's intent in selecting the colored lips mark in light of (1) the trademark search report, (2) the US Patent and Trademark Office's refusal to register Jim Beam's application for its lip design mark because of the likelihood of confusion with JL Beverage's Johnny Love Vodka (& Design) registration, and (3) prior knowledge of the Johnny Love Vodka brand by a Jim Beam employee involved with Pucker Vodka. For these reasons, the Court reversed the grant of summary judgment and remanded the case.

**Trademarks / Reverse Passing Off****MUSIC PLAYED BY KARAOKE MACHINE IS NOT “TANGIBLE GOOD” FOR PURPOSE OF TRADEMARK INFRINGEMENT**

*Phoenix Entertainment Partners v. Dannette Rumsey and Basket Case Pub, Inc.*, Case No. 15-2844 (7th Cir., July 21, 2016) (Rovner, J)

Addressing the “tangible good” requirement of trademark infringement, the US Court of Appeals for the Seventh Circuit upheld the district court’s decision to dismiss a case because defendants’ playing of unauthorized copies of music tracks was not likely to confuse consumers as to the physical source of the medium on which the tracks were played. *Phoenix Entertainment Partners v. Dannette Rumsey and Basket Case Pub, Inc.*, Case No. 15-2844 (7th Cir., July 21, 2016) (Rovner, J).

Phoenix Entertainment Partners, formerly known as Slep-Tone, sells karaoke tracks under the trademark SOUND CHOICE to different establishments, such as restaurants and bars. Slep-Tone’s SOUND CHOICE trademark appeared at the beginning and end of the video displaying the words to the songs being played. Slep-Tone filed suit against Basket Case and its owner Dannette Rumsey (together, the defendants) claiming that they infringed its SOUND CHOICE trademark (and certain trade dress) by playing unauthorized digital copies of Slep-Tone’s karaoke files. According to Slep-Tone, when the defendants play unauthorized copies of Slep-Tone karaoke tracks at the pub, customers see Slep-Tone’s Sound Choice mark and trade dress and believe they are seeing and hearing a legitimate, authentic Slep-Tone track, when in fact they are seeing an unauthorized copy.

Trademark infringement under §§ 32 and 43 of the Lanham Act requires a likelihood of consumer confusion as to the source of any tangible good sold by the defendant. The district court dismissed the case, explaining that the defendants do not sell any tangible good—they only play unauthorized copies of Slep-Tone’s karaoke tracks for their customers. What pub patrons see and hear is the intangible content of the karaoke tracks. Thus, to the extent there is any confusion, it is about the source of that intangible content, not about the physical medium (the tangible good) from which the karaoke tracks are played. Slep-Tone appealed.

The Seventh Circuit agreed with the district court’s dismissal, explaining that “the defendants are not selling compact discs with karaoke tracks and billing them as genuine Slep-Tone tracks, in the way that a street vendor might hawk knock-off Yves Saint Laurent bags or Rolex watches to passers-by. Whatever wrong the defendants may have committed by making (or causing to be made) unauthorized copies of Slep-Tone’s tracks, they are not alleged to have held out a tangible good sold in the marketplace as a Slep-Tone product. Consequently, the defendant’s alleged conduct is not actionable as trademark infringement.”

**NOMINATIVE FAIR USE*****Trademark / Lanham Act / Certification Marks*****CERTIFICATION MARK MAY BE INFRINGED DESPITE NOMINATIVE FAIR USE, LACK OF SOURCE CONFUSION**

*Int'l Info. Sys. Sec. Certification Consortium, Inc. v. Sec. Univ., LLC*, Case No. 14-3456 (2d Cir., May 18, 2016) (Pooler, J.)

Addressing the use of a certification mark in connection with information systems training, the US Court of Appeals for the Second Circuit reversed and remanded a district court grant of summary judgment for the defendants on the plaintiff's claims of infringement, false designation of origin and false advertising, and unfair competition, finding that confusion as to sponsorship, affiliation or connection may trump a nominative fair use defense. *Int'l Info. Sys. Sec. Certification Consortium, Inc. v. Sec. Univ., LLC*, Case No. 14-3456 (2d Cir., May 18, 2016) (Pooler, J.).

International Information Systems Security Certification Consortium (ISC<sup>2</sup>) owns the certification mark CISSP, meaning Certified Information Systems Security Professional. A certification mark is a mark used by a person other than its owner to certify the quality, accuracy or other characteristics of the associated goods or services.

Security University (SU) offers preparatory classes for ISC<sup>2</sup>'s CISSP certification exam. In 2010, SU began running advertisements for courses with instructor Clement Dupuis, described as a "master CISSP" or "CISSP master." After receiving a dissatisfactory response to its cease-and-desist letter, ISC<sup>2</sup> filed suit against SU for infringement, false designation of origin and false advertising, and trademark dilution under the Lanham Act, as well as unfair competition under Connecticut state law. ISC<sup>2</sup> alleged that SU's advertisements were likely to confuse or deceive the public by suggesting that ISC<sup>2</sup>'s CISSP certification could somehow be "mastered," and by suggesting that SU's courses "originate with or are sponsored or otherwise approved" by ISC<sup>2</sup>.

The district court, applying the US Court of Appeals for the Ninth Circuit's doctrine of nominative fair use and finding no likelihood of confusion as to the *source* of SU's services, granted summary judgment in SU's favor. ISC<sup>2</sup> appealed.

The Second Circuit reversed, concluding that the district court had erred in many respects. First, the district court erred in considering only confusion as to source and failing to consider, for example, confusion as to affiliation, sponsorship, endorsement or approval. As the Second Circuit explained, considering only source confusion is particularly problematic in the context of certification marks, which typically do not designate source at all. The district court also erred when it considered only two modes of certification mark infringement: "the use of the mark in a resume of a professional who is in fact not certified by the organization that is the owner of the mark; and the use of the mark on goods that have not in fact been certified." The Second Circuit explained that a party who has met all the requirements of certification may still infringe a certification mark by using it in such a way that may cause consumer confusion. For instance, although SU instructor Clement Dupuis is a CISSP, consumers may have been misled to believe that he had completed a "master" CISSP certification newly developed by ISC<sup>2</sup>.

Finally, the Second Circuit explained that the district court erred in applying the Ninth Circuit's nominative fair use doctrine while failing to consider the Second Circuit's *Polaroid* test, which sets out eight factors to be weighed when determining likelihood of consumer confusion. Nominative use is the use of another's mark to identify the plaintiff's goods or services, and nominative fair use permits such use under certain circumstances. The Court explained that nominative fair use is not an affirmative defense to infringement, but it found that the doctrine may be helpful.

The Second Circuit remanded the case for the district court to consider the *Polaroid* factors as well as the nominative fair use factors: "(1) whether the use of the plaintiff's mark is necessary to describe both the plaintiff's product or service and the defendant's product or service, that is whether the product or service is not readily identifiable without use of the mark; (2) whether the defendant uses only so much of the plaintiff's mark as is necessary to identify the product or service; and (3) whether the defendant did anything that would, in conjunction with the mark, suggest sponsorship or endorsement by the plaintiff holder, that is, whether the defendant's conduct or language reflects the true or accurate relationship between plaintiff's and defendant's products or services."

**RIGHT OF PUBLICITY**

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***Trademarks / Right of Publicity***

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**ROSA PARKS NAME AND LIKENESS FREE FOR USE?**

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*Rosa and Raymond Parks Institute for Self Development v. Target Corp.*, Case No. 15-10880 (11th Cir., Jan. 4, 2016) (Rosenbaum, J.)

Addressing the balance between privacy rights and matters of public interest, the US Court of Appeals for the Eleventh Circuit affirmed the district court's dismissal of the plaintiff's complaint, holding that the defendant was shielded by the First Amendment from a lawsuit claiming the retailer violated the publicity rights of civil rights icon Rosa Parks by selling various products that included the plaintiff's picture. *Rosa and Raymond Parks Institute for Self Development v. Target Corp.*, Case No. 15-10880 (11th Cir., Jan. 4, 2016) (Rosenbaum, J.).

Target Corporation (the defendant), a national retail chain, sold books, a movie and a plaque that included pictures of Rosa Parks, an icon of the civil rights movement who, in 1955, refused to surrender her seat to a white passenger on a racially segregated Montgomery, Alabama bus. The Rosa and Raymond Parks Institute for Self Development (the plaintiff) owns the right and likeness of Rosa Parks. The plaintiff filed a complaint against the defendant, alleging unjust enrichment, right of publicity, and misappropriation under Michigan common law for the defendant's sales of all items using the name and likeness of Rosa Parks. The plaintiff complained that by selling the products, the defendant had unfairly and without the plaintiff's prior knowledge, or consent, used Rosa Parks' name, likeness, and image as used on the products. The plaintiff further argued that the defendant promoted and sold the products using Rosa Parks' name, likeness, and image for the defendant's own commercial advantage. After the defendant filed a motion for summary judgment, the district court dismissed the complaint. The plaintiff appealed.

On appeal, the 11th Circuit, sitting in diversity, applied Alabama's choice-of-law rules, which holds that the procedural law of the forum state should be applied, while the law of the state in which the injury occurred governs the substantive rights of the case. Accordingly, the 11th Circuit applied the procedural rules of Alabama and the substantive law of Michigan.

In Michigan, the common-law right of privacy protects against four types of invasions of privacy: intrusion upon the plaintiff's seclusion or solitude, or into his private affairs; public disclosure of embarrassing private facts about the plaintiff; publicity which places the plaintiff in a false light in the public eye; and appropriation for the defendant's advantage, of the plaintiff's name or likeness. The right of privacy is not absolute, and Michigan courts have long recognized that individual rights must yield to the qualified privilege to communicate on matters of public interest.

Applying Michigan law, the Court affirmed the district court's dismissal of the plaintiff's complaint, concluding that "the use of Rosa Parks' name and likeness in the books, movie, and plaque is necessary to chronicling and discussing the history of the Civil Rights Movement" and that these matters therefore are protected by Michigan's qualified privilege. As the 11th Circuit noted, "it is difficult to conceive if a discussion of the Civil Rights Movement without reference to Rosa Parks and her role in it."

**Trademarks / Right of Publicity / First Amendment****FIRST AMENDMENT PREVENTS RIGHT OF PUBLICITY CLAIM ARISING FROM FILM ABOUT “ISSUES OF A PUBLIC NATURE”**

*Sgt. Jeffrey S. Sarver v. Nicolas Chartier, et. al.*, Case No. 12-55429 (9th Cir., Feb. 17, 2016) (O’Scannlain, J)

In a lawsuit involving the 2010 Oscar-winning film *The Hurt Locker*, the US Court of Appeals for the Ninth Circuit held that right of publicity claims arising from expressive works, including films, are in essence content-based restrictions on speech that are presumptively unconstitutional, and affirmed the district court order dismissing the lawsuit on constitutional grounds. *Sgt. Jeffrey S. Sarver v. Nicolas Chartier, et. al.*, Case No. 12-55429 (9th Cir., Feb. 17, 2016) (O’Scannlain, J).

In 2004 and 2005, Army Sergeant Jeffrey Sarver led the 788th Explosive Ordnance Disposal Company that identified and disposed of improvised explosive devices (IEDs) in Iraq. Sarver contended that Will James, the main character of *The Hurt Locker*, was based on Sarver, because the film’s screenplay was written by Mark Boal, a journalist who had been embedded with the 788th in Baghdad. Sarver believed that the film falsely portrayed him in a negative manner and hurt his reputation. Asserting that he did not consent to use of his likeness in the film, Sarver filed suit against several parties involved in the making of *The Hurt Locker*, alleging causes of action for misappropriation of likeness and right of publicity, invasion of privacy, defamation, breach of contract, intentional infliction of emotional distress, fraud, and misrepresentation.

On defendants’ motion, the case was transferred from New Jersey to California, and defendants then filed motions to strike the complaint under California’s anti-SLAPP statute. The anti-SLAPP law provides for early dismissal of meritless First Amendment cases aimed at chilling expression.

The district court concluded that *The Hurt Locker* constituted an exercise of free speech in connection with a public issue. Moreover, it found that any similarities between Sarver and the main character of the film were transformed by the significant amount of original expressive content in the screenplay and through direction and production of the movie. After the district court dismissed Sarver’s claims, he appealed.

Before looking at the merits of Sarver’s claims, the Ninth Circuit considered whether California law was properly applied and whether defendants’ anti-SLAPP motions were timely filed. The Court determined that California law applied in the federal diversity action, because under New Jersey choice of law, California had the most “significant relationship” to *The Hurt Locker* and to the litigation overall. In addition, the Ninth Circuit found that Cal. Civ. Proc. Code § 425.16(f), which requires that an anti-SLAPP motion be filed within 60 days of the complaint, did not apply here because it was a procedural device that was in direct conflict with the federal summary judgment rule. Citing its own precedent, the Ninth Circuit established that California’s 60-day time limitation does not apply in federal diversity cases. Therefore, the Court found that defendants’ anti-SLAPP motions were timely filed in response to Sarver’s complaint.

The Ninth Circuit then examined the merits of the defendants’ anti-SLAPP motions under the two requirements of the statute: (1) a plaintiff’s suit must arise from a defendant’s act made in connection with a public issue in furtherance of the defendant’s right to free speech, and (2) the plaintiff must have a reasonable probability of a favorable judgment.

On the first issue, the Ninth Circuit determined that the Iraq War, *The Hurt Locker* and the narrative of the film’s main character, Will James, spoke directly to issues of public concern. In particular, the Court distinguished the present case from its earlier decision in *Dyer v. Childress*, which found “no discernible public interest” in the use of someone’s persona in a particular film, noting that the nature of Sarver’s occupation during the Iraq War made his persona part of the issues of public interest.

Under the second part of the analysis, the burden shifted to Sarver to substantiate a “legally sufficient” claim. In this regard, the Ninth Circuit determined that even if Sarver could establish all elements of a right of publicity claim under California law, pursuing a right of publicity action at all would infringe defendants’ right to free speech. Specifically, since the film was speech

fully protected by the First Amendment, Sarver could not show a compelling state interest in preventing the defendants' speech by applying California's right of publicity law where to do so would be in derogation of the defendants' First Amendment rights. Thus, the Court concluded that Sarver could not state a right of publicity claim and the district court did not err in granting defendants' anti-SLAPP motions.

**STANDING*****Trademarks / Unfair Competition*****STANDING UNDER LANHAM ACT PREMISED ON DEFENDANT'S PUTATIVE CONDUCT**

*Belmora LLC v. Bayer Consumer Care AG and Bayer Healthcare LLC*, Case No. 15-1335 (4th Cir., Mar. 23, 2016) (Agee, J)

The US Court of Appeals for the Fourth Circuit reversed a district court's application of the two-part test for prudential standing to bring a Lanham Act claim, focusing instead on the plain language of § 43(a) of the Lanham Act. *Belmora LLC v. Bayer Consumer Care AG and Bayer Healthcare LLC*, Case No. 15-1335 (4th Cir., Mar. 23, 2016) (Agee, J). The Court noted that the statute is written in terms of the putative defendant's conduct in order to allow allegations of unfair competition and false advertising to proceed even where the allegedly injured party did not use its own trademark in commerce in the United States.

This case involves similar branding for similar products in the United States and Mexico. Appellant Bayer Consumer Care AG owns the trademark FLANAX in Mexico (and other parts of Latin America) for a pain reliever composed of naproxen sodium. Bayer has owned the FLANAX mark in Mexico since 1976 and has made sales in Mexico totaling hundreds of millions of dollars through use of the well-known mark and product packaging. Bayer has never sold FLANAX in the United States, but its sister company Bayer Healthcare LLC sells naproxen sodium pain relievers in the United States under the brand ALEVE.

In 2004, Belmora LLC began selling naproxen sodium tablets in the United States. Belmora registered the trademark FLANAX in the United States. The Belmora packaging for FLANAX in the United States closely mimicked Bayer's Mexican FLANAX packaging, with a similar color scheme, font size, and typeface. Belmora's marketing materials included statements implying that its FLANAX brand in the United States was the same FLANAX product sold by Bayer in Mexico, including statements that the pain reliever was a top-selling product among Latinos. There was also evidence in the record that Belmora's marketing materials resulted in a belief among its distributors, vendors, and marketers that the Belmora FLANAX product in the United States was the same as or affiliated with Bayer's FLANAX product in Mexico.

In 2007, Bayer initiated proceedings at the Trademark Trial and Appeal Board (TTAB) that eventually led to the cancellation of Belmora's US trademark registration. Before the TTAB, Bayer established misuse of the Belmora mark in the United States by trading on the reputation and good will of Bayer's Mexican mark.

Belmora appealed the TTAB decision by initiating a civil proceeding in the US District Court for the Eastern District of Virginia. The TTAB appeal was then consolidated with a pending lawsuit filed by Bayer for Lanham Act violations and claims arising under California state law. Ruling on a motion for judgment on the pleadings, the district court dismissed the case, concluding that Bayer lacked standing to assert its claims for unfair competition and false advertising, among other things, because Bayer did not own a registration for the FLANAX mark in the United States and had never used the FLANAX mark in the United States. The district court also reversed the TTAB's decision canceling Belmora's mark. Bayer appealed to the Fourth Circuit.

In a detailed analysis that unpacked the requirements to bring claims under § 43(a) of the Lanham Act, the Fourth Circuit vacated the district court's legal conclusions and remanded for further proceedings. The analysis turned on the two-part test established by the Supreme Court of the United States in *Lexmark Int'l, Inc. v. Static Control Components, Inc.*

The Fourth Circuit evaluated the plain language of § 43(a) and concluded that the district court erred in finding that in order to be standing, a plaintiff must have initially used its own mark in commerce within the United States. Rather, the Fourth Circuit explained that § 43(a) does not require that a plaintiff possess or have used a trademark in US commerce as an element of the cause of action. In reaching this conclusion, the Fourth Circuit looked to the Lanham Act's purpose statement, distinguished between the statutory injuries for trademark infringement and those for false advertising, and relied on the manner in which § 43(a) is crafted as defining causes of action based on a *defendant's putative conduct*. Ultimately the Fourth

Circuit explained that a well-pled Lanham Act claim—such as the claims asserted by Bayer—can proceed where there is a reasonable basis to conclude that the claimant is likely to be damaged by the defendant’s activities in the United States.

In order to assess whether Bayer was in a position to properly allege that it had been or would likely be damaged by Belmora’s conduct, the Fourth Circuit walked through the two-part test established in *Lexmark* for both the unfair competition and false advertising allegations. In both instances, the Fourth Circuit determined that the plaintiff’s claim fell within the “zone of interests” protected by the statute, and that Bayer sufficiently pled proximate causation of a cognizable injury.

Lastly, for reasons that largely overlapped with the § 43(a) analysis, the Fourth Circuit found that the district court erred in reversing the TTAB’s cancellation of Belmora’s mark for misuse.

Petition for *certiorari* was filed on Oct. 20, 2016.



## COPYRIGHTS

### ATTORNEYS' FEES

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#### *Copyrights / § 505*

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## **KIR TSAENG II: FEES IN COPYRIGHT CASES DEPENDS ON REASONABLENESS OF LITIGATION POSITION**

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*Kirtsaeng v. John Wiley & Sons, Inc.*, 136 S.Ct. 1979 (2016) (Kagan, Justice) (Kirtsaeng II)

When deciding whether to award attorneys' fees under the Copyright Act's fee-shifting provision, 17 USC § 505, the Supreme Court of the United States held that a court should give "substantial weight to the reasonableness of [the losing party]'s litigating position, but also tak[e] into account all other relevant factors." In an opinion delivered by Justice Elena Kagan for a unanimous Court, the Supreme Court vacated the decision of the Second Circuit denying Kirtsaeng's motion for attorneys' fees from respondent Wiley & Sons. *Kirtsaeng v. John Wiley & Sons, Inc.*, Case No. 15-373 (June 16, 2016) (Kagan, Justice) (*Kirtsaeng I*).

In remanding the case, the Supreme Court said it was not suggesting that the district court had reached the wrong conclusion in denying petitioner's fee motion; but that the Second Circuit's articulation of "substantial weight" given to the reasonableness of a losing party's litigation positions suggests that a determination of reasonableness raised a presumption against granting fees; *i.e.*, had almost "dispositive" weight. *Kirtsaeng v. John Wiley & Sons, Inc.*, (*Kirtsaeng I*).

#### **Kirtsaeng I**

*Kirtsaeng I* began when Supap Kirtsaeng, a citizen of Thailand attending an Ivy League university in the United States, figured out that Wiley & Sons, an academic publishing company that sells textbooks in the United States and foreign markets, sold its virtually identical English-language textbooks in Thailand at a considerably lower price than the price in the United States. Kirtsaeng arranged for his family and friends to buy the English-language textbooks for him in Thailand and then resold them to students in the United States for a price below Wiley's US price, but higher than the Thai price, thereby earning a profit. After Wiley sued Kirtsaeng for copyright infringement, Kirtsaeng invoked the "first-sale doctrine" as a defense. Wiley argued that the doctrine did not apply when a book was manufactured abroad, like those Kirtsaeng had resold.

In *Kirtsaeng I*, the district court rejected the application of the doctrine to foreign-made books, as did the Second Circuit. However, in a 6-to-3 decision, the Supreme Court in *Kirtsaeng I* established that the first-sale doctrine allows the resale of foreign-made books. Kirtsaeng was vindicated, and with this victory, returned to the district court and invoked §505 of the Copyright Act seeking attorneys' fees.

#### **Kirtsaeng II**

Relying on Second Circuit precedent, the district court gave "substantial weight" to the "objective reasonableness" of Wiley's claim and concluded that Wiley's position was not only objectively reasonable but Kirtsaeng proffered no basis to "override the substantial weight accorded to the objective reasonableness of Wiley's claim." The district court found that neither the factual allegations nor the legal theory on which Wiley's copyright claim was based were objectively unreasonable, acknowledging that Wiley's claim "persuaded this Court, the Court of Appeals, and three Justices of the Supreme Court." Imposing a fee award against a copyright holder with an objectively reasonable litigation position, although ultimately unsuccessful, would not promote the purposes of the Copyright Act. The Second Circuit affirmed and Kirtsaeng appealed to the Supreme Court.

Section 505 grants courts wide latitude to award attorneys' fees. However, "in a system of laws discretion is rarely without limits" and "[w]ithout governing standards or principles, such provisions threaten to condone judicial 'whim' or predilection." In *Fogerty v. Fantasy, Inc.*, the Supreme Court established a "pair of restrictions" for district courts tasked with evaluating whether to award attorneys' fees even though the Copyright Act "clearly connotes discretion." First, a district court "must make

a particularized, case-by-case assessment” rather than “award[ ] attorney’s fees as a matter of course.” Second, “a court may not treat prevailing plaintiffs and prevailing defendants any differently; defendants should be ‘encouraged to litigate [meritorious copyright defenses] to the same extent that plaintiffs are encouraged to litigate meritorious claims of infringement.’”

Wiley argued that “giving substantial weight to the reasonableness of a losing party’s position will best serve the Act’s objectives.” Kirtsaeng “favor[ed] giving special consideration to whether a lawsuit resolved an important and close legal issue and thus ‘meaningfully clarifie[d]’ copyright law.”

To evaluate between the two approaches, the Supreme Court started by reiterating the “well settled” objectives of the Copyright Act, which “serves the purpose of enriching the general public through access to creative works” by “striking a balance between two subsidiary aims: encouraging and rewarding authors’ creations while also enabling others to build on that work.” The Court explained that fee awards should encourage the types of lawsuits that promote these objectives. With this in mind, the Supreme Court ultimately found that the “objective-reasonableness” approach, advocated by Wiley, is better at encouraging litigation that promotes the benefits of the Copyright Act, is more administrable, and treats plaintiffs and defendants more even-handedly than Kirtsaeng’s approach.

First, the Court found that the “objective-reasonableness” approach encourages parties with strong legal positions to stand on their rights and deters those with weak positions from proceeding with litigation. Conversely, when a party has an unreasonable litigation position, the likelihood that he or she will have to pay two sets of fees discourages legal action by deterring the lawsuit or incentivizing quick settlements before costs mount. Kirtsaeng’s approach, on the other hand, “would not produce any sure benefits” because predicating fee awards on whether a lawsuit resolved an important and close legal issue “could just as easily discourage as encourage parties to pursue the kinds of suits that ‘meaningfully clarify[]’ copyright law.” Indeed, “the hallmark of hard cases is that no party can be confident if he will win or lose.”

Second, the Court noted that the “objective-reasonableness” approach is more administrable because it asks the court that ruled on the merits of the case to also assess whether the losing party advanced an unreasonable claim or defense—a task courts already do. Kirtsaeng’s approach, on the other hand, is not administrable because courts may not know at the conclusion of a suit whether a newly decided issue will have critical, broad legal significance.

Third, the Court reasoned that the “objective-reasonableness” approach also treats plaintiffs and defendants even-handedly. Indeed, both plaintiffs and defendants can make reasonable or unreasonable arguments. And no matter which side wins, the district court must still assess whether the losing party’s position was reasonable or unreasonable. The Supreme Court further stated that if a district court does conflate the issue of liability with the reasonableness of the claim or defense in granting fees, then its fee award should be reversed for abuse of discretion.

Finally, despite holding that courts should place substantial weight on the “objective reasonableness” of the losing party’s position, the Supreme Court made clear that the reasonableness of the position was only an important, but “not the controlling [factor]” in assessing fee applications in Copyright cases. District courts “must take into account a range of considerations beyond the reasonableness of litigating positions”, for example “litigation misconduct” or “repeated instances of copyright infringement or overaggressive assertions of copyright claims, again even if the losing position was reasonable.” Indeed, a district court “retains discretion, in light of those factors, to make an award even when the losing party advanced a reasonable claim or defense.”

**COPYRIGHTABLE SUBJECT MATTER**

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***Copyrights / Subject Matter***

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**COPYRIGHTABLE SUBJECT MATTER TO BE REVIEWED**

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*Star Athletica, L.L.C. v. Varsity Brands, Inc.*, 136 S.Ct. 1823 (2016)

The Supreme Court granted *certiorari* in a copyright case arising from the US Court of Appeals for the Sixth Circuit and presenting the issue of copyrightability of cheerleader uniforms. *Star Athletica, L.L.C. v. Varsity Brands, Inc.*, Case No. 15-866 (Supr. Ct., May 2, 2016). Specifically, the question presented was: What is the appropriate test to determine when a feature of a useful article is protectable under § 101 of the Copyright Act? The Court heard oral argument on October 31, 2016, but has yet to release its opinion.

In the court below, a split panel of the Sixth Circuit held that the arrangement of colors, stripes, chevrons, zigzags and other designs on a cheerleading uniform are copyrightable, separate from utilitarian aspects of the uniform itself. The court rejected the argument that the pictorial, graphic or sculptural features are simply performing a decorative function (which is itself a “utilitarian aspect of an article”) and are therefore not separable from the utilitarian aspects of the cheerleading uniform. The dissent argued that the case turned on how “function” is defined (*i.e.*, in terms of the decorations in issue), which would determine whether the designs were copyrightable.

During oral argument before the Supreme Court, Star Athletica argued that Varsity chose its particular uniform design in order to (1) make the wearer appear “slimmer,” “taller,” and “curvier,” and (2) identify the wearer as a cheerleader. Star therefore asserted that the design *as applied to the uniform* had a functional role and was not entitled to protection under copyright law. Star clarified that it did not dispute the fact that Varsity has a copyright in the image of the design itself, stating that Varsity could very well prevent others from replicating the image on merchandise such as a lunch pail or a notebook. The crux of Star’s argument was that Varsity could not prevent others from making a *uniform* with the design because the design as applied to a uniform has a utilitarian aspect that is not protected under Section 101 of the Copyright Act since the design as applied to the uniform is not capable of being “identified separately” or “existing independently” of the utilitarian aspects of the article.

Varsity countered that the graph designs (stripes, chevrons, and color blocks) are indeed separable from the useful article on which they appear because while the designs are utilitarian – they “cover the body” and “provide mobility” – it is not the design itself that serves the utilitarian purpose of designating the wearer of the uniform as a cheerleader.

The appeal is currently pending adjudication before the Supreme Court.

## DEFENSES

***Copyrights / First Sale / Burden of Proof*****PARTY RAISING "FIRST SALE" DEFENSE TO COPYRIGHT INFRINGEMENT BEARS INITIAL BURDEN OF PROOF**

*Adobe Systems Inc. v. Christenson et al.*, Case No. 12-17371 (9th Cir., Dec. 30, 2015) (McKeown, J.)

Addressing the appropriate allocation of the burden of proof related to the “first sale” defense to copyright infringement, the US Court of Appeals for the Ninth Circuit confirmed that the initial burden of proof falls on the party raising the defense and affirmed a district court’s grant of summary judgment in favor of a software reseller defendant. *Adobe Systems Inc. v. Christenson et al.*, Case No. 12-17371 (9th Cir., Dec. 30, 2015) (McKeown, J.).

Adobe Systems (Adobe) sued the defendant Joshua Christenson, for copyright infringement based on its unauthorized sale of Adobe software on the defendant’s website. The defendant asserted the “first sale” doctrine as a defense, which provides that a party who lawfully purchases or acquires title to a genuine copy of a work may “sell or otherwise dispose of” the copy without permission from the copyright holder. The defendant argued that he lawfully purchased genuine copies of the Adobe software from third-party distributors. Adobe challenged the first sale defense on the grounds that Adobe solely licenses, and does not sell, its software. In response, the defendant requested that the court place the burden of disproving the first sale defense on Adobe, as the defendant did not have access to the terms of Adobe’s contracts. The district court granted summary judgment in favor of the defendant on the copyright claim, finding that it was “uncontroverted” that the defendant lawfully purchased authentic copies of the Adobe software resold on his site. The burden then shifted to Adobe to prove the absence of a first sale. However, Adobe was unable to do so as the court barred the production of key evidence related to Adobe’s licensing practices because Adobe failed to timely identify or produce such documents during discovery. Adobe appealed.

The 9th Circuit acknowledged that Adobe “easily” established a prima facie case of copyright infringement. Adobe owned valid copyrights to the software in question, and the defendant sold copies of the software without Adobe’s authorization. Turning to the defendant’s first sale defense, the appeals court stated that, similar to civil claims, the burden of proof for an affirmative defense in a copyright action rests on the party asserting the defense. Thus, the party asserting the first sale doctrine as a defense to infringement has the initial burden to show it lawfully acquired title to the copy of the work. In the context of a software infringement case, the party raising the first sale defense satisfies its initial burden of proof by producing evidence sufficient for a jury to find that the infringer lawfully purchased or otherwise acquired title to genuine copies of the copyrighted software. Once the initial burden is satisfied, the burden of proof then shifts to the copyright holder to refute the defense, for example, on the grounds that a first sale did not occur because the software was granted by license. According to the 9th Circuit, this burden-shifting structure is consistent with the legislative history of § 109 of the Copyright Act and principles of fairness.

Ultimately, the Court agreed with the district court that the defendant met its initial burden of proof under the first sale defense by producing legitimate invoices from third-party suppliers evidencing lawful purchases of the Adobe software. Further, the 9th Circuit found that the district court did not abuse its discretion in excluding Adobe’s evidence of licenses, which led to Adobe being unable to meet its burden of proving the absence of a first sale. The appellate court thus affirmed the district court’s summary judgment in favor of the defendant on the copyright infringement claim.

**Copyrights / Infringement / Authorization Defense****COPYRIGHT INFRINGEMENT – PLAINTIFF NOT REQUIRED TO PROVE COPIES ARE UNAUTHORIZED**

*Muhammad-Ali v. Final Call, Inc.*, Case No. 15-2963 (7th Cir., Aug. 10, 2016) (Wood, J)

Correcting a transcription error in a prior decision, the US Court of Appeals for the Seventh Circuit confirmed that a plaintiff does not have to prove that infringing copies are unauthorized as part of a *prima facie* case of copyright infringement. Rather, license, first sale, or any other type of authorization defense must be proven by the defendant. *Muhammad-Ali v. Final Call, Inc.*, Case No. 15-2963 (7th Cir., Aug. 10, 2016) (Wood, J).

In 1984, Jesus Muhammad-Ali created a portrait of Louis Farrakhan, the leader of the Nation of Islam, at Farrakhan's request. Ali registered and recorded a copyright in the painting in 1986. The Final Call, the "propagation arm of the Nation of Islam," began selling lithographic copies of Ali's portrait of Farrakhan at some point after the original painting was created. Ali later sued for copyright infringement, seeking damages for 115 lithographs that The Final Call admitted it had sold in the previous three years.

Prior to trial, The Final Call relinquished all of its defenses and explained that its only argument was that the 115 copies were authorized by Ali. According to The Final Call, its authorization "argument [was] a negative defense, not an affirmative one," and instead was "an attack on the plaintiff's ability to establish its own burden." During the ensuing bench trial, the primary witness for The Final Call testified that he had no knowledge of who made the lithographs or how The Final Call acquired them, and that no lithographs had been made since 1993 when he began working at The Final Call. He further admitted that The Final Call had no formal relationship with Farrakhan.

In its ruling, the district court admitted that it was unsure which party had the burden of proving whether the prints were authorized. However, it ruled in The Final Call's favor because the facts demonstrated that Ali authorized the making of lithographs in his original agreement with Louis Farrakhan—and alluded to the implied license and first sale defenses. Ali appealed.

The Seventh Circuit found that the district court misapplied the legal standard for copyright infringement, and confirmed that Ali was not required to prove that the copying was unauthorized. It noted that the reason for the district court's error was a transcription error in a 2013 Seventh Circuit case, *Hobbs v. John*. In *Hobbs*, the Seventh Circuit misquoted the copyright infringement standard as requiring "*unauthorized* copying of constituent elements of the work that are original" even though the word "unauthorized" was not part of the standard in the prior case law cited by *Hobbs*. The current Seventh Circuit corrected *Hobbs*' mistake and emphasized that Ali had met his *prima facie* case.

The Seventh Circuit then noted that The Final Call could not prove authorization as an affirmative defense because it had waived all affirmative defenses, and even if the district court's resuscitation of the implied license and first sale defenses was appropriate, The Final Call could not establish either defense. As to the implied license defense, the Court ruled that The Final Call could not prove that it had requested the creation of the original work and that the original work had been delivered to The Final Call, because it was Farrakhan who had requested the work and later accepted delivery. While the district court found a "practical identity of interests" between Farrakhan and The Final Call, the Seventh Circuit rejected this idea and found no evidence to connect the lithographs sold by The Final Call to Farrakhan. The Seventh Circuit also rejected the first sale defense because The Final Call could not prove that the specific lithographs sold were from an authorized batch. Accordingly, the Seventh Circuit reversed the district court and found that Ali had successfully proven copyright infringement.

Final Call has since filed a petition for *certiorari*.

**Copyrights / Trade Secrets / Preemption****FEDERAL COPYRIGHT LAW DOES NOT PREEMPT TRADE SECRET CLAIM**

*GlobeRanger Corporation v. Software AG US, Inc.*, Case No. 15-10121 (5th Cir., Sept. 7, 2016) (Costa, J)

Addressing issues of preemption, the US Court of Appeals for the Fifth Circuit affirmed the district court's decision that federal copyright law did not preempt the plaintiff's trade secret claim because trade secret claims seek to protect different rights than those protected under federal copyright law. *GlobeRanger Corporation v. Software AG US, Inc.*, Case No. 15-10121 (5th Cir., Sept. 7, 2016) (Costa, J).

GlobeRanger is a software company that specializes in radio frequency identification (RFID) technology for inventory management. In 2007, GlobeRanger entered into a contract to build and implement a bundle of RFID technology for the US Navy. GlobeRanger provided the Navy with three instances of the solution before the Navy decided it wanted an enterprise-wide system that could be run from a single location rather than requiring servers at each location. The Navy considered proposals for the enterprise-wide system from both GlobeRanger and Software AG, and decided to go with Software's proposal. While working on the Navy contract, Software accessed some of GlobeRanger's data, manuals, and software. GlobeRanger filed a complaint arguing, among other things, that Software misappropriated its RFID technology after taking over GlobeRanger's subcontract with the Navy to implement the technology.

The jury found that Software misappropriated GlobeRanger's trade secrets and awarded \$15 million in compensatory damages. The district court also found that GlobeRanger proved neither malice nor conspiracy, and was not entitled to punitive damages. Software appealed.

On appeal, Software argued that federal copyright law preempted GlobeRanger's trade secret claim, and if the trade secret claim was not preempted, then the case should be remanded to state court. The Fifth Circuit disagreed, explaining that trade secret claims seek to protect different rights than those protected under federal copyright law. A trade secret misappropriation claim requires a claimant to establish that the protected information was taken via improper means or breach of a confidential relationship—an element not required for a copyright violation claim. Because the state tort provides substantially different protection than copyright law, it is not preempted. This ruling brings Fifth Circuit case law on this issue in line with the other 10 regional circuits.

As for the request to remand to state court, the Fifth Circuit denied that request as well, noting that the case was originally removed to federal court based on a conversion claim, which was fully preempted by the copyright claim. Although the conversion claim was dismissed before trial, jurisdiction is determined at the time of removal, and so the case was properly before the district court.

The Fifth Circuit further concluded that GlobeRanger's evidence was sufficient to show that Software used the Navy solution owned by GlobeRanger in developing its own product. Therefore, the Court affirmed the jury's finding with respect to the trade secret claim.

**Copyrights / Fair Use****“WHO’S ON FIRST?” ROUTINE IN BROADWAY PLAY STRIKES OUT AS TRANSFORMATIVE FAIR USE**

*TCA Television Corp. v. McCollum*, 839 F.3d 168 (2d Cir. 2016) (Raggi, J)

The US Court of Appeals for the Second Circuit determined that a Broadway play’s verbatim use of William “Bud” Abbott and Lou Costello’s “Who’s on First?” comedy routine was not a transformative fair use, but nonetheless affirmed the district court’s dismissal of the infringement claim because the plaintiffs could not establish that they owned a copyright for the routine. *TCA Television Corp. v. McCollum*, Case No. 16-134 (2d Cir., Oct. 11, 2016) (Raggi, J).

Abbott and Costello’s heirs sued the producers of the Broadway play “Hand to God” for copyright infringement over the unauthorized use of the iconic “Who’s on First?” comedy routine. The comedy skit consists of a conversation between Abbott and Costello featuring humorous misunderstandings that arise when Abbott announces a baseball team roster of players named “Who,” “What” and “I Don’t Know.” “Hand to God,” a dark comedy critiquing the social norms of a small, religious Southern town features a verbatim recital of the routine when the main character reenacts “Who’s on First?” to impress a girl.

The district court dismissed the infringement claim as a matter of law, finding that the play’s use of “Who’s on First?” was a transformative non-infringing fair use based largely on the fact that the purpose and character of the use (the first of four statutory factors for fair use) were vastly different from the humor of the appropriated routine. The Second Circuit, however, disagreed, stating that the focus of inquiry is not simply on the new work, *i.e.*, whether that work serves a purpose or conveys an overall expression, meaning, or message different from the copyrighted material it appropriates. Rather, the critical inquiry is whether the new work uses the copyrighted material itself for a purpose, or imbues it with a character, different from that for which it was created.

Thus, while the play itself differed from the “Who’s on First?” routine, the unaltered, verbatim use of the routine in the play was not transformative because it did not use the routine for a different purpose, nor did it add any new message, meaning, or expression.

The Second Circuit also found that the other three statutory factors for fair use weighed in favor of the plaintiffs, namely, (1) the nature of the copyrighted work, (2) the amount and substantiality of the portion used as compared to the copyrighted work as a whole, and (3) the effect of the use on the market or value of the copyrighted work.

Although the Second Circuit found that the district court erred in finding the play’s use of “Who’s on First?” transformative, it nonetheless upheld the dismissal of the infringement claim for failure to plead a valid copyright. Defendants argued that the copyright for “Who’s on First?” fell into the public domain in 1968, but the plaintiffs argued ownership of a valid copyright based on theories of assignment, work-for-hire and merger, none of which the Court ultimately found sufficient to plead ownership of a valid copyright as a matter of law.

Abbott has since filed a petition for rehearing or rehearing *en banc*.

**DIGITAL MILLENNIUM COPYRIGHT ACT**

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***Copyrights / DMCA Safe Harbor***

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**DMCA SAFE HARBOR PROTECTION INCLUDES PRE-1972 RECORDINGS**

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*Capitol Records LLC, et al. v. Vimeo LLC*, 826 F.3d 78 (2d Cir. 2016) (Leval, J)

Vacating a district court's decision, the US Court of Appeals for the Second Circuit explained that the safe harbor provision of the Digital Millennium Copyright Act (DMCA) protects material posted on websites of online hosts from liability, even for so-called pre-1972 recordings that are not covered by federal copyright law. *Capitol Records LLC, et al. v. Vimeo LLC*, Case No. 14-1048 (2d Cir., June 16, 2016) (Leval, J).

A group of record and music publishing companies filed suit against Vimeo, an online video platform, alleging that Vimeo was liable for copyright infringement because of 199 videos posted on Vimeo's website. The videos contained musical recordings for which the plaintiffs owned the rights. Vimeo requires its users to upload only material that they have either created or participated in the creation thereof. Vimeo moved for summary judgment, arguing that it was protected by the safe harbor provision under 17 USC § 512 (c).

The DMCA protects internet service providers from liability when users upload copyrighted content, while requiring such providers to remove the material if they receive notice of the infringement or otherwise become aware of the infringement.

The district court found that Vimeo was protected under the DMCA's safe harbor provision for 153 of the videos posted on its website, but that the safe harbor provision was not applicable to recordings earlier than 1972 (the year Congress first included recordings in the scope of federal copyright law) because those recordings are protected by state law. The district court also found that Vimeo could face lawsuits over whether it had known of "red flags" that made infringement apparent. The plaintiffs and Vimeo both appealed.

The Second Circuit explained that the protection afforded by the DMCA safe harbor provision includes pre-1972 sound recordings even though those recordings are protected by state copyright law and not federal copyright law. Exempting the old tracks from the DMCA's system would "defeat the very purpose Congress sought to achieve in passing the statute," namely, to shield online hosts from liability if they follow the rules. "Service providers would be compelled either to incur heavy costs of monitoring every posting to be sure it did not contain infringing pre-1972 recordings, or incurring potentially crushing liabilities under state copyright laws," which would be contrary to the purpose of the DMCA.

The Court also concluded that Vimeo was entitled to protection under the DMCA safe harbor provision even though its employees viewed and "liked" videos containing copyrighted songs and encouraged specific infringements. Once a defendant demonstrates that it qualifies for DMCA safe harbor protections, the burden shifts to the plaintiff to present facts which show the defendant had actual or red flag knowledge of the infringing activity. Here, the plaintiffs' evidence was not enough.

The Supreme Court has since granted Connected Ventures an extension to file a petition for *certiorari*.



**Copyrights / DMCA Safe Harbor****NOT ALL REPEAT INFRINGER POLICIES ARE SUFFICIENT FOR SAFE HARBOR PROTECTION**

*EMI Christian Music Grp., Inc., et al. v. MP3tunes, LLC, et al.*, Case No. 14-4369 (2d Cir., Oct. 25, 2016) (Lohier, J), reh'g denied, (Dec. 13, 2016)

The US Court of Appeals for the Second Circuit vacated a grant of summary judgment that a defendant had a reasonably implemented repeat infringer policy and therefore qualified for safe harbor protection under the Digital Millennium Copyright Act (DMCA) safe harbor provision. In doing so, the Second Circuit used a broader definition of "repeat infringer" than the district court. *EMI Christian Music Grp., Inc., et al. v. MP3tunes, LLC, et al.*, Case No. 14-4369 (2d Cir., Oct. 25, 2016) (Lohier, J), *reh'g denied*, (Dec. 13, 2016).

A group of record and music publishing companies filed a copyright infringement lawsuit against MP3tunes, alleging that MP3tunes, along with its websites MP3tunes.com, which primarily serves as a locker service for storing digital music, and sideload.com, which allows users to search for free music on the internet, infringed plaintiffs' copyrights in thousands of sound recordings and musical compositions. Sideload.com also allows its users to upload music to their MP3tunes.com "locker," which was also searchable.

The DMCA protects internet service providers from liability when users upload copyrighted content, while requiring that such service providers remove the material if they receive notice or otherwise become aware of the infringement. To qualify for the safe harbor protection, a service provider must have "adopted and reasonably implemented, and inform[ed] subscribers and account holders of the service provider's system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider's system or network who are repeat infringers" (17 USC § 512), among other requirements.

In its grant of a partial summary judgment to the defendant, the district court found that MP3tunes had a reasonably implemented repeat infringer policy and therefore qualified for protection under the safe harbor provision. The district court further found that "a user who downloads or copies songs from third-party sites for their personal entertainment could not be a 'repeat infringer.'" Plaintiffs appealed.

The Second Circuit rejected the district court's narrow definition of "repeat infringer," concluding that "in the context of this case, all it takes to be a repeat infringer is to repeatedly upload or download copyrighted material for personal use." Looking at the ordinary meaning of the term, the structure and context of the DMCA, and the legislative history, the Court determined that limiting the term "repeat infringer" to willful infringements is too narrow, and that a "repeat infringer" does not need to know of the infringing nature of its online activities or to upload rather than download content.

The Second Circuit has since denied the defendant's petition for a rehearing or rehearing *en banc*.

## REGULATORY

**Copyrights / Regulatory / Internet Regulation****OPEN INTERNET ORDER PREVAILS**

*United States Telecom Association, et al. v. Federal Communications Commission and United States of America*, Case No. 15-1063 (DC Cir., June 14, 2016) (Tatel, J)

Addressing challenges to the Federal Communication Commission's (FCC's) 2015 Open Internet Order, the US Court of Appeals for the District of Columbia Circuit concluded that the FCC acted with proper authority when it reclassified broadband internet service as a telecommunications service, subject to common carrier regulation under Title II of the Communications Act. In a lengthy opinion, the Court rejected multiple petitions for review, and determined that the FCC permissibly forbore from applying certain provisions of the Act and lawfully promulgated new rules promoting internet openness. *United States Telecom Association, et al. v. Federal Communications Commission and United States of America*, Case No. 15-1063 (DC Cir., June 14, 2016) (Tatel, J).

Under Title II of the Communications Act of 1934, the FCC enjoys broad authority to regulate wireline and wireless communication. Title II mandates that common carriers offering telecommunication services cannot "make any unjust or unreasonable discrimination in charges, practices, classifications, regulations, facilities, or services."

The DC Circuit has examined FCC efforts to regulate broadband services on two prior occasions. In *Comcast v. FCC* (2010), the Court found that the FCC failed to cite any statutory authority that would justify its order compelling a broadband provider to adhere to certain open internet practices. In response to *Comcast*, the FCC relied on § 706 of the Telecommunications Act of 1996 to issue an order imposing transparency, anti-blocking and anti-discrimination requirements on broadband providers. Later, in *Verizon v. FCC* (2014), the DC Circuit vacated the order because the FCC had previously determined that broadband service was not a telecommunication service, and the Communications Act prohibits the FCC from applying Title II regulations to non-telecommunication services.

Following guidance from the DC Circuit in *Verizon*, the FCC issued the 2015 Open Internet Order, which reclassified mobile and wireline broadband, including interconnection agreements between broadband and edge providers, as a telecommunication service subject to Title II provisions.

Shortly after the 2015 Order was released, several parties filed petitions for review in multiple circuits. These cases were eventually consolidated in the DC Circuit. The petitioners, primarily comprising broadband providers and their associations, challenged the 2015 Order on statutory grounds, impermissible application of the regulatory framework to provisions in the Order, and First Amendment grounds.

The DC Circuit found that all of the petitioners' challenges to the reclassification were without merit. First, the Court confirmed that the FCC had statutory authority and noted extensive evidence showing how consumer perception of broadband service offerings justified the decision to reclassify. Second, the Court rejected both the petitioners' procedural and substantive challenges to the FCC's decision to regulate interconnection arrangements under Title II. Third, the Court found that the FCC's reclassification of mobile broadband as a "commercial mobile service" was reasonable and supported by evidence demonstrating the "rapidly growing and virtually universal use of mobile broadband service" today.

On the issue of forbearance, the DC Circuit disagreed with the petitioners, pointing out that the FCC followed an express statutory mandate requiring it to "forbear from applying any regulation or any provision" of the Communications Act if certain criteria were met. The DC Circuit upheld the FCC's inclusion of new rules, citing *Verizon* as having established precedent on the existence of the FCC's rulemaking authority under § 706.

Addressing the speech challenge, the Court held that because a broadband provider does not and is not understood by users to “speak” when providing neutral access to internet content as common carriage, the First Amendment poses no bar to the open internet rules. The new rules formally took effect in June 2015.

Petitioners have since filed a petition for rehearing or rehearing *en banc* and Respondents have filed opposition.



\*Strategic alliance with MWE China Law Offices