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Updated Predictions on Patent Policy under the Trump Administration



Earlier this year, the Shearman patent litigation team published an article predicting patent policy under the Trump Administration.¹ To briefly recap that article: President Trump has given few indications about where he stands on various patent reform issues. However, a number of data points suggest that, if anything, he may take a more pro-patent stance than his predecessor. For instance, Ken Blackwell, one of Trump's transition team advisers has openly and consistently argued against further patent reform (including the Innovation Act) and in favor of stronger patent rights. Similarly, a number of conservative think tanks, including the Heritage Foundation, have cautioned against sweeping patent reform that would further weaken the patent system, and have informed Republican members of Congress that they would be graded on their votes for patent-related bills.

Since publication of our article, President Trump has still not stated a position on patent reform issues. Adding to the uncertainty, Rep. Darrell Issa (R-Calif) has indicated that Michelle Lee will stay on as USPTO Director, and she has made public appearances in what appears to be a professional capacity, notwithstanding her prior resignation letter. And, still other reports have linked former Federal Circuit Chief Judge Randall Rader and Johnson & Johnson's Phil Johnson to the position. The USPTO has declined to comment, and most recently extended its deadline to March 10 to respond to a Freedom of Information Act request seeking confirmation of the name of the USPTO director. Likewise, the Trump Administration has yet to confirm or deny any of the reports, perhaps because of the delay in confirmation of President Trump's nominee for Commerce Secretary, Wilbur Ross (who was finally confirmed on February 27).

Despite the silence from the Trump Administration, several key Congressional Republicans have indicated that they will continue to push an anti-patent reform agenda, albeit somewhat more tepidly than in prior years.

Specifically, Rep. Bob Goodlatte (R-VA), the Chairman of the House Judiciary Committee, and sponsor of the 2015 Innovation Act, unveiled his agenda for the 115th Congress, which included a pledge to "discourage patent litigation and keep U.S. patent laws up to date."

Senator Orrin Hatch (R-UT), the Chairman of the Senate Republican High-Tech Task Force, also recently rolled out his "Innovation Agenda" for the 115th Congress. The agenda included a similar bullet point:

Patent Reform. Pass Legislation to reduce the prevalence of abusive patent suits and preserve incentives for innovation.

In a speech announcing the plan, Senator Hatch explained that the one patent-related area where he believed progress could be made this year was on venue reform:

As you know, [patent litigation] is a tremendously thorny issue. But I believe there's one area where we can see real progress this year: venue. Abusive litigants have exploited a hole in the law to direct a disproportionate number of suits to plaintiff-friendly forums, and to one such forum in particular. The Supreme Court is currently examining the issue, so we won't have a full view of the

¹ <http://www.shearman.com/en/newsinsights/publications/2017/01/predicting--policy-under-the-trump-admin>

landscape until after the Court rules. But no matter what the Court does, we're likely going to need follow-on legislation to prevent future forum-shopping and to ensure that litigants have a meaningful connection to the site of the suit.

Given some of the data points suggesting a pro-patent stance from President Trump and the more reserved comments from key Congressional leaders on further patent reform, we do not expect significant legislative changes in the short term. As Senator Hatch noted, the one area where many may agree is on venue, subject to the Supreme Court's decision in *TC Heartland*.

In the longer term, we may see Congress take a fresh look at Section 101, which has become confused and inconsistently applied post-*Alice*. Numerous trade associations and key thought leaders have recently called for changes to Section 101 to reduce uncertainty and to expand the scope of patentable subject matter beyond the current judicial standards. For example, the Intellectual Property Owner's Association adopted a resolution to legislatively amend Section 101 in a way that would clearly eliminate any conflation of Section 101 with Sections 102, 103, or 112. The AIPLA submitted comments to the USPTO stating that Section 101 "typically is not the proper standard for deciding whether a particular technical advance should receive patent protection" and that "[a] legislative solution is needed." David Kappos, former USPTO Director, has called for abolition of Section 101 altogether.

Time will tell whether and to what extent the Trump Administration is interested in patent reform, and if so, whether such reform will take on a more pro-patent shape than most of the legislative proposals from the 114th Congress.

En Banc Federal Circuit Considering Availability of Appellate Review for Patent Owner Challenges to PTAB IPR Time-Bar Decisions



The Federal Circuit recently granted a petition for rehearing *en banc* in *Wi-Fi One, LLC v. Broadcom Corp.* to address the following question:

Should this Court overrule *Achates Reference Publishing, Inc. v. Apple Inc.*, 803 F.3d 652 (Fed. Cir. 2015) and hold that judicial review is available for a patent owner to challenge the PTO's determination that the petitioner satisfied the timeliness requirement of 35 U.S.C. 315(b) governing the filing of inter partes review?

This raises the possibility that the Federal Circuit will soon review the PTAB's decisions on real party-in-interest ("RPI") and privity questions, which often drive statutory timeliness disputes.

In *Achates Reference Publishing, Inc. v. Apple Inc.*,¹ Achates unsuccessfully argued to the PTAB that Apple was time-barred as a result of Apple's relationship with another litigation defendant, QuickOffice, who had been sued more than one year before Apple filed its IPR petition. The Federal Circuit dismissed Achates's appeal, holding that the PTAB's decision as to timeliness under Section 315(b) was judicially unreviewable at any time. Specifically, the Federal Circuit stated that "[Section 314(d)] prohibits this court from reviewing the Board'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 proceedings and restated as part of the Board's final written decision."²

In *Wi-Fi One*, patent owner Wi-Fi argued unsuccessfully to the PTAB that petitioner Broadcom was time-barred because it was in privity with entities involved in parallel district court litigation on the same patent. On appeal to the Federal Circuit, Wi-Fi acknowledged the *Achates* decision, but argued that (1) the decision is flawed, and (2) the Supreme Court's *Cuozzo* decision has implicitly overruled *Achates*. The Federal Circuit panel rejected Wi-Fi's arguments, reasoning that the Supreme Court had upheld the prohibition against reviewability of "questions that are closely tied to the application and interpretation of statutes related to the USPTO's decision to initiate *inter partes* review," and that Section 315 was just such a statute.³ Despite the panel's unanimity on this issue, Judge Reyna's concurrence advocated for *en banc* review of the *Achates* decision on the ground that it renders Section 315(b) "toothless."⁴ In suggesting *en banc* review, Judge Reyna specifically noted that *Cuozzo*'s holding was not intended to "enable the agency to act outside its statutory limits."⁵

The effects of the Federal Circuit's *en banc* decision could be significant. Currently, privity and RPI law at the Federal Circuit is under-developed, at least in the context of post-grant proceedings. Privity and RPI law has developed at the

¹ 803 F.3d 652 (Fed. Cir. 2015).

² *Id.* at 658 (emphasis added).

³ *Wi-Fi One, LLC v. Broadcom Corp.*, 837 F.3d 1329, 1334 (Fed. Cir. 2016).

⁴ *Id.* at 1340.

⁵ *Id.* at 1341.

PTAB in a way that is petitioner-friendly: the PTAB rarely allows patent owners to take discovery on privity or RPI issues, and has generally rejected arguments that, absent more, members of trade associations, or suppliers and their indemnified customers, are in privity with one another. If the Federal Circuit changes the *Achates* rule and starts reviewing time-bar decisions under Section 315(b), it could shift the privity and RPI balance away from petitioners, and, in turn, alter petitioner IPR strategy, as well as the calculus of whether and to what extent companies should collaborate in various trade associations and joint defense groups.

Supplemental briefing (including amicus briefing) in the *Wi-Fi One, LLC v. Broadcom Corp.* case is ongoing. Oral argument is yet to be scheduled.

Federal Circuit Significantly Narrows CBM Review Eligibility



On November 21, 2016, in *Unwired Planet, LLC v. Google Inc.*,¹ the Federal Circuit significantly scaled back the number of patents eligible for covered business method (“CBM”) review. Specifically, the court eliminated from the PTAB-expanded definition for CBM eligibility “financial” activity that is merely “incidental” or “complementary” to the activity.

Section 18(d)(1) of the America Invents Act (“AIA”)—adopted verbatim by the USPTO in 37 C.F.R. § 42.301—provides that a patent is eligible for CBM review—an estoppel-limited, petitioner-friendly patent review—if (1) it “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,” and (2) the claims are not directed to a “technological invention.”²

As to the first prong, the PTAB has broadly defined it to include not only claims “that are financial in nature,” but also claims that are only “incidental” or “complementary” to a financial activity, thus resulting in claims that do not appear to be “financial in nature” nonetheless being eligible for CBM review.³ Specifically, the PTAB has often looked to the patent specification to see if there is a direct or indirect financial-related activity. For example, in *Unwired Planet*, the PTAB found claims directed to restricting access to a wireless device’s location information to be “incidental” or “complementary” to financial activity because the asserted patent’s “disclosure indicates the ‘client application’ may be associated with a service provider or a goods provider, such as a hotel, restaurant, or store that wants to know a wireless device is in its area so relevant advertising may be transmitted to the wireless device.”⁴ That is, while the asserted *Unwired Planet* patent claims are not themselves directed to a “financial activity,” the claimed “location service could involve an eventual sale of services.”⁵

In *Unwired Planet*, for the first time, the Federal Circuit disagreed with the overall PTAB approach, holding that the PTAB’s definition exceeds and “renders superfluous the limits Congress placed on the definition of a CBM patent,” and vacating and remanding the PTAB decision.⁶ The court emphasized that the “incidental” or “complementary” activity appears nowhere in the statute—it derives from a senator’s single statement on general policy indicating that the definition should be broadly interpreted.⁷ And, the court noted, the PTAB adopted in its rulemaking the exact statutory definition, not the general policy statement.⁸ Such policy statements “are not legally binding, and without adopting a policy as a rule through rulemaking, an

¹ 841 F.3d 1376 (Fed. Cir. 2016).

² AIA § 18(d)(1) (emphasis added); see also 37 C.F.R. § 42.301.

³ E.g., *Google Inc. v. Unwired Planet, LLC*, CBM2014-00006, 2015 WL 1570274, at *7 (PTAB Apr. 6, 2015).

⁴ *Unwired Planet*, 841 F.3d at 1378.

⁵ *Id.* at 1380 (emphasis added).

⁶ *Id.* at 1382.

⁷ *Id.* at 1380.

⁸ *Id.* at 1381; compare AIA § 18(d)(1) with 37 C.F.R. § 42.301.

'agency cannot apply or rely on upon a general statement of policy as law.'"⁹ The court also chastised the PTAB for cherry-picking a single statement from a broader congressional debate that contained inconsistent views.¹⁰

This decision—as well as the more recent *Secure Access* decision (discussed below)—ends the PTAB's expansive interpretation of CBM-eligible patents. The PTAB is already scaling back its CBM eligibility approach, relying on the revamped CBM definition to deny institution of claims that, pre-*Unwired Planet*, may well have been found "incidental" or "complementary" to a financial activity.¹¹ We expect these trends to continue.

⁹ *Unwired Planet*, 841 F.3d at 1381.

¹⁰ *Id.*

¹¹ *E.g.*, *Google Inc. v. HBAC Matchmaker Media Inc.*, CBM2016-00097, Paper 16 at 16 (PTAB Feb. 27, 2017) ("We agree with Patent Owner that, based on the Federal Circuit's new guidance in *Unwired*, Petitioner has not demonstrated that the challenged claims . . . are directed to a method or apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service."); *Google Inc. v. KlausTech Inc.*, CBM2016-00096, Paper 10 at 11 (PTAB Feb. 27, 2017) ("Although we recognize that Internet advertising generally involves the sale of ad space, the fact that a sale has occurred or may occur is not enough when the challenged claims neither recite, a sale nor are otherwise directed to the practice, administration, or management of a financial product or service." (citing *Unwired Planet*, 841 F.3d at 1382)).

Federal Circuit Continues to Narrow Scope of CBM Qualification



In *Secure Access, LLC v. PNC Bank National Ass'n.*,¹ the Federal Circuit reversed the PTAB's determination that a challenged patent—relating “generally to computer security, and more particularly, to systems and methods for authenticating a web page”—qualified for covered business method (“CBM”) review. This opinion follows on the heels of another Federal Circuit decision, *Unwired Planet* (discussed above), which also curtailed the PTAB's broad application of the CBM procedure.

The written description of the patent at issue in *Secure Access* focuses on web page authentication, but includes sporadic references to activities that are financial in nature, including representative examples of bank website authentication. The specification also explains how the invention could be used to facilitate “online commerce transactions.”

In its initial written decision, the PTAB determined that the challenged patent was eligible for CBM review. It maintained this determination in its final written decision and held that claims 1–32 were unpatentable under Section 103.

AIA Section 18(d) defines “covered business patent” as “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”

In determining that the patent qualified as a CBM patent, the PTAB rejected the patent owner's contention that the statutory phrase “financial product or service” included “only financial products such as credit, loans, real estate transactions, check cashing and processing, financial services and instruments, and securities and investment products.”² The PTAB reasoned that because the “patent is directed to solving problems related to providing a web site to customers of financial institutions . . . [the] patent covers the ancillary activity related to a financial product or service of Web site management and functionality and so, according to the legislative history of the AIA, the method and apparatus of the . . . patent perform operations used in the administration of a financial product or service.”³ The PTAB also noted that the patent owner's allegations of infringement by “approximately fifty financial institutions is a factor weighing toward the conclusion that the patent claims a method or apparatus that at least is incidental to a financial activity, even if other types of companies also practice the same invention.”⁴

The Federal Circuit reversed and held that a patent only qualifies for CBM if it claims a “method or corresponding apparatus . . . used in the practice [] of a financial product or service” and that it was error for the PTAB (1) to expand the statutory language “financial product or service” to cover methods and apparatuses merely *incidental to a financial activity*, and (2) to consider *Secure Access's* choice of litigation targets—all financial institutions—as a factor relevant to the

¹ 2017 WL 676601 (Fed. Cir. Feb. 21, 2017).

² *Id.* at *3.

³ *Id.*

⁴ *Id.* at *4.

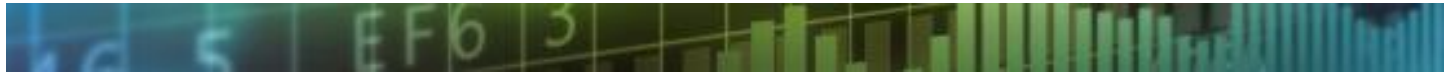
challenged patent's qualification for CBM review.⁵ As it did in *Unwired Planet*, the Federal Circuit reasoned that "financial product or service" could not be read to cover inventions that are merely "incidental" or "complementary" to financial activity because nearly all inventions have some expectation of complementary financial activity. The court highlighted the PTAB's reliance on Secure Access's choice of litigation targets as an example of how the PTAB's broadened definition can lead to considerations beyond the question of whether the claims themselves, as understood in light of the written description, meet the statutory definition. The court reasoned that "a patent owner's choice of litigation targets could be influenced by a number of considerations . . . [which] do not necessarily define a patent as a CBM patent, nor even necessarily illuminate an understanding of the invention as claimed."⁶

Secure Access asked the Federal Circuit for a remand to decide the CBM question under the correct definition. But the court went one step further and held that the challenged patent did not qualify for CBM review. Judge Lourie dissented, opining that the claims themselves were directed to financial products or services, irrespective of the PTAB's use of an overly broad definition of what qualifies as a CBM patent.

⁵ *Id.* at *6–8.

⁶ *Id.* at *8.

District Courts Split on Scope of IPR Estoppel



While the *inter partes* review procedure is nearly five years old, in many respects, the law remains unsettled and continues to evolve. This can be seen from recent district court decisions differing in their interpretation of the scope of IPR estoppel.

The Federal Circuit's Shaw Decision Sets the Stage for IPR Estoppel

In March 2016, the Federal Circuit in *Shaw*¹ considered the scope of IPR estoppel under Section 315(e), holding that it does not extend to grounds rejected by the PTAB in a decision instituting IPR petitions.

Shaw filed an IPR challenging certain patent claims on three grounds—two asserting obviousness and one asserting anticipation by a different prior-art reference. The PTAB instituted IPR based on the two obviousness grounds, but denied institution based on the anticipation ground, which—without further explanation—it deemed “redundant” to the obviousness grounds. After a trial on the merits, the PTAB determined that Shaw had not proven these claims to be unpatentable.

Shaw appealed the final written decision, and also petitioned for a writ of *mandamus* directing the PTAB to reconsider its institution decision. The stringent requirements for a writ of *mandamus* were satisfied, Shaw argued, because the final decision in the IPR created an estoppel under Section 315(e) preventing Shaw from raising the anticipation ground (or other grounds) in the future, even though neither the PTAB nor the court had evaluated its merits.

Section 315(e) recites:

- (1) Proceedings before the office.— The petitioner in an inter partes review of a claim in a patent under this chapter that results in a final written decision under section 318(a), or the real party in interest or privy of the petitioner, 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.
- (2) Civil actions and other proceedings.— The petitioner in an inter partes review of a claim in a patent under this chapter that results in a final written decision under section 318(a), or the real party in interest or privy of the petitioner, may not assert either in a civil action arising in whole or in part under section 1338 of title 28 or in a proceeding before the International Trade Commission under section 337 of the Tariff Act of 1930 that the claim is invalid on any ground that the petitioner raised or reasonably could have raised during that inter partes review.²

The Federal Circuit denied *mandamus*, disagreeing with Shaw, and accepting the argument of the USPTO (as intervenor) that estoppel does not apply in these circumstances.³ IPR proceeds in two phases: first, the PTAB evaluates the petition to determine whether to institute IPR; second, the PTAB conducts the IPR itself and makes a final decision based on the

¹ *Shaw Indus. Grp., Inc. v. Automated Creel Sys., Inc.*, 817 F.3d 1293 (Fed. Cir. 2016).

² 35 U.S.C § 315(e).

³ *Shaw*, 817 F.3d at 1300.

evidence.⁴ Therefore, the court reasoned, if the PTAB rejects a ground in its institution decision, it never becomes part of the IPR itself, and so is not a “ground that the petitioner raised or reasonably could have raised *during* that inter partes review.”⁵ Since the PTAB’s redundancy decision did not give rise to estoppel with respect to the anticipation ground, as it specifically prevented Shaw from raising that ground in the IPR, Shaw may argue that ground in the future court proceedings, and *mandamus* was not warranted.

District Courts’ Conflicting Interpretation of IPR Estoppel

Intellectual Ventures I LLC v. Toshiba Corp. (D. Del.): Narrow Estoppel

Judge Robinson of the District Court of Delaware recently weighed in on post-*Shaw* IPR estoppel, taking it one, very significant step further. In *Intellectual Ventures I LLC v. Toshiba Corp.*,⁶ Judge Robinson held that Section 315(e) estoppel applies only to grounds actually instituted. In other words, estoppel does not apply even to grounds never raised in the petition.

Toshiba filed a petition for IPR, asserting four grounds of invalidity: two based on anticipation and two based on obviousness. The PTAB instituted on one of the obviousness grounds and denied the remaining grounds. The PTAB ultimately issued its final written decision, finding unpatentable the challenged claims on the sole instituted ground. While IV’s Federal Circuit appeal was pending, IV moved for partial summary judgment in the district court based on IPR estoppel, arguing that Toshiba should be estopped from asserting invalidity of the challenged claims based on either (1) the instituted obviousness ground itself; or (2) an obviousness combination involving references not presented to the PTAB—because it “could have been raised” in the IPR.⁷ Toshiba responded that IV’s motion was “fundamentally unfair,” and that a stay “makes most sense, as the Federal Circuit appeal likely will result in the patent claims being confirmed as invalid.”⁸

Judge Robinson denied the stay, and, with respect to the instituted obviousness ground, agreed with IV, holding it consistent with the plain language of Section 315(e) and *Shaw*. However, with respect to the additional obviousness combination not before the PTAB, Judge Robinson disagreed. Relying on *Shaw*, Judge Robinson found that “[a]lthough IV’s argument in this regard is perfectly plausible, in the sense that Toshiba certainly could have raised these additional obviousness grounds based on public documents *at the outset* of their IPR petition, the Federal Circuit has construed the [language of Section 315(e)(2)] quite literally.”⁹ She continued, “the Court determined in *Shaw* that, because the PTAB rejected a certain invalidity ground proposed by the IPR petitioner, no IPR was instituted on that ground, and, therefore, petitioner ‘did not raise—nor could it have reasonably raised—the [rejected] ground **during** the IPR.’”¹⁰ While expressing concerns that “extending [this] logic to prior art references never presented to the PTAB at all (despite their public nature)

⁴ *Id.*

⁵ *Id.* (emphasis in original).

⁶ *Intellectual Ventures I LLC v. Toshiba Corp.*, No. 13-453-SLR, 2016 WL 7341713 (D. Del. Dec. 19, 2016), *reconsideration denied*, 2017 WL 107980 (D. Del. Jan. 11, 2017).

⁷ *Id.* at *12.

⁸ *Id.*

⁹ *Id.* at *13 (emphasis added).

¹⁰ *Id.* (quoting *Shaw*, 817 F.3d at 1300) (alteration and emphasis in original).

confounds the very purpose of this parallel administrative proceeding,” Judge Robinson felt she was nonetheless bound and unable to “divine a reasoned way around the Federal Circuit’s interpretation in *Shaw*.”¹¹

Verinata Health, Inc. v. Ariosa Diagnostics, Inc. (N.D. Cal.): Narrow Estoppel

Judge Illston of the Northern District of California grappled with a similar issue in *Verinata Health, Inc. v. Ariosa Diagnostics, Inc.*¹²

Verinata argued that *Shaw* applies only to grounds actually presented in an IPR petition, and denied institution because they are found “redundant.”¹³ Judge Illston determined otherwise. According to Judge Illston, *Shaw* has a much broader application, namely, it applies to any “noninstituted ground,” regardless of whether the ground was included in the IPR petition.¹⁴ Like Judge Robinson, Judge Illston found that the *Shaw* court “interpret[ed] the IPR estoppel language literally, plainly stating that only arguments raised or that reasonably could have been raised *during* IPR are subject to estoppel.”¹⁵ That is, under *Shaw*’s literal reading, any ground not actually instituted was not raised, nor could it have been raised, *during* the IPR, and, thus, no estoppel attaches.¹⁶ She also noted that “[s]ince *Shaw*, courts have read the decision accordingly,” citing to, among other decisions, Judge Robinson in *Intellectual Ventures I*.¹⁷

However, Judge Illston—unlike Judge Robinson—appeared to agree with the underlying rationale to read Section 315(e) quite literally: “limiting IPR estoppel to grounds actually instituted ensures that estoppel applies only to those arguments, or potential arguments, that received (or reasonably could have received) proper judicial attention.”¹⁸

Parallel Networks Licensing, LLC v. Int’l Business Machines Corp. (D. Del.): Broad Estoppel

Third Circuit Judge Jordan (sitting by designation in the District of Delaware) found in *Parallel Networks Licensing, LLC v. Int’l Business Machines Corp.*¹⁹ that “[a] broad estoppel provision [35 U.S.C. § 315(e)(2)] prevents inter partes review petitioners from raising arguments in federal court that could have been raised during their IPRs.”²⁰

¹¹ *Id.* On reconsideration, Judge Robinson reiterated her view that the “outcome does not strike [her] as necessarily consistent with the notion of having a parallel administrative proceeding that is supposed to supplant litigation and provide a faster, cheaper, better resolution to patent disputes” and, while she maintained her original decision, she did so “with the hopes that an appeal may clarify the issue for future judges in future cases.” *Intellectual Ventures I*, 2017 WL 107980 at *1–2.

¹² *Verinata Health, Inc. v. Ariosa Diagnostics, Inc.*, No. 12-cv-05501-SI, 2017 WL 235048 (N.D. Cal. Jan. 19, 2017).

¹³ *Id.* at *3.

¹⁴ *Id.*

¹⁵ *Id.* (citing *Shaw*, 817 F.3d at 1300) (emphasis in original).

¹⁶ *See id.*

¹⁷ *Id.* (citing *HP Inc. v. MPHJ Tech. Invs., LLC*, 817 F.3d 1339, 1347 (Fed. Cir. 2016) (“[T]he noninstituted grounds do not become a part of the IPR. . . . [T]he noninstituted grounds were not raised and, as review was denied, could not be raised in the IPR.” (alteration in original)); *Illumina, Inc. v. Qiagen, N.V.*, No. 16-2788-WHA, 2016 WL 4719269, at *6 (N.D. Cal. Sept. 9, 2016) (“The Federal Circuit recently held that statutory estoppel does not apply to grounds raised in a petition but not instituted. . . . Thus, the arguments that Qiagen raises herein, which were not instituted by the IPR, are not barred by Section 315(e)(2).”); *Intellectual Ventures I*, 2016 WL 7341713, at *13 (“[I]n *Shaw*[.] . . . because the PTAB rejected a certain invalidity ground proposed by the IPR petitioner, no IPR was instituted on that ground and, therefore, petitioner ‘did not raise—nor could it have reasonably raised—the [rejected] ground during the IPR.’” (alterations in original))).

¹⁸ *Id.* at *3.

¹⁹ No. 13-cv-2072 (KAJ) (Feb. 22, 2017) (slip op.).

IBM had joined four already-instituted IPR petitions, filing essentially identical petitions. Although the PTAB instituted on all grounds, it found in its Final Written Decisions that IBM failed to show that any of the challenged claims were unpatentable.²¹ IBM then sought in district court to invalidate the same challenged claims “based on prior art combinations of which it was aware before it filed its IPR Petitions” and included in its invalidity contentions a year before it filed the IPR petitions.²²

Parallel Networks argued that these prior art combinations “reasonably could have been raised,” and thus, IBM “should not be able to raise them here.”²³

IBM countered that it could not have raised the combinations due to the procedural posture of its petitions: because it joined already-instituted IPRs (as opposed to filing its own independent IPRs), it was limited to the arguments and grounds presented in the already-instituted IPRs.²⁴

Judge Jordan disagreed with IBM, finding that, “[d]espite IBM’s claims to the contrary, there is ‘no mirror image rule’ for joinder.”²⁵ According to Judge Jordan, “[a]llowing IBM to raise arguments here that it elected not to raise during the IPR would give it a second bite at the apple and allow it to reap the benefits of the IPR without the downside of meaningful estoppel.”²⁶ Thus, “to prevent that unfair result,” Judge Jordan “conclude[d] that IBM is estopped from asserting prior art references that it could have reasonably raised before the PTAB.”²⁷ Interestingly, in doing so, Judge Jordan did not cite to *Shaw*.

Takeaways

Under the broader interpretation that is implicit in Judge Jordan’s reasoning, patent challengers in most cases would be estopped from using any patent- or publication-based prior-art arguments in a district court litigation that follows an IPR. Under the narrower interpretation applied by Judges Robinson and Illston, a patent challenger would be estopped only on grounds that were actually litigated in the PTAB. In between is the interpretation that would result if the *Shaw* holding is limited to its facts, under which the estoppel would apply to every ground **except** those that the challenger raised in its IPR request, but failed to convince the PTAB to accept for institution.

Given the conflicting interpretations of the estoppel statute and the *Shaw* decision so far,²⁸ we expect the Federal Circuit to soon provide further guidance on the intended scope of *Shaw*, and in particular, whether grounds that were never raised in

²⁰ *Id.* at 24.

²¹ *Id.*

²² *Id.*

²³ *Id.* at 25.

²⁴ *Id.*

²⁵ *Id.* at 26.

²⁶ *Id.*

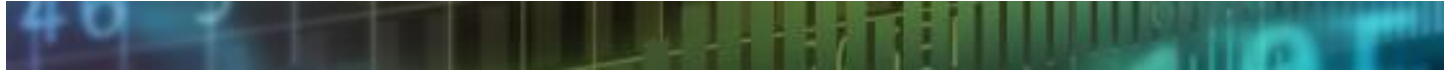
²⁷ *Id.*

²⁸ See also, e.g., *Great West Casualty Co. v. Intellectual Ventures II LLC*, IPR2016-01534, Paper 13 at 1 (PTAB Feb. 15, 2017) (disagreeing with *Intellectual Ventures I* and *Verinata* and holding that, under *Shaw*, estoppel applies to grounds that a petitioner could have but “elected not to raise” in a petition).

an IPR proceeding fall within the scope of Section 315(e)'s "reasonably could have raised during that inter partes review" language.

It seems logical that broader estoppel would mean fewer IPR requests, and narrower estoppel would mean more IPR requests. However, as a practical matter it may well be that there are very few cases in which the breadth of the estoppel would affect the challenger's decision to request IPR. In that case, narrowing the estoppel would not encourage additional IPR filings, and would only result in more follow-on district court validity litigation—which was certainly not Congress's intent in enacting the AIA.

Recent Development at the Federal Circuit: Remanding the PTAB's Obviousness Determinations



As post-grant patent challenges under the AIA have become more popular, the Federal Circuit's docket has changed dramatically. As of February 1, 2013, the Federal Circuit had 1,001 pending cases, of which only 92 originated from the USPTO. By contrast, as of January 31, 2017, 1,511 cases were pending in the court, with 609 of them coming from the USPTO. The bulk of this difference comprises appeals from post-grant AIA trials.

Post-grant challenges are limited to validity issues, and the most popular of these challenges—*inter partes* review (“IPR”)—is limited to anticipation and obviousness challenges based on “paper” prior art. Therefore, the Federal Circuit's increased workload has a specific focus on validity issues, especially obviousness over prior art references. This focus has resulted in precedential opinions regarding the requirement that there be evidence of some reason that a skilled artisan would have combined the prior art.

In December, the Federal Circuit decided *In re NuVasive, Inc.*,¹ an appeal from an IPR in which the PTAB held the challenged claims obvious. Vacating the PTAB's decision, the Federal Circuit both discussed the requirement that “the PTAB must articulate a *reason why* a PHOSITA would combine the prior art references” and “identified some insufficient articulations of motivations to combine” in the PTAB's recent decisions: conclusory statements, mere rejection of contrary arguments, and reliance solely on common knowledge.² In the *NuVasive* IPR, the PTAB had relied on all three articulations in ruling that an ordinary artisan would have been motivated to combine the cited references.³

Then, in January, the Federal Circuit decided *In re Van Os*,⁴ an appeal from a PTAB decision in original prosecution. There, the PTAB “found, without further discussion, that the combination of Gillespie with Hawkins would have been ‘intuitive.’”⁵ “The board did not explain *why* modifying Hawkins with the specific disclosure in Gillespie would have been ‘intuitive’ or otherwise identify a motivation to combine.”⁶ Based solely on the insufficiency of this explanation, and without any criticism of the PTAB's ultimate conclusion, the Federal Circuit vacated the decision and remanded.⁷ Judge Newman dissented in part, agreeing that the PTAB failed to explain its obviousness case but opining that reversal, not remand, was the appropriate remedy.⁸

Most recently, the Federal Circuit decided *Personal Web Techs., LLC v. Apple, Inc.*,⁹ an appeal from an IPR in which the PTAB found the claims obvious. The Federal Circuit found that the PTAB's analysis was lacking with respect to both the

¹ 842 F.3d 1376 (Fed. Cir. 2016). The petitioner in the IPR (Medtronic, Inc.) withdrew from the appeal, hence the *ex parte* caption.

² *Id.* at 1382–83 (emphasis in original). “PHOSITA” means a person having ordinary skill in the relevant art.

³ *Id.* at 1384.

⁴ 844 F.3d 1359 (Fed. Cir. 2017).

⁵ *Id.* at 1361.

⁶ *Id.* at 1362 (emphasis added).

⁷ *See id.* at 1361–62.

⁸ *Id.* at 1362–63 (Newman, J., dissenting).

⁹ No. 2016-1174 (Fed. Cir. Feb. 14, 2017) (slip op.) (precedential).

prior art's disclosure of the claim elements and the rationale underlying the combination of references. On the latter point, the Federal Circuit went into greater substantive detail than in *NuVasive* and *Van Os*, holding that it is simply not enough "that a skilled artisan, once presented with the two references, would have understood that they *could be* combined."¹⁰ The court further criticized the PTAB's failure to explain "how the combination of the two references was supposed to work."¹¹ The Federal Circuit remanded, without any determination as to whether the record could actually support the PTAB's conclusion.¹²

Remanding a decision so that the PTAB can provide a more detailed explanation on the same record can introduce significant delay into the process, particularly if another appeal is taken thereafter. This is a particular problem in the context of AIA trials, which are supposed to conclude quickly and which often are the basis for stay of parallel district court litigation. But the Federal Circuit's hands are to some extent tied: A court cannot affirm agency action on grounds not relied upon by the agency when doing so would require, *e.g.*, fact finding on appeal.¹³ Judge Newman would reverse in the context of *ex parte* examination, in which the PTO and the applicant are the only parties to the appeal and the PTO can be charged with the PTAB's failure to explain its rationale. However, it appears that the court finds this approach unfair in the context of *inter partes* proceedings—in which the challenger should not be held responsible for the PTAB's explanation of its findings—or unwarranted by the relatively weak (although cursorily invalidated) patent claims.

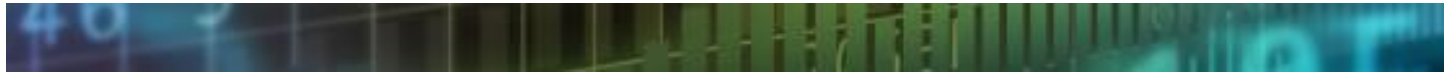
¹⁰ *Id.* at 11 (emphasis in original).

¹¹ *Id.* at 12 (emphasis in original).

¹² *Id.* at 12–13.

¹³ *SEC v. Chenery Corp.*, 318 U.S. 80, 88 (1943).

Patent Venue at the Supreme Court Update: TC Heartland's Petition for Certiorari Granted



In the November 2016 issue of our Intellectual Property newsletter we published a commentary on TC Heartland's petition for certiorari, in which we suggested that TC Heartland raised enough interesting issues for the Supreme Court to grant certiorari. On December 14, 2016, the Supreme Court did grant TC Heartland's petition on the following issue: Whether the patent venue statute, 28 U.S.C. § 1400(b), which provides that patent infringement actions "may be brought in the judicial district where the defendant resides," is the sole and exclusive provision governing venue in patent infringement actions and is not to be supplemented by the statute governing "[v]enue generally," 28 U.S.C. § 1391, which has long contained a subsection (c) that, where applicable, deems a corporate entity to reside in multiple judicial districts.

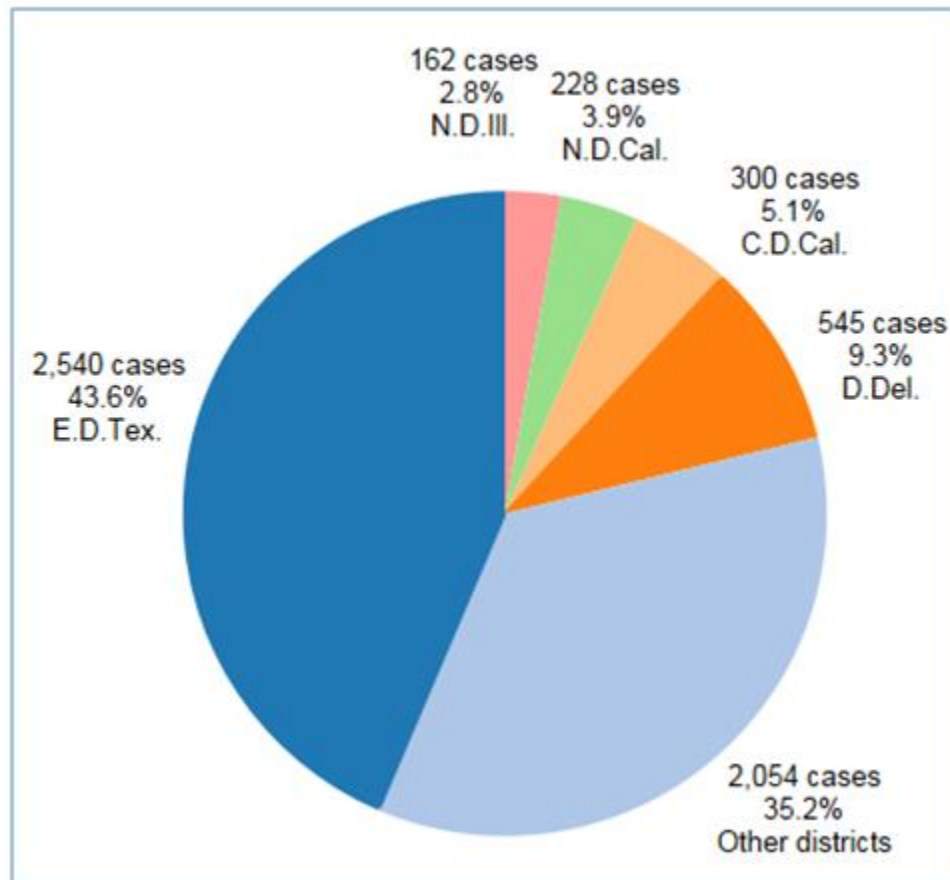
On January 30, 2017, TC Heartland submitted its opening merits brief.

Two sections of its brief, "Effects of the Federal Circuit's New Reinterpretation of the Patent Venue Statute" and "The Federal Circuit's Reinterpretation of § 1400(b) Has Brought Back the Very 'Abuses' That Congress Sought to Avoid," are particularly striking from a policy perspective.¹

First, TC Heartland explains, through statistical studies, the dramatic concentration of patent infringement litigation in a select few district courts of the United States. TC Heartland explains that, in 2015, "more than 40% of all patent cases were brought in [the United States District Court for the Eastern District of Texas ("E.D. Tex.")], and more than 50% of patent cases were filed in just two districts (E.D. Tex. and D. Del.), as illustrated in the chart below (Brian Howard, *Lex Machina 2015 End-of-Year Trends* Fig. 3 (Jan. 7, 2016), available at <http://www.lexmachina.com/lex-machina-2015-end-of-year-trends>):²

¹ Brief for Petitioner at 14–16, 37–39, *TC Heartland, LLC v. Kraft Foods Group Brands LLC*, (Jan. 30, 2017) (No. 16-341) ("TC Heartland's Opening Br.").

² TC Heartland's Opening Br. at 15.



TC Heartland further asserts that statistical studies show that these district courts are “simply better for patent plaintiffs and worse for patent defendants,”³ based on three variables: “[i] shorter time-to-trial, [ii] higher success rates, and [iii] greater median damages awards.”⁴

Second, quoting several amici, comprised of global business leaders and renowned academics, TC Heartland denounces the Federal Circuit’s “revisionist interpretation of § 1400(b),” which it claims has:⁵

- Resulted in “rampant and unseemly forum shopping” that “hampers innovation, generates erroneous results, and undermines respect for the rule of law.” Brief of Amici Dell Inc. and the Software & Information Industry Association at 3, 6.
- “[L]ed to pervasive forum shopping” that “has fundamentally altered the landscape of patent litigation in ways detrimental to the patent system as a whole.” Brief of Amici 32 Internet Companies, Retailers, and Associations at 3, 17 (citation omitted).

³ TC Heartland’s Opening Br. at 16 (quoting Matthew Sag, *IP Litigation in U.S. District Courts: 1999-2014*, 101 IOWA L. REV. 1065, 1099 (2016)).

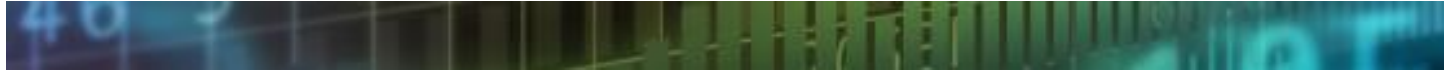
⁴ TC Heartland Opening Br. at 16 (quoting Chris Barry et al., *2016 Patent Litigation Study: Are We at an Inflection Point?* 15 (2016), available at <https://www.pwc.com/us/en/forensic-services/publications/assets/2016-pwc-patent-litigation-study.pdf>).

⁵ TC Heartland Opening Br. at 37–38.

- Produced “a massive imbalance in the distribution of patent suits in the United States” that undermines “core purposes underlying our patent laws.” Brief of Amici American Bankers Association, the Clearing House Payments Company L.L.C., Financial Services Roundtable and Consumer Bankers Association at 8–9.
- Engendered abusive “forum shopping [of] the very sort” that “Congress sought to guard against when it adopted legislation limiting venue in patent litigation.” Brief of Amicus Washington Legal Foundation at 14.
- Generated a “venue free-for-all” that “especially harms small companies and American consumers” and that “may be drawing courts into competition to *attract* patent owners—the ones with unilateral choice over the forum—by adopting practices and procedures favorable to patent owners.” Brief of Amici the Electronic Frontier Foundation and Public Knowledge at 3, 21.
- “[F]undamentally shaped the landscape of patent litigation in ways that harm the patent system, by enabling extensive forum shopping and forum selling.” Brief of Amici 56 Professors of Law and Economics at 12.
- “[C]reated numerous practical negative consequences” including “concentration of most patent litigation [in] a select few district courts, which is bad for positive development of patent law.” Brief of Amicus Paul R. Michel (retired Chief Judge of the Federal Circuit) at 1.

Oral argument is scheduled for March 27, 2017.

A “Substantial Portion” of the Components of a Patented Invention is More Than One



In the August 2016 issue of our Intellectual Property newsletter, we published a summary of the parties’ arguments in *Life Techs. Corp. v. Promega Corp.*, a case in which the Supreme Court was considering whether the Federal Circuit erred in holding that supplying from the United States a single commodity component of a multi-component invention is an infringing act under Section 271(f)(1), exposing the manufacturer to liability for all worldwide sales.

On February 22, 2017, the Supreme Court reversed the Federal Circuit’s decision and remanded the case for further proceedings, holding that a single component does not constitute a substantial portion of the components that can give rise to liability under Section 271(f)(1).

The Court’s opinion first looks to the text of the statute to determine whether the phrase “a substantial portion” is quantitative or qualitative in nature. Justice Sotomayor, writing for the Court, explains that the Patent Act provides no definition for the word “substantial,” and that “the term is ambiguous and, taken in isolation, might refer to an important portion or a large portion.”¹ However, when read in the context of the statute—including in the context of the quantitative words “portion” and “all”—the word “substantial” is best interpreted as a quantitative measurement.² Another contextual indicator is that the phrase “substantial portion” is modified by “of the components of a patented invention.”³

It is the supply of all or a substantial portion “of the components” of a patented invention that triggers liability for infringement. But if “substantial” has a qualitative meaning, then the more natural way to write the opening clause of the provision would be to not reference “the components” at all. Instead, the opening clause of § 271(f)(1) could have triggered liability for the supply of “all or a substantial portion of . . . a patented invention, where [its] components are uncombined in whole or in part.” A qualitative reading would render the phrase “of the components” unnecessary the first time it is used in § 271(f)(1). Whenever possible, however, we should favor an interpretation that gives meaning to each statutory provision Only the quantitative approach does so here. Thus, “substantial,” in the context of § 271(f)(1), is most reasonably read to connote a quantitative measure.⁴

The Court rejects Promega’s argument that a quantitative approach is too narrow, and that the Court should adopt a “case-specific approach,” which would require a factfinder to decipher whether the components at issue are a “substantial portion” under either a qualitative or quantitative test. Justice Sotomayor explains that “[h]aving determined the phrase ‘substantial

¹ *Life Techs. Corp. v. Promega Corp.*, No. 14–1538 (Feb. 22, 2017) (slip op., at 5).

² *Id.* at 6.

³ *Id.*

⁴ *Id.*

portion' is ambiguous, our task is to resolve that ambiguity, not to compound it by tasking juries across the Nation with interpreting the meaning of the statute on an ad hoc basis."⁵

Second, the Court's opinion holds that, as a matter of law, a single component can never constitute a "substantial portion" so as to trigger liability under Section 271(f)(1). Justice Sotomayor reasons that both the use of the plural "components" and the structure of the statute reinforce this reading: "Reading § 271(f)(1) to refer to more than one component allows the two provisions to work in tandem. Whereas § 271(f)(1) refers to 'components,' plural, § 271(f)(2) refers to 'any component,' singular."⁶

Last, the Court's opinion reviews the history of Section 271(f), namely the enactment of Section 271(f) in response to the Court's opinion in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972) and concludes that its history bolsters the Court's conclusions. The Court observes that "[i]n *Deepsouth*, the Court determined that, under patent law as it existed at the time, it was 'not an infringement to make or use a patented product outside of the United States.'"⁷ And, in response to this decision, Congress expanded the definition of infringement in Section 271(f) to include supplying from the United States a patented invention's components. "The effect of this provision was to fill a gap in the enforceability of patent rights by reaching components that are manufactured in the United States but assembled overseas and that were beyond the reach of the statute in its prior formulation."⁸

Justices Alito and Thomas concurred in the judgment and in all but Part II-C of the Court's opinion. They diverged from the majority because, in their view, Congress intended to go a little further than to simply fill the gap created by *Deepsouth*: "In other words, today's opinion establishes that more than one component is necessary, but does not address *how much* more."⁹

⁵ *Id.* at 7.

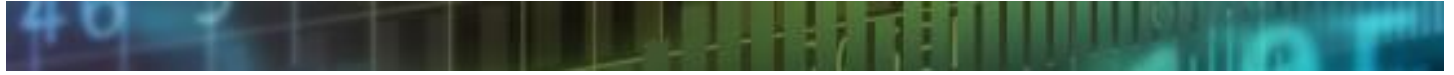
⁶ *Id.* at 9.

⁷ *Id.* at 10.

⁸ *Id.* at 11.

⁹ *Id.* at 1 (Alito, J., concurring in part and concurring in the judgment) (emphasis in original).

The Supreme Court (and Federal Circuit) Remand *Samsung Elecs. Co. v. Apple Inc.* Design Patent Damages



On January 9, 2017, in *Samsung Elecs. Co. v. Apple Inc.*, the Supreme Court unanimously held that, under Section 289 of the patent statute governing design patent infringement damages, a patentee is only entitled to the total profit from the portion of a multicomponent product that infringes the design patent, not necessarily the total profit from the sales of the end product to consumers.¹ However, the Court rejected the concept that any of the profits should be *apportioned* according to the value of the design patents (*vis-à-vis*, for example, the value of the utility patents embodied by the infringing product).²

The Statute-At-Issue

Section 289 provides, 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” (emphases added).

Background

This portion of the well-known patent litigation between Apple and Samsung related to Apple design patents covering the “rounded-rectangle” shape and graphical user interface that have become synonymous with the iPhone. A jury in the Northern District of California found that Samsung infringed three of Apple’s design patents and awarded Apple \$399 million in damages—Samsung’s entire profits for the infringing phones. On appeal, Samsung primarily argued that its phones embody hundreds of thousands of patented features—not owned by Apple—and thus an entire profits damages model is inappropriate. Nonetheless, the Federal Circuit affirmed, holding that the “article of manufacture” was the end product sold to consumers. The Supreme Court granted Samsung’s petition for a writ certiorari to answer the question: “Where 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’s Decision

A unanimous Supreme Court held that, for a multicomponent product, the relevant “article of manufacture” may be simply a component of that product, rather than the end product sold to the consumer.³ And, just because an individual component may be integrated into a larger, multicomponent product, that does not take the individual component outside the scope of an “article of manufacture.”

The Supreme Court noted that this reading is consistent with both Sections 171(a) and 101. As to the former—which makes eligible for a design patent a “new, original and ornamental design for an article of manufacture”—the USPTO and

¹ *Samsung Elecs. Co., LTD v. Apple Inc.*, 580 U.S. ___ (2016) (slip op., at 1).

² *Id.* at 8.

³ *Id.*

courts have permitted such a design patent to cover only an individual component.⁴ As to the latter—which makes eligible for a utility patent “any new and useful . . . manufacture . . . or any new and useful improvement thereof”—“manufacture” has been broadly interpreted to cover components separately from the product itself.⁵

However, the Supreme Court’s ruling was not necessarily a win for Samsung, as the Court refused to set out a test for determining the relevant “article of manufacture” in a Section 289 case, and in fact rejected the concept that any of the profits should be apportioned according to the value of the design patents (*vis-à-vis*, for example, the value of the utility patents embodied by the phones).⁶ The Supreme Court remanded the case to the Federal Circuit to address any remaining issues, including identification of the infringing “article of manufacture” and the total profits attributable thereto. On remand, the Federal Circuit declined to adopt either Samsung’s or Apple’s proposals, and instead further remanded the case to the district court for proceedings consistent with the Supreme Court’s decision.⁷

Takeaways

- This decision has little applicability to utility patent damages, since damages for infringement of design patents are governed by an entirely different statute (Section 289).
- Even after this decision, design patents can still have significant value. Although the Supreme Court held that an individual component of a multiple-component product may constitute “an article of manufacture” under Section 289, it nonetheless acknowledged that a patent owner is entitled to an infringer’s total profits, and explicitly refused to find that Section 289 contains a causation requirement (*i.e.*, that the infringer’s profits must be *attributable* to the patented design). Thus, the question is now just a matter of which component(s) the design was applied. And, while it is no longer a foregone conclusion, in many instances, and possibly on remand in this *Samsung v. Apple* case, a patent owner may recover an infringer’s total profits on the sale of a multi-component product.

⁴ *Id.* at 6.

⁵ *Id.* at 7.

⁶ *Id.* at 8.

⁷ *Apple Inc. v. Samsung Elecs. Co.*, No. 2014-1335, 2015-1029 (Fed. Cir. Feb. 7, 2017) (slip op., at 4–5).

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