

McDermott  
Will & Emery

MARCH 2018

# Intellectual Property Law Year in Review

© 2018 McDermott Will & Emery LLP. These materials may be considered advertising under the rules regulating the legal profession.

McDermott Will & Emery conducts its practice through separate legal entities in each of the countries where it has offices.

## INTRODUCTION

---

This year was a significant year for intellectual property cases at the Supreme Court level. In fact, the Supreme Court granted certiorari for seven patent cases, and decided five of these cases before the end of the year. These cases ranged from issues regarding proper venue to laches defenses. Currently, the court is hearing arguments related to whether or not the *inter partes* review (IPR) proceedings at the United States Patent and Trademark Office (USPTO) are constitutional. As for trademarks, the Supreme Court issued a controversial decision that attempted to solve the clash between longstanding trademark registration rules and the First Amendment. This year saw many Supreme Court decisions that changed the legal landscape of certain issues within intellectual property law, and the Court is showing no signs of slowing down as 2018 approaches.

### **Looking Back at 2017**

In 2017, the Supreme Court and Federal Circuit issued numerous decisions that caused significant changes to the practice of intellectual property law. First and foremost, the Supreme Court's decision in *TC Heartland LLC v. Kraft Food Brands Group LLC* rattled the field of patent law on the subject of venue. In this case, the Supreme Court held that patent infringement suits can only be filed where the defendant is incorporated or the defendant has committed acts of infringement and has a regular and established place of business. Before this case, Federal Circuit case law effectively allowed a plaintiff to file patent suits anywhere a defendant made sales. This led to a large concentration of cases being filed in the plaintiff-friendly Eastern District of Texas, a problem most famously addressed by comedian John Oliver on his show "Last Week Tonight with John Oliver." Through this holding, the Supreme Court discarded decades of precedent regarding venue selection.

In March, the Supreme Court limited the time in which laches is available as a defense to patent suits. In the case *SCA Hygiene Products AB et al v. First Quality Baby Products LLC*, the court ruled that the equitable defense of laches is no longer a valid defense to patent damages brought within the six year damages limitation period. This decision essentially opens the door for plaintiffs to wait the entire life of a patent to file a complaint but also alleviates the concerns of potential plaintiffs worrying about their suit being barred as a result of attempting other resolutions to solve potential conflicts.

In May, the Federal Circuit issued a ruling that defined the scope of changes made in the American Invents Act. In *Helsinn Healthcare SA v. Teva Pharmaceuticals USA Inc.*, the Federal Circuit interpreted the scope of the on-sale bar provision, 35 USC § 102(a)(1), under the America Invents Act and held that claims are invalid where there is public disclosure of a sale of an invention, even when the details of the invention are not public.

As for trademarks, the Supreme Court struck down the Lanham Act's ban on offensive trademark registrations. In *Matal v. Tam*, the court determined that the ban on offensive trademark registration was unconstitutional as it violated the Free Speech Clause of the First Amendment. This case received wide media coverage because of the effects it had on the Patent and Trademark Office's efforts to use the rule against the Washington Redskins of the National Football League.

### **Looking Ahead to 2018**

At the close of 2016, many wondered what effect President Trump's election would have on intellectual property law, specifically related to the individuals President Trump would appoint to fill the vacant seat on the Supreme Court and the President's appointee to the position of the Director of the USPTO. As the year 2017 comes to a close, the answers to these questions are becoming clear.

Justice Gorsuch displayed a heavy pro-patent viewpoint during the November 29th oral argument in *Oil States*, where the Justice at times appeared to win over other justices with persuasive and straightforward Madisonian viewpoints stressing the need to protect IP rights with the same standards as personal property. Whether his convictions are sufficient to find the *inter partes* review proceedings unconstitutional, his pro-IP protection message during the *Oil States* argument is one that will play an important role in intellectual property law juris prudence moving forward.

As to the new Director of the USPTO, it appears that President Trump's appointee Andrei Iancu is likely to cruise through the Senate confirmation process following a unanimous approval by the Senate Judiciary Committee on December 14th. During the November 29th confirmation hearing before the Judiciary Committee, Iancu stated that "[t]he playing field must be even for all" because many parties find themselves as the patentee one day and the alleged infringer the next. This call for balance and reliability should please a vast majority of patent owners since Iancu's background does not imply that he is solely concerned

with life sciences or computer-based technologies. One of his proposed methods of assessing the critiques of the post-grant proceedings is to actively sit as a Patent Trial and Appeal Board (PTAB) judge, something that is authorized by statute. However, Iancu is yet to be officially confirmed and it appears that it will not happen until early 2018, at which point, Iancu's method for implementing these policies will be clarified.

Substantive issues to watch for in the coming year include subject matter eligibility, whether the *inter partes* review proceedings are Constitutional, whether 35 USC § 145 for civil actions in the E.D. Va. authorizes the PTO to seek attorney's fees regardless of which party prevails, and at what point does the registration of a copyright authorize one to have standing to sue for infringement.

Specifically, look for an increase in cases upholding patents under *Alice* as a result of the Federal Circuit's holding in *Visual Memory v. NVIDIA* that found the alleged abstract idea overly broad under *Alice* Step 1. The decision bolsters the *Enfish* and *Thales* line of authority finding patents directed to *bona fide* improvements in computer technology. It also pushes back on a line of cases including *Apple v. Ameranth* that criticized patents that do not describe the mechanism of achieving the claimed functions or goals.

Additionally, the pending *en banc* appeal before the Federal Circuit in *Nantkwest v. Matal* discusses whether § 145 of the AIA authorizes the USPTO to be awarded attorney's fees for all actions filed in the E.D. Va. Should the Federal Circuit rule against the USPTO, a split between the Federal Circuit and the Fourth Circuit would exist, with the Fourth Circuit finding an analogous provision of the Lanham Act to affirmatively authorize fee-shifting.

In the realm of copyrights, a current petition for writ of certiorari is filed in *Fourth Estate Public Benefit Corp. v. Wall-treet.com* where the issue is whether the "registration of [a] copyright claim has been made" within the meaning of 17 USC § 411(a) when the copyright holder delivers the required application, deposit, and fee to the Copyright Office, as the US Courts of Appeal for the 5th and 9th Circuits have held, or only once the Copyright Office acts on that application, as the US Courts of Appeals for the 10th and, in the decision below, the 11th Circuits have held.

Lastly, be on the lookout for the Supreme Court's opinion in *Oil States*. While many believe that the Court will not invalidate the IPR proceedings, the massive disruption to the patent system that would occur should the Court find IPRs unconstitutional would leave many wondering how to respond moving forward and what the effect on pending IPRs would be, as well as how district courts will respond to the likely increase in litigation as a result of IPR unconstitutionality in addition to the constraints placed on litigants seeking to file their cases in E.D. Tx. but unable to do so as a result of *TC Heartland*. This could result in many jurisdictions unfamiliar with patent cases being forced to litigate a large number of them within a short time-frame.

## TABLE OF CONTENTS

INTRODUCTION .....	2
<b>PATENTS</b> .....	<b>11</b>
<b>ANTITRUST</b> .....	<b>11</b>
<i>Cascades Computer Innovation, LLC v. RPX Corp. and Samsung Electronics Co. Ltd.</i> , Case No. 16-15782 (9th Cir. 2017).....	11
<i>FTC and DOJ Guidelines</i> .....	12
<i>Archos S.A. v. Koninklijke Philips N.V.</i> (Dist. Ct. of The Hague, Feb. 10, 2017).....	13
<i>Regeneron Pharmaceuticals, Inc. v. Merus N.V.</i> , Case No. 16-1346 (Fed. Cir., July 27, 2017) (Prost, CJ) (Newman, J, dissenting).....	14
<i>Retractable Techs., Inc. v. Becton Dickinson &amp; Co.</i> , Case No. 14-41384 (5th Cir., Dec. 2, 2016).....	16
<i>In re: Lipitor Antitrust Litig.</i> , Case Nos. 14-4202; -4203; -4204; -4205; -4206; -4602; -4632; 15-1184; -1185; -1186; -1187; -1274; -1323; -1342 (3d Cir., Apr. 13, 2017).....	17
<b>ATTORNEY-CLIENT PRIVILEGE</b> .....	<b>18</b>
37 CFR § 42.57.....	18
<i>In re OptumInsight, Inc.</i> , Misc. Docket No. 2017-116 (Fed. Cir., July 20, 2017) (Hughes, J).....	19
<b>BIOSIMILARS</b> .....	<b>20</b>
<i>Sandoz Inc. v. Amgen Inc.</i> , Docket No. 15-1039 (Supr. Ct., June 12, 2017) (Thomas, Justice) (Breyer, Justice, concurring).....	20
<i>Amgen, Inc. v. Hospira, Inc.</i> , Case No. 16-2179 (Fed. Cir., Aug. 10, 2017) (Dyk, J).....	22
<b>CLAIM CONSTRUCTION</b> .....	<b>24</b>
<i>Power Integrations Inc. v. Fairchild Semiconductor Int'l, Inc.</i> , Case No. 15-1329 (Fed. Cir., Dec. 12, 2016) (Chen, J).....	24
<i>Skky, Inc. v. MindGeek, s.a.r.l.</i> , Case No. 16-2018 (Fed. Cir., June 7, 2017) (Lourie, J).....	25
<i>Core Wireless Licensing S.A.R.L. v. Apple Inc.</i> , Case No. 15-2037 (Fed. Cir., Apr. 17, 2017) (O'Malley, J).....	26
<i>IPCom GmbH &amp; Co. v. HTC Corp.</i> , Case No. 16-1474 (Fed. Cir., July 7, 2017) (Chen, J).....	27
<i>TVIIM, LLC v. McAfee, Inc.</i> , Case No. 16-1562 (Fed. Cir., Mar. 21, 2017) (Reyna, J).....	28
<i>Phil-Insul Corp. v. Airlite Plastics Co.</i> , Case No. 16-1982 (Fed. Cir., Apr. 17, 2017) (O'Malley, J).....	29
<i>Medgraph, Inc. v. Medtronic, Inc.</i> , Case No. 15-2019 (Fed. Cir., Dec. 13, 2016) (Lourie, J).....	30
<b>EXHAUSTION</b> .....	<b>31</b>
<i>Impression Products v. Lexmark International.</i> , 581 US 1523 (2017) (Roberts, J).....	31
<b>INFRINGEMENT</b> .....	<b>32</b>
<i>Eli Lilly and Co. v. Teva Parenteral Medicines, Inc.</i> , Case No. 15-2067 (Fed. Cir., Jan. 12, 2017) (Prost, C.J.).....	32
<i>Intellectual Ventures LLC v. Motorola Mobility LLC</i> , 870 F.3d 1320 (Fed. Cir. 2017) (Dyk, J) (Newman, J, concurring in part and dissenting in part).....	33
<i>Lifetime Indus., Inc. v. Trim-Lok, Inc.</i> , 869 F.3d 1372 (Fed. Cir. 2017) (Lourie, J).....	34
<b>INVALIDITY SECTION 101 SUBJECT MATTER ELIGIBILITY</b> .....	<b>35</b>
<i>Smart Systems Innovations, LLC v. Chicago Transit Authority</i> , 873 F.3d 1364 (Fed. Cir. 2017) (Wallach, J) (Linn, J, concurring in part and dissenting in part).....	35
<i>Thales Visionix Inc. v. U.S.</i> , Case No. 15-5150 (Fed. Cir., Mar. 8, 2017) (Moore, J).....	36

<i>The Cleveland Clinic Foundation v. True Health Diagnostics LLC</i> , Case No. 16-1766 (Fed. Cir., June 16, 2017) (Reyna, J).....	37
<i>Trading Tech. Int'l, Inc. v. CQG, Inc.</i> , Case No. 16-1616 (Fed. Cir., Jan. 18, 2017) (Newman, J.) (non-precedential).....	39
<i>Visual Memory LLC v. NVIDIA Corporation</i> , Case No. 16-2254 (Fed. Cir., Aug. 15, 2017) (Stoll, J) (Hughes, J, dissenting) .....	40
<b>INVALIDITY SECTION 102 ON-SALE BAR</b> .....	<b>42</b>
<i>Helsinn Healthcare S.A. v. Teva Pharmaceuticals USA, Inc.</i> , Case Nos. 16-1284; -1787 (Fed. Cir., May 1, 2017) (Dyk, J).....	42
<b>INVALIDITY SECTION 103 OBVIOUSNESS</b> .....	<b>44</b>
<i>In re Ethicon, Inc.</i> , Case No. 15-1696 (Fed. Cir., Jan. 3, 2017) (Lourie, J) (Newman, J., dissenting).....	44
<i>Bayer Pharma AG v. Watson Laboratories, Inc.</i> , 874 F.3d 1316 (Fed. Cir. 2017) (Moore, J).....	46
<i>U.S. Water Servs., Inc. v. Novozymes A/S</i> , Case Nos. 15-1950; -1967 (Fed. Cir., Dec. 15, 2016) (Wallach, J).....	47
<i>Novartis AG, et al. v. Noven Pharmaceuticals Inc.</i> , Case Nos. 16-1678; -1679 (Fed. Cir., Apr. 4, 2017) (Wallach J).....	48
<i>Los Angeles Biomedical Research Institute at Harbor-UCLA Medical Center v. Eli Lilly and Co.</i> , Case No. 16-1518 (Fed. Cir., Feb. 28, 2017) (Bryson, J) (Newman, J, concurring in part, dissenting from the judgment); <i>Eli Lilly and Co. v. Los Angeles Biomedical Research Institute at Harbor-UCLA Medical Center</i> , Case No. 16-1547 (Fed. Cir., Feb. 28, 2017) (Bryson, J).....	49
<i>In re Van Os</i> , Case No. 15-1975 (Fed. Cir., Jan. 3, 2017) (Moore, J.) (Newman, J., concurring in part, dissenting in part) .....	51
<i>Honeywell Int'l Inc. v. Mexichem Amanco Holding S.A.</i> , Case No. 16-1996 (Fed. Cir., Aug. 1, 2017) (Lourie, J) (Wallach, J, dissenting in part).....	52
<i>Millennium Pharmaceuticals, Inc. v. Sandoz Inc.</i> , Case Nos. 15-2066; 16-1008; -1009; -1010; -1109; -1110; -1283; -1762 (Fed. Cir., July 17, 2017) (Newman, J).....	54
<b>INVALIDITY SECTION 112 INDEFINITENESS</b> .....	<b>55</b>
<i>BASF Corporation v. Johnson Matthey Inc.</i> , 875 F.3d 1360 (Fed. Cir. 2017) (Taranto, J.).....	55
<i>Sonix Technology Co., Ltd. v. Publications International, Ltd.</i> , Case No. 16-1449 (Fed. Cir., Jan. 5, 2017) (Lourie, J.).....	56
<b>JURISDICTION &amp; VENUE</b> .....	<b>57</b>
<i>NexLearn, LLC v. Allen Interactions, Inc.</i> , Case No. 16-2170 (Fed. Cir., June 19, 2017) (Moore, J).....	57
<i>In re Micron Tech, Inc.</i> , 875 F.3d 1091 (Fed. Cir., 2017) (Taranto, J).....	58
<i>Allied Mineral Products, Inc. v. Osmi, Inc.</i> , 870 F.3d 1337 (Fed. Cir. 2017) (Moore, J.) .....	59
<i>New World Int'l, Inc. v. Ford Global Techs., LLC</i> , Case No. 16-2097 (Fed. Cir., June 8, 2017) (Bryson, J) .....	60
<i>TC Heartland LLC v. Kraft Foods Group Brands LLC</i> , Case No. 16-341 (Supr. Ct., May 22, 2017) (Thomas, Justice) .....	61
<i>In re: Cray Inc.</i> , Case No. 17-129 (Fed. Cir., Sept. 21, 2017) .....	63
<i>Preston et al. v. Nagel et al.</i> , Case No. 16-1524 (Fed. Cir., June 1, 2017) (Hughes, J).....	64
<b>REMEDIES</b> .....	<b>66</b>
<i>Apple Inc. v. Samsung Elecs. Co., et al.</i> , Case Nos. 14-1335, 15-1029 (Fed. Cir., Feb. 7, 2017) (per curiam) (non-precedential).....	66
<i>Promega Corp. v. Life Technologies Corp.</i> , 875 F.3d 651 (Fed. Cir. 2017) (Chen, J) .....	67
<i>Rembrandt Wireless Techs., LP v. Samsung Elecs. Co., Ltd.</i> , Case No. 16-1729 (Fed. Cir., Apr. 17, 2017) (Stoll, J) .....	68
<i>Addressing evidentiary issues, the US Court of Appeals for the Federal Circuit agreed with the district court that a settlement agreement related to the patent at issue is admissible as proof of a reasonable royalty. Prism Techs. LLC v. Sprint Spectrum L.P.</i> , Case Nos. 16-1456; -1457 (Fed. Cir., Mar. 6, 2017) (Taranto, J).....	69

<i>Presidio Components, Inc. v. American Technical Ceramics Corp.</i> , 875 F.3d 1369 (Fed. Cir. 2017) (Dyk, J).....	70
<i>Asetek Danmark A/S v. CMI USA Inc., FKA Cooler Master USA Inc., Cooler Master Co. Ltd.</i> , Case Nos. 16-1026; -1183 (Fed. Cir., Dec. 6, 2016) (Taranto, J) (Prost, CJ, dissenting in part).....	72
<i>ArcelorMittal v. AK Steel Corp.</i> , Case No. 16-1357 (Fed. Cir., May 16, 2017) (Hughes, J) (Wallach, J, dissenting).....	73
<i>Halo Electronics, Inc. v. Pulse Electronics, Inc.</i> , Case No. 16-2006 (Fed. Cir., May 26, 2017) (Lourie, J).....	74
<i>Genband US LLC v. Metaswitch Networks Corp.</i> , Case No. 17-1148 (Fed. Cir., July 10, 2017) (Taranto, J).....	75
<i>Metalcraft of Mayville, Inc. v. The Toro Co.</i> , Case No. 16-2433 (Fed. Cir., Feb. 16, 2017) (Moore, J).....	76
<i>Roof N Box, Inc. v. Building Materials Corp.</i> , Case No. 16-2427 (Fed. Cir., June 5, 2017) (Taranto, J).....	77
<b>ATTORNEYS' FEES</b> .....	<b>78</b>
<i>Rothschild Connected Devices Innovations, LLC v. Guardian Protection Servs., Inc.</i> , Case No. 2016-2521 (Fed. Cir., June 5, 2017) (Wallach, J) (Mayer, J, concurring).....	78
<i>Nantkwest, Inc. v. Matal</i> , Case No. 2016-1794 (Fed. Cir., June 23, 2017) (Prost, CJ) (Stoll, J, dissenting).....	79
<i>NantKwest, Inc. v. Matal</i> , Case No. 16-1794 (Fed. Cir., Aug. 31, 2017) (per curiam: en banc).....	80
<b>LACHES</b> .....	<b>81</b>
<i>SCA Hygiene Prods. Aktiebolag, et al. v. First Quality Baby Prods., LLC, et al.</i> , Case No. 15-927 (Supr. Ct., Mar. 21, 2017) (Alito, Justice) (Breyer, Justice, dissenting).....	81
<b>INTERNATIONAL TRADE COMMISSION (ITC)</b> .....	<b>84</b>
<i>In re Certain Network Devices</i> , Inv. No. 337-TA-945 (ITC, June 20, 2017).....	84
<b>COVERED BUSINESS METHOD (CBM) REVIEW</b> .....	<b>85</b>
<i>Plaid Technologies, Inc. v. Yodlee, Inc.</i> , Case No. CBM2016-00088 (PTAB, Dec. 7, 2016) (Kim, APJ).....	85
<i>Secure Access v. PNC Nat'l Assoc.</i> , Case No. 16-1353 (Fed. Cir., June 6, 2017) (denying en banc review) (per curiam) (Taranto, J, concurring, joined by Moore, J) (O'Malley, J, concurring) (Reyna, J, concurring) (Lourie, J, dissenting, joined by Prost, CJ; Dyk, J; Wallach, J; and Hughes, J) (Dyk, J, dissenting, joined by Wallach, J, and Hughes, J) (Plager, J, concurring).....	86
<i>Secure Access, LLC v. PNC Bank National Association</i> , Case No. 16-1353 (Fed. Cir., Feb. 21, 2017) (Plager, J) (Lourie, J, dissenting); <i>Twilio Inc. v. Telesign Corporation</i> , Case No. CBM2016-00099 (PTAB, Feb. 27, 2017) (Arbes, APJ); <i>Google Inc. v. Klaustech, Inc.</i> , Case No. CBM2016-00096 (PTAB, Feb. 27, 2017) (Zecher, APJ).....	88
<b>AIA / CBM / SUBJECT MATER JURISDICTION</b> .....	<b>90</b>
<i>Facebook, Inc., et al. v. Skky, LLC</i> , Case No. CBM2017-00006 (PTAB, Apr. 11, 2017) (Easthom, APJ).....	90
<i>Addressing petitioner's urging that the Patent Trial and Appeal Board (PTAB) import the district court "time of filing" rule to institution decisions for covered business method (CBM) reviews, the PTAB once again held that disclaimed claims are to be disregarded when determining whether a patent is CBM eligible. Facebook, Inc., et al. v. Skky, LLC</i> , Case No. CBM2017-00006 (PTAB, Apr. 11, 2017) (Easthom, APJ).....	90
<i>Return Mail, Inc. v. United States Postal Service</i> , Case No. 16-1502 (Fed. Cir., Aug. 28, 2017) (Prost, CJ) (Newman, J, dissenting).....	91
<b>INTER-PARTES REVIEW (IPR) CONSTITUTIONALITY</b> .....	<b>92</b>
<i>Oil States Energy Services, LLC v. Greene's Energy Group, LLC</i> , Docket No. 16-712 (Supr. Ct., June 12, 2017).....	92
<i>Cascades Projection LLC v. Epson America, Inc.</i> , Case No. 17-1517; -1518 (Fed. Cir., May 11, 2017) (per curiam) (Newman, J, concurring) (Dyk, J, concurring, joined by Prost, CJ, and Hughes, J) (O'Malley, J, dissenting) (Reyna, J, dissenting).....	93
<i>ABS Global, Inc. v. Inguran, LLC</i> , Case No. IPR2016-00927, Paper 33 (PTAB, Oct. 2, 2017) (Kalan, APJ); <i>Seabery North America, Inc. v. Lincoln Global, Inc.</i> , Case No. IPR2016-00840, Paper 60 (PTAB Oct. 2, 2017) (Giannetti, APJ).....	94
<i>Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co.</i> , Case No. 16-2321 (Fed. Cir., Aug. 22, 2017) (per curiam) (Dyk, J, concurring).....	95

<i>Reactive Surfaces Ltd., LLP v. Toyota Motor Corp., Case No. IPR2017-00572, Paper 32 (PTAB, July 13, 2017) (Moore, APJ)</i> .....	97
<b>IPR PROCEDURAL ISSUES</b> .....	<b>98</b>
<i>EmeraChem Holdings, LLC v. Volkswagen Group of America, Inc., Case No. 16-1984 (Fed. Cir., June 15, 2017) (Moore, J)</i> .....	98
<i>Icon Health &amp; Fitness, Inc. v. Strava, Inc., Case No. 2016-1475 (Fed. Cir., Feb. 27, 2017) (Wallach, J) (O'Malley, J, concurring in part and dissenting in part)</i> .....	99
<i>Tinnus Enterprises, LLC, Zuru LTD v. Telebrands Corporation, Bed Bath &amp; Beyond, Inc., Case No. 16-1410 (Fed. Cir., Jan. 24, 2017) (Stoll, J)</i> .....	100
<i>Outdry Tech. Corp. v. Geox S.P.A., Case No. 16-1769 (Fed. Cir., June 16, 2017) (Moore, J)</i> .....	101
<b>IPR CLAIM AMENDMENTS</b> .....	<b>102</b>
<i>Amerigen Pharms. Ltd. v. Shire LLC, Case No. IPR2015-02009 (PTAB, Mar. 31, 2017) (Scheiner, APJ)</i> .....	102
<b>IPR INSTITUTION</b> .....	<b>103</b>
<i>Int'l Bus. Mach. Corp. v. ZitoVault, LLC, Case No. IPR2016-01851, (PTAB, Mar. 20, 2017) (Fishman, APJ)</i> .....	103
<i>CULTEC, Inc. v. Stormtech LLC, Case No. IPR2017-00777 (Aug. 22, 2017) (Grossman, APJ); Hospira, Inc. v. Genentech, Inc., Case No. IPR2017-00739 (Jul. 27, 2017) (Pollock, APJ); Unified Patents Inc. v. John L. Berman, Case No. IPR2016-01571 (Dec. 14, 2016) (Haapala, APJ)</i> .....	104
<i>Nautilus Hyosung Inc. v. Diebold, Inc., Case No. IPR2017-00426 (PTAB, June 22, 2017) (Benoit, APJ)</i> .....	105
<i>In a rare inter partes review (IPR) decision involving a challenge to a design patent, the Patent Trial and Appeal Board (PTAB) issued a final decision finding that the petitioner had not shown that a sole claim of a design patent, in this case directed to insulation having a cloud-like appearance with a swirl pattern including colors and a variety of hues, is unpatentable. Johns Manville Corporation, et al. v. Knauf Insulation, Inc., et al., Case No. IPR2015-01453 (PTAB, Jan. 11, 2017) (Daniels, APJ)</i> .....	106
<i>Johns Manville Corporation, et al. v. Knauf Insulation, Inc., et al., Case No. IPR2015-01453 (PTAB, Jan. 11, 2017) (Daniels, APJ)</i> .....	106
<i>Wi-Fi One v. Broadcom, Case Nos. 15-1944; -1945; -1946 (Fed Cir, Jan 4, 2017) (per curium)</i> .....	107
<i>General Plastic Industrial Co., Ltd. v. Canon Kabushiki Kaisha, Case Nos. IPR2016-01357; -01358; -01359; -01360; -01361 (PTAB, Sept. 6, 2017) (McShane, APJ)</i> .....	108
<b>IPR OBVIOUSNESS</b> .....	<b>110</b>
<i>In re: Stepan Company, Case No. 16-1811 (Fed. Cir., Aug. 25, 2017) (Moore, J) (Lourie, J, dissenting)</i> .....	110
<i>World Bottling Cap, LLC v. Crown Packaging Technology, Inc., Case No. IPR2015-01651 (PTAB, Jan. 19, 2017) (Saindon, APJ)</i> .....	111
<i>In re NuVasive, Inc., Case No. 12-1670 (Fed. Cir., Dec. 7, 2016) (Wallach, J)</i> .....	112
<b>IPR CLAIM CONSTRUCTION</b> .....	<b>113</b>
<i>D'Agostino v. Mastercard International, Inc., Case Nos. 16-1592; -1593 (Fed. Cir., Dec. 22, 2016) (Taranto, J)</i> .....	113
<i>Shinn Fu Co. of America, Inc. v. The Tire Hanger Corp., Case No. 16-2250 (Fed. Cir., July 3, 2017) (Prost, CJ) (non-precedential)</i> .....	114
<i>In re Smith Int'l, Inc., 871 F.3d 1375 (Fed. Cir. 2017) (Lourie, J)</i> .....	115
<i>SAS Institute Inc. v. Lee, Case No. 16-969 (Supr. Ct., May 22, 2017) (cert granted)</i> .....	116
<b>IPR REAL-PARTY-IN-INTEREST</b> .....	<b>117</b>
<i>Panties Plus, Inc. v. Bragel International, Inc., Case No. IPR2017-00044 (PTAB, Apr. 12, 2017) (Weatherly, APJ)</i> .....	117
<b>IPR APPELLATE REVIEW</b> .....	<b>118</b>
<i>Phigenix, Inc. v. Immunogen, Inc., 845 F.3d 1168, 1176 (Fed. Cir. 2017) (Wallach, J)</i> .....	118
<i>Wasica Finance GmbH v. Continental Automotive Systems Inc., et al., Case Nos. 15-2078; -2079; -2093; -2096 (Fed. Cir., Apr. 4, 2017) (Schall, J)</i> .....	119

<b>POST-GRANT REVIEW (PGR)</b> .....	<b>121</b>
<i>US Endodontics, LLC v. Gold Standard Instruments, LLC, Case No. PGR2015-00019 (PTAB, Dec. 28, 2016) (Goodson, APJ)</i> .....	121
<i>Inguran, LLC v. Premium Genetics (UK) Ltd., Case No. PGR2015-00017 (PTAB, Dec. 20, 2016) (Droesch, APJ)</i> .....	122
<b>OTHER PTAB MATTERS</b> .....	<b>123</b>
<i>Stanford University v. Chinese University of Hong Kong, Case No. 15-2011 (Fed. Cir., June 27, 2017) (O'Malley, J.)</i> .....	123
<i>Vicor Corp. v. SynQor, Inc., Case Nos. 16-2283; -2288 (Fed. Cir., Aug. 30, 2017) (Chen, J.)</i> .....	125
<i>Personal Audio, LLC v. Elec. Frontier Found., Case No. 16-1123 (Fed. Cir., Aug. 7, 2017) (Newman, J.)</i> .....	126
<i>Storer et al. v. Clark, Case No. 15-1802 (Fed. Cir., June 21, 2017) (Newman, J.)</i> .....	127
<b>TRADE SECRETS</b> .....	<b>128</b>
<b>DEFEND TRADE SECRETS ACT</b> .....	<b>128</b>
<i>United States v. Liew, et al., Case No. 14-10367 (9th Cir. May, 5, 2017) (Owens, J.)</i> .....	128
<b>CUTSA</b> .....	<b>130</b>
<i>Parrish v. Latham &amp; Watkins, Case No. S228277, Ct.App. 2/3 B244841 (Cal., 2017) (Kruger, J.)</i> .....	130
<b>ARBITRATION AGREEMENTS</b> .....	<b>132</b>
<i>Waymo LLC v. Uber Technologies, Inc., Ottomotto LLC, Otto Trucking LLC, 870 F.3d 1342 (Fed. Cir. 2017) (Newman, J); Waymo LLC v. Uber Technologies, Inc., Ottomotto LLC, Otto Trucking LLC, 870 F.3d 1350 (Fed. Cir. 2017) (Wallach, J.)</i> .....	132
<b>DAMAGES</b> .....	<b>134</b>
<i>E.J. Brooks Co. v. Cambridge Security Seals, Case Nos. 16-207-cv(L), -259-cv(XAP) (2nd Cir. 2017) (Lohier, J.)</i> .....	134
<b>DEFENSES</b> .....	<b>135</b>
<i>Elite Auto Body LLC v. Autocraft Bodywerks, Inc., Case No. 03-15-00064 (Tex. App., May 5, 2017) (Pemberton, J.)</i> .....	135
<b>TRADEMARKS</b> .....	<b>137</b>
<b>USE IN COMMERCE</b> .....	<b>137</b>
<i>In re JobDiva, Inc., Case No. 15-1960 (Fed. Cir., Dec. 12, 2016) (Stoll, J.)</i> .....	137
<b>TRADEMARKS / USE IN COMMERCE</b> .....	<b>138</b>
<i>Kelly Servs., et al. v. Creative Harbor, Case No. 16-1200 (6th Cir., Jan. 23, 2017) (Clay, J.)</i> .....	138
<b>DAMAGES</b> .....	<b>139</b>
<i>Stone Creek, Inc. v. Omnia Italian Design, Inc., Case No. 15-17418 (9th Cir., July 11, 2017) (McKeown, J.)</i> .....	139
<b>DISPARAGEMENT</b> .....	<b>140</b>
<i>Matal v. Tam, Docket No. 15-1293 (Supr. Ct., June 19, 2017) (Alito, Justice) (Kennedy, Justice, concurring) (Thomas, Justice, concurring)</i> .....	140
<b>FIRST AMENDMENT</b> .....	<b>142</b>
<i>Twentieth Century Fox Television v. Empire Distribution, Inc., 875 F.3d 1192 (9th Cir. 2017) (Smith, J.)</i> .....	142
<i>Gerlich et al. v. Leath et al., Case No. 16-1518 (8th Cir., Feb. 13, 2017) (Murphy, J.)</i> .....	143
<i>In Re: Dan Farr Productions; Bryan Brandenburg; Daniel Farr, 874 F.3d 590 (9th Cir. 2017) (per curiam)</i> .....	144
<i>Gerlich et al. v. Leath et al., Case No. 16-1518 (8th Cir., June 13, 2017) (Murphy, J) (Loken, J, dissenting in part)</i> .....	145



<b>SURNAMES</b> .....	<b>146</b>
<i>Teresa H. Earnhardt v. Kerry Earnhardt, Inc.</i> , Case No. 16-1939 (Fed. Cir., July 27, 2017) (Chen, J).....	146
<b>DILUTION</b> .....	<b>147</b>
<i>Louis Vuitton Malletier, S.A. v. My Other Bag, Inc.</i> , Case No. 16-241 (2d Cir., Dec. 22, 2016) (per curium) .....	147
<b>LIKELIHOOD OF CONFUSION</b> .....	<b>148</b>
<i>Lee Jason Kibler, dba DJ Logic v. Robert Bryson Hall, II, et al.</i> , Case No. 15-2516 (6th Cir., Dec. 13, 2016) (Cole, J).....	148
<b>TRADEMARK INFRINGEMENT</b> .....	<b>149</b>
<i>Savannah Coll. of Art &amp; Design, Inc. v. Sportswear, Inc.</i> , 872 F.3d 1256 (11th Cir. 2017) (Jordan, J) .....	149
<i>Martinizing International LLC v. BC Cleaners, LLC, et al.</i> , Case No. 16-1069 (8th Cir., Apr. 28, 2017) (Loken, J).....	150
<i>Marketquest Group, Inc. v. BIC Corp.; BIC USA, Inc.; Norwood Promotional Products, LLC</i> , Case No. 15-55755 (9th Cir., July 7, 2017) (Smith, J) .....	151
<b>DESCRIPTIVENESS</b> .....	<b>153</b>
<i>In re N.C. Lottery</i> (Fed. Cir., Aug. 10, 2017) (Prost, CJ).....	153
<i>In re LC Trademarks, Inc.</i> , Serial No. 85890412 (TTAB, Dec. 29, 2016) (Heasley, ATJ) .....	154
<i>In re General Mills IP Holdings II, LLC</i> , Serial No. 86757390 (TTAB, Aug. 22, 2017) (Masiello, ATJ).....	155
<b>GENERICNESS</b> .....	<b>157</b>
<i>Luxco, Inc. v. Consejo Regulador Tequila A.C.</i> , Opp. No. 91190827 (TTAB, Jan. 23, 2017) (Bergsman, ATJ).....	157
<i>David Elliott v. Google, Inc.</i> , Case No. 15-15809 (9th Cir., May 16, 2017) (Tallman, J) (Watford, J, concurring).....	159
<b>OWNERSHIP</b> .....	<b>161</b>
<i>Lyons v. The American College of Veterinary Sports Medicine and Rehabilitation</i> , Case No. 16-2055 (Fed. Cir., June 8, 2017) (Lourie, J).....	161
<i>Dave Brock v. Nik Turner</i> , Opp. No. 91214199 (TTAB, June 28, 2017) (Ritchie, J).....	163
<i>Covertch Fabricating, Inc. v. TVM Building Products, Inc.</i> , Case No. 15-3893 (3d Cir., Apr. 18, 2017) (Krause, J).....	164
<b>COPYRIGHTS</b> .....	<b>165</b>
<b>COPYRIGHTABLE SUBJECT MATTER</b> .....	<b>165</b>
<i>Star Athletica, L.L.C. v. Varsity Brands, Inc.</i> , Case No. 15-866 (Supr. Ct., Mar. 22, 2017) (Thomas, Justice) (Ginsburg, Justice, concurring) (Breyer, Justice, joined by Kennedy, Justice, dissenting) .....	165
<b>COPYRIGHT OWNERSHIP</b> .....	<b>167</b>
<i>DRK Photo v. McGraw-Hill Global Education Holdings, LLC, et al.</i> , 870 F.3d 978, 981 (9th Cir. 2017) (Hawkins, J) (Berzon, J, concurring).....	167
<b>COPYRIGHT INFRINGEMENT</b> .....	<b>169</b>
<i>Perfect 10, Inc. v. Giganews, Inc., et al.</i> , Case Nos. 15-55500; -55523; -56026 (9th Cir., Jan. 23, 2017) (Nelson, J).....	169
<i>BWP Media USA, Incorporated, et al. v. T &amp; S Software Associates, Inc.</i> , Case No. 16-10510 (5th Cir., Mar. 27, 2017) (Southwick, J).....	170
<i>Unicolors, Inc. v. Urban Outfitters, Inc.</i> , Case No. 15-55507 (9th Cir., Apr. 3, 2017) (Orrick, J, sitting by designation) .....	171
<i>Fourth Estate Public Benefit Corp. v. Wall-Street.com, LLC</i> , Case No. 16-13726 (11th Cir., May 18, 2017) (Pryor, J).....	173
<b>PUBLIC PERFORMANCE RIGHTS</b> .....	<b>174</b>

<i>Flo &amp; Eddie v. Sirius XM Radio, Inc. et al., Case No. 15-1164 (2d Cir., Feb. 16, 2017) (per curium)</i> .....	174
<b>ANTI-SLAPP</b> .....	<b>175</b>
<i>Douglas Jordan-Benel v. Universal City Studios, Inc., et al, Case No. 15-56045 (9th Cir., June 20, 2017) (Pregerson, J)</i> .....	175
<b>RIGHT OF PUBLICITY</b> .....	<b>177</b>
<i>Maloney v. T3Media, Inc., Case No. 15-5563 (9th Cir., Apr. 5, 2017) (Smith, J)</i> .....	177
<b>DMCA SAFE HARBOR</b> .....	<b>178</b>
<i>SoundExchange, Inc. v. Muzak LLC, Case No. 16-7041 (DC Cir., Apr. 25, 2017) (Silberman, J) (Rogers, J, concurring)</i> .....	178
<i>Disney Enterprises, Inc., et al. v. VidAngel, Inc., Case No. 16-56843 (9th Cir., Aug. 24, 2017) (Hurwitz, J)</i> .....	179
<i>Mavrix Photographs, LLC v. LiveJournal, Inc., Case No. 14-56596 (9th Cir., Apr. 7, 2017) (Paez, J)</i> .....	180
<b>LICENSES</b> .....	<b>182</b>
<i>SAS Institute, Inc. v. World Programming Ltd., 874 F.3d 370 (4th Cir. 2017) (Wilkinson, J)</i> .....	182
<i>Fox Television Stations, Inc. v. AereoKiller, LLC, Case No. 15-56420 (9th Cir., Mar. 21, 2017) (O’Scannlain, J)</i> .....	184
<b>FEDERAL PREEMPTION</b> .....	<b>186</b>
<i>OpenRisk, LLC v. MicroStrategy Services Corporation, 876 F.3d 518 (4th Cir. 2017) (Harris, J); Motion Medical Technologies, L.L.C., et al. v. ThermoTek, Incorporated, et al., 875 F.3d 765 (5th Cir. 2017) (Higginson, J)</i> .....	186
<b>FIRST AMENDMENT</b> .....	<b>188</b>
<i>Signature Management Team v. Doe, 876 F.3d 831 (6th Cir. 2017) (White, J) (Suhrheinrich, J, dissenting)</i> .....	188
<b>COMMUNICATIONS DEGENCY ACT (CDA)</b> .....	<b>189</b>
<i>Small Justice LLC v. Xcentric Ventures LLC, 873 F.3d 313 (1st Cir. 2017) (Barron, J)</i> .....	189
<b>CYBERSECURITY</b> .....	<b>191</b>
<i>John Doe aka Kidane v. Ethiopia, Case No. 16-7081 (DC Cir., Mar. 14, 2017) (Henderson, J)</i> .....	191

## PATENTS

### ANTITRUST

---

#### *Patents / Antitrust*

---

## **NON-INFRINGEMENT OF A PATENT ALSO NOT AN ANTITRUST INJURY**

---

Cascades Computer Innovation, LLC v. RPX Corp. and Samsung Electronics Co. Ltd., Case No. 16-15782 (9th Cir. 2017)

Wading into the merging streams of antitrust and patents, the US Court of Appeals for the Ninth Circuit upheld dismissal of an antitrust suit where a jury verdict in a parallel case found no patent infringement. *Cascades Computer Innovation, LLC v. RPX Corp. and Samsung Electronics Co. Ltd.*, Case No. 16-15782 (9th Cir., Dec. 11, 2017) (Clifton, J) (Friedland, J, concurring) (Sessions, J, concurring).

Cascades owns 38 patents (collectively known as the Elbrus portfolio) allegedly used to optimize Android devices. Cascades intended to license these patents to numerous companies, including Motorola, HTC, Samsung, LG Electronics, Dell and RPX (a defensive patent aggregator that purchases patents on behalf of subscriber organizations using membership fees). After being unable to reach an agreement to license the Elbrus portfolio, Cascades filed lawsuits in Illinois against Samsung, Motorola, HTC and others, alleging infringement of one of the patents in the Elbrus portfolio. At trial, a jury found no infringement of the patent.

Cascades also filed an antitrust action in California alleging that it could not reach a licensing deal with the defendants because there was a conspiracy between the defendants, using RPX, to not seek licenses for use of the Elbrus portfolio. Cascades alleged that this conspiracy was a violation of antitrust law. The defendants moved to dismiss, and the court granted the motion. The district court noted that “[o]nly those who possess antitrust standing by virtue of having suffered antitrust injury may bring a private action for damages for violation of the antitrust laws” before ruling for the defendants on a motion for judgment on the pleadings. The district court reasoned that in order to show antitrust injury, there must be harm to competition, not any particular competitor. The court reasoned that a “failure to license a non-infringed patent typically cannot serve as the basis for a cognizable antitrust injury.” Because of the jury verdict in Illinois that the defendants did not infringe the patent, the court concluded that Cascades did not suffer a cognizable antitrust injury and therefore dismissed the complaint. Cascades appealed.

In a non-precedential opinion, the Ninth Circuit affirmed, finding that the district court “properly recognized the preclusive effect of [the Illinois decision] and correctly reasoned that because the defendants did not infringe the patent, Cascades’ failure to license the patent was not a cognizable antitrust injury.” The Court further explained that the failure to license had no effect on price or quantity of any consumer goods.

**Patents / Antitrust / FTC and DOJ Revised Guidelines****FTC AND DOJ ISSUE REVISED GUIDELINES FOR LICENSING OF INTELLECTUAL PROPERTY**

## FTC and DOJ Guidelines

Since the Federal Trade Commission (FTC) and the Antitrust Division of the US Department of Justice (DOJ) first issued the Antitrust Guidelines for the Licensing of Intellectual Property (Guidelines) in 1995, both antitrust law and intellectual property law have evolved to adapt to modern technology and business relationships. Yet the guidance provided by the antitrust agencies had not been updated to reflect recent court precedent or enforcement policies.

On January 13, 2017, the FTC and the DOJ issued updated Guidelines following roughly six months of consideration and public comment. According to a statement by FTC Commissioner Maureen Ohlhausen, the new Guidelines “modestly update” the prior version and recognize that “IP issues are not a special case that requires a different competition jurisprudence.” Ohlhausen’s statement stressed the “commendable flexibility” of the 1995 Guidelines and applauded the update for reaffirming the agencies’ commitment to the basic principles of the original guidelines, including the following:

1. The antitrust agencies will continue to “apply the same analysis to conduct involving intellectual property as to conduct involving other forms of property.”
2. This analysis “do[es] not presume that intellectual property creates market power in the antitrust context.”
3. The FTC and DOJ “recognize that intellectual property licensing . . . is generally procompetitive.”

The major change brought by this update was the inclusion of updated references to recent case law and statutes that have altered the agencies’ analysis over the last two decades. For example, the updated Guidelines state that the antitrust agencies “will apply a rule of reason analysis to price maintenance in intellectual property licensing agreement.” This statement reflects the Supreme Court of the United States’ 2007 decision in *Leegin Creative Leather Products v. PSKS*, which overruled long-standing precedent that resale price maintenance agreements were per se violations of the antitrust laws. Other major case law updates include *Illinois Tool Works v. Independent Ink*, where the Supreme Court held that a patent does not necessarily confer market power on its holder, and *FTC v. Actavis (IP Update, Vol. 16, No. 7)*, where the Supreme Court discussed the elimination of a potential competitor by a drug manufacturer through a “pay-for-delay” scheme.

**Practice Note:** Missing from the update is more specific guidance on standard-essential patents; licensing on fair, reasonable and non-discriminatory (FRAND) terms; and patent assertion entities. Requests for guidance on these items were ubiquitous in the public comments, with 16 of the 24 comments referencing standard-essential patents or FRAND terms, and five comments discussing the evolving role of patent assertion entities. The FTC’s press release appeared to reference these comments and stated: “the agencies reiterate that the flexible effects-based enforcement framework set forth in the IP Licensing Guidelines remains applicable to all IP areas.”

The licensing of intellectual property continues to be considered generally procompetitive by the antitrust agencies, but will still be subject to regulatory scrutiny regarding the effects on competition in markets for goods, technology, and research and development.

**Patents / Antitrust / Misuse / Inequitable Conduct****DUTCH COURT RULES IN STANDARD ESSENTIAL PATENT ABUSE OF DOMINANCE CLAIM**

Archos S.A. v. Koninklijke Philips N.V. (Dist. Ct. of The Hague, Feb. 10, 2017)

The Hague District Court in the Netherlands rejected a claim brought by smartphone maker Archos alleging that Philips had abused its dominant position during negotiations concerning licenses on fair, reasonable and non-discriminatory (FRAND) terms for standard essential patents (SEPs).

In June 2014, Philips discovered that Archos had used three of Philips's patents covering UMTS and LTE technology. Because they covered standards used to transmit data via smartphones, the patents were registered as SEPs with the European Telecommunications Standards Institute.

After Philips notified Archos that it was using Philips's SEPs, the two parties entered into negotiations. In July 2015, Philips made Archos an offer of EUR 0.7 per product sold that used UMTS and/or LTE functionality. In January 2016, Archos countered with an offer of EUR 0.07 per product.

These offers were made two weeks after the European Court of Justice (ECJ) decision in *Huawei v. ZTE*. In that case, the ECJ established three core principles concerning the licensing of SEPs on FRAND terms:

- The burden of making an offer lies with the SEP holder.
- The determination of what constitutes a FRAND offer is left up to national courts across European jurisdictions.
- An application by an SEP holder for an injunction against an alleged infringer that is not preceded by an opportunity for the alleged infringer to license the patent on FRAND terms is an abuse of dominance.

After unsuccessfully having made an offer in line with *Huawei*, Philips sought an injunction against Archos to prevent it from using Philips's SEPs. Archos applied to the same court simultaneously, arguing that Philips's offer had not been on FRAND terms and that, in line with *Huawei*, Philips's application for an injunction was an abuse of dominance. Archos argued that Philips's offer was too high in light of the fact that Archos produces low-cost smartphones and generates low profit margins. Archos further claimed that Philips had shown inflexibility in its negotiations.

The Hague District Court rejected Archos's claim, stating that it had failed to prove that Philips's offer had not been FRAND and that its application for an injunction had been an abuse of dominance. The Court stated that Philips had not failed to enter into effective negotiations and that, in fact, it had been Archos that had prevented a solution from being reached, evidenced by the fact that during the negotiations preceding the *Huawei* judgment—which shifted the burden of making an offer from the SEP user to the rights holder—Archos had failed to make an offer. Furthermore, Archos had told Philips that it would have to take legal action if it wanted higher royalty fees, thereby demonstrating an unwillingness to enter negotiations.

The Court also noted that Archos's low margins did not necessarily mean that the offer made by Philips had not been FRAND.

Archos therefore failed to establish that Philips's conduct had been in breach of the ECJ's decision in *Huawei*. The claim was dismissed, and Archos was ordered to pay the legal costs.

**Patents / Antitrust / Misuse / Inequitable Conduct****COUNSEL'S ACTIONS SUPPORT INFERENCE OF INTENT TO DECEIVE PTO**

*Regeneron Pharmaceuticals, Inc. v. Merus N.V.*, Case No. 16-1346 (Fed. Cir., July 27, 2017) (Prost, CJ) (Newman, J, dissenting)

In a decision clarifying the analysis for inequitable conduct, a split panel of the US Court of Appeals for the Federal Circuit affirmed a district court finding of specific intent to deceive the US Patent and Trademark Office (PTO) during prosecution of an asserted patent, based largely on misconduct by litigation counsel during the district court action. *Regeneron Pharmaceuticals, Inc. v. Merus N.V.*, Case No. 16-1346 (Fed. Cir., July 27, 2017) (Prost, CJ) (Newman, J, dissenting). The dissent argued that the decision ignored the Court's own requirement that intent to deceive must be proved and not merely inferred.

Regeneron filed suit alleging that Merus infringed its patent directed to using large DNA vectors to target and modify endogenous genes and chromosomal loci in eukaryotic cells. The patented technology allows users to target and modify specific genes in mice so that the mice develop antibodies that can be used by humans.

Days before the PTO issued a notice of allowance for the application that would mature into the asserted patent, a third party filed a submission in the parent application, disclosing three prior art references. Regeneron's in-house patent prosecution counsel, who was prosecuting the application, knew of the references submitted in the parent application but failed to cite them to the examiner.

Merus contended that Regeneron's failure to cite those references constituted inequitable conduct. Regeneron argued that the in-house counsel did not have an obligation to disclose the references to the examiner because they were cumulative of other cited art and therefore not "but-for" material. Merus argued, however, that the withheld prior art taught the very thing that Regeneron's counsel claimed was missing from the prior art: insertion of human variable region gene segments into mouse immunoglobulin loci.

The district court scheduled a bench trial on Regeneron's inequitable conduct, bifurcating the trial based on the two elements of inequitable conduct: a first bench trial on the materiality of the withheld references and a second to consider specific intent to deceive the PTO. Following the first part of the bench trial, the district issued an opinion explaining why the withheld references were material. The district court never concluded the second part of the bench trial, however. Instead, the district court pointed to Regeneron's discovery misconduct, sanctioned Regeneron by drawing an adverse inference of specific intent to deceive the PTO, and held the patent unenforceable. Regeneron appealed.

The Federal Circuit panel majority concluded that under the broadest reasonable construction of the claims (the construction applicable to the PTO examinations), the district court properly found that the withheld references were material. As for specific intent to deceive the PTO, the majority accepted the district court's sanctions, underscoring the extent and seriousness of Regeneron's litigation misconduct, in particular its "sword/shield" discovery tactics regarding the attorney-client privilege. The panel cited to the 2011 Federal Circuit *Therasense* decision (*IP Update*, Vol. 14, No. 6) for the proposition that "in a case involving nondisclosure of information, clear and convincing evidence must show that the applicant *made a deliberate decision* to withhold a *known* material reference," but explained that "direct evidence of intent is not, however, required." Rather, a "court may infer intent from circumstantial evidence." The Court went on to note that Regeneron's behavior in district court was "beset with troubling misconduct." This misconduct included withholding as privileged a memo by an outside counsel regarding whether the prior art should be presented to the PTO, only to produce the memo at the last moment, at the start of deposition of the memo's writer.

In dissent Judge Newman argued that, under Supreme Court of the United States and Federal Circuit precedent, "deliberate withholding of but-for invalidating prior art, with the intent to deceive the examiner, must be established by clear and

convincing evidence.” Newman relied on *Apptix* for the proposition that “the remedies for litigation misconduct bar the malfeasant who committed the misconduct. The property right itself remains independent of the conduct of a litigant.” In Newman’s view, “intent to deceive the Examiner cannot be inferred from purported litigation misconduct several years later.” Addressing the dissent, the panel majority took the position that *Apptix* was inapposite, that prosecution misconduct had occurred, and that Regeneron’s litigation misconduct “obfuscated its prosecution misconduct.”

**Patents / Antitrust / Lanham Act / Monopolization and False Advertising****FIFTH CIRCUIT REJECTS PATENT INFRINGEMENT, FALSE ADVERTISING AS GROUNDS FOR SHERMAN ACT § 2 VIOLATION**

Retractable Techs., Inc. v. Becton Dickinson & Co., Case No. 14-41384 (5th Cir., Dec. 2, 2016) (Jones, J).

Addressing whether antitrust liability may be premised on patent infringement or false advertising, the US Court of Appeals for the Fifth Circuit answered in the negative, affirming in part, reversing in part, and vacating and remanding in part a district court's denial of judgment as a matter of law and related orders in a case involving the safety syringe market. *Retractable Techs., Inc. v. Becton Dickinson & Co.*, Case No. 14-41384 (5th Cir., Dec. 2, 2016) (Jones, J).

The dispute between Retractable Technologies (RTI) and Becton Dickinson (BD) goes back several years. RTI owns a patent for its safety syringe technology, wherein the needle of the syringe automatically retracts into the body of the syringe after an injection in order to avoid accidental needlesticks. BD later entered the market with its own safety syringe with a retractable needle. In 2001, after RTI encountered initial difficulties in selling its retractable safety syringe to health care providers, RTI sued BD for antitrust violations and product disparagement. That lawsuit was settled in 2004, with BD and RTI agreeing to a mutual release of claims that accrued on or before the settlement. Three years later, RTI sued BD again, this time for patent infringement, antitrust violations and various common law claims. After bifurcating the case, the district court tried the patent claim first and held that certain sizes of BD's safety syringe infringed upon RTI's patents. On appeal (2011), the Federal Circuit affirmed the judgment with respect to one of those syringes (*IP Update*, Vol. 14, No. 7).

In further proceedings before the district court, RTI amended its complaint with additional antitrust claims and claims for false advertising under the Lanham Act. The jury returned a verdict rejecting all but one of RTI's antitrust claims and awarding more than \$100 million in "deception damages." The district court denied BD's motion for judgment as matter of law, trebled the jury's award of antitrust damages and entered an injunction. BD appealed.

The Fifth Circuit first took on the district court's denial of BD's motion for judgment as a matter of law on RTI's Sherman Act § 2 attempted monopolization claim. Because the jury rejected BD's exclusionary contract practices as a basis for § 2 liability, RTI's claim had to be premised on one of three "anticompetitive" actions by BD: patent infringement by BD's retractable syringe, BD's false advertising or RTI's claim that BD "tainted the market."

The Fifth Circuit observed that not all unfair conduct is anticompetitive or fits under the prohibition of § 2. By definition, patent infringement cannot give rise to § 2 liability—it invades the patentee's monopolistic rights and thereby increases competition. The Court thus rejected patent infringement as a basis for § 2 liability. The Court also rejected BD's false advertising as a basis for § 2 liability. BD advertised that its needles were the "world's sharpest" and had "low waste space," but BD's own testing indicated that these statements were inaccurate as of 2003. The Court held that these statements, although false, did not give rise to § 2 liability. The Court expressly recognized the differing purposes of antitrust law (to protect competition) and Lanham Act claims (to protect competitors), noting that courts in other circuits also expressed much skepticism over the viability of such § 2 claims. The Court concluded that BD's false advertising was not anticompetitive; the false claims were made to sophisticated parties, and there was no evidence at trial that BD's statements actually harmed competition, as demonstrated by BD's significant share of the safety syringe market. With no cognizable basis for a § 2 claim, the Court reversed.

With respect to RTI's false advertising claims, the Court affirmed the district court's rejection of BD's res judicata and laches defenses, finding that BD made the statements at issue after the 2004 settlement agreement and that BD had failed to demonstrate that it was prejudiced by any delay in RTI bringing its claims. Because the district court had declined to award profits to RTI under the Lanham Act because of the sizable antitrust damages award, the Court remanded for the district court to consider whether and how much of BD's profits it must disgorge to compensate RTI for its false advertising. The Court also vacated and remanded the district court's injunction, which required BD to inform its customers that it had engaged in false advertising, because the injunction was tailored to remedy the now-reversed § 2 violation.



**Patents / Antitrust / Pay-for-Delay****THIRD CIRCUIT DECLINES TO SEND PAY-FOR-DELAY LITIGATION TO FEDERAL CIRCUIT**

*In re: Lipitor Antitrust Litig.*, Case Nos. 14-4202; -4203; -4204; -4205; -4206; -4602; -4632; 15-1184; -1185; -1186; -1187; -1274; -1323; -1342 (3d Cir., Apr. 13, 2017) (Fisher, J).

Addressing questions of federal jurisdiction, the US Court of Appeals for the Third Circuit ruled that it, and not the US Court of Appeals for the Federal Circuit, had jurisdiction over two consolidated appeals arising from dismissals in a pay-for-delay litigation involving patented drugs. *In re: Lipitor Antitrust Litig.*, Case Nos. 14-4202; -4203; -4204; -4205; -4206; -4602; -4632; 15-1184; -1185; -1186; -1187; -1274; -1323; -1342 (3d Cir., Apr. 13, 2017) (Fisher, J).

Defendants Teva Pharmaceutical and Wyeth make Effexor XR, and defendants Pfizer and Ranbaxy Laboratories make Lipitor. Plaintiffs filed suit, claiming that the defendant drug manufacturers unreasonably diminished competition, in violation of the Sherman Antitrust Act, by engaging in so-called “reverse” payment settlements. Plaintiffs also alleged patent fraud and sham litigation as related theories to their claims. The Third Circuit consolidated the cases for purposes of the appeal.

On appeal, the defendants argued that the cases should be transferred to the Federal Circuit because the Federal Circuit has exclusive jurisdiction over cases “arising under” federal patent law. The Third Circuit disagreed, explaining that where questions of patent law do not create the cause of action, but instead are related to a completely different form of relief, the claims do not “arise under” patent law. Here, the Third Circuit found that the plaintiffs’ primary claims in both cases arose under antitrust law, not patent law. The plaintiffs’ inclusion of patent fraud and sham litigation in their theory of an overarching anticompetitive scheme did not necessarily imply that there was an essential question of patent law that the Court was required to resolve. The Court reasoned that “patent law neither creates plaintiffs’ cause of action nor is a necessary element to any of plaintiffs’ well-pleaded claims” that the pharmaceutical companies sought to suppress competition by delaying generic competition for brand-name drugs. Relying on Supreme Court of the United States precedent, the Court reasoned that reverse-payment antitrust claims do not typically present a question of patent law. Jurisdiction, therefore, was appropriate in the Third Circuit.

Defendants also argued that the reverse payment allegation should be split from the patent fraud and sham litigation claims, and that the latter should be heard by the Federal Circuit. Again the Third Circuit disagreed, reasoning that it should not permit the defendants to re-write plaintiffs’ complaints, “which plead patent law-related theories as aspects of an overall monopolistic scheme.” The Court also noted that not all cases involving questions of patent law “arise under” patent law, as is required for exclusive jurisdiction to rest with the Federal Circuit.

**Practice Note:** Companies should be mindful that a cause of action alleging theories of patent law to support a claim created by an entirely different form of relief may not be transferred to the Federal Circuit. Instead, the court presiding over the litigation will likely have jurisdiction over the merits of the claims.

**ATTORNEY-CLIENT PRIVILEGE**

---

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

---

**NEW PTO RULE ON ATTORNEY-CLIENT PRIVILEGE BEFORE THE PTAB**

---

37 CFR § 42.57

The US Patent and Trademark Office (PTO) issued a new rule on attorney-client privilege for trials before the Patent Trial and Appeal Board (PTAB) on November 7, 2017. The new rule takes effect December 7, 2017. The new rule was spurred by the decision of the US Court of Appeals for the Federal Circuit in *In re Queen's University at Kingston* (IP Update, Vol. 19, No. 4), which held that communications between a client and a non-lawyer patent agent relating to PTO proceedings are privileged in federal court cases.

New rule 37 CFR § 42.57 provides that communication between a client and a PTO patent practitioner or a foreign jurisdiction patent practitioner that is reasonably necessary and incident to the scope of the practitioner's authority shall receive the same protections of privilege as the communication would if it were between a client and lawyer. A PTO patent practitioner is a person who has fulfilled the requirements to practice before the PTO. A foreign jurisdiction practitioner is a person who is authorized to provide legal advice on patent matters in a foreign jurisdiction.

The PTO adopted the holding in *In re Queen's* as it pertained to patent agents recognized by the PTO and extended the holding to include foreign jurisdiction patent practitioners. In extending the privilege to foreign jurisdiction patent practitioners, the PTO noted that some foreign jurisdictions use non-lawyer patent agents exclusively or predominantly, so it may not be possible for applicants to rely on the privilege afforded by US courts to foreign lawyers.

As a result of the new rule, authorized communications between patent agents and clients pertaining to trials before the PTAB—including *inter partes* review, post-grant reviews, covered business methods and derivation proceedings—will be protected, along with communications pertaining to patent drafting and prosecution.

**Patents / Privilege / Waiver****PRE-MERGER INTENTIONAL WAIVER OF PRIVILEGE CAN EXTEND TO POST-MERGER COMMUNICATIONS**

*In re OptumInsight, Inc.*, Misc. Docket No. 2017-116 (Fed. Cir., July 20, 2017) (Hughes, J)

The US Court of Appeals for the Federal Circuit ruled that a predecessor company's intentional waiver of attorney-client privilege can survive the company's merger. *In re OptumInsight, Inc.*, Misc. Docket No. 2017-116 (Fed. Cir., July 20, 2017) (Hughes, J).

OptumInsight sought a writ of *mandamus* relieving it from a discovery order issued by the district court. The district court had granted a motion to compel production of documents related to a patent's conception and first sale, which the original patent holder and OptumInsight's merger partner, Symmetry Health Data Systems, previously asked the US Patent and Trademark Office (PTO) to consider in a re-examination proceeding. The Federal Circuit denied the mandamus petition, concluding that the district court did not clearly abuse its discretion by extending the waiver of privilege for purposes of the re-examination proceeding to post-merger communications.

Symmetry Health developed health care analytics software that it marketed as the Symmetry Episode Treatment Group Program (ETG). In 1995, Symmetry Health offered Aetna Life Insurance Company a license to ETG. More than a year later, Symmetry Health filed a patent application describing ETG, but did not disclose to the PTO the licensing offer it had made to Aetna. The PTO granted the patent, but in 2000 Symmetry Health sought re-examination, asking the PTO to examine whether the licensing offer invalidated the patent. Symmetry Health submitted an information disclosure statement and attorney affidavit to support its position that ETG as patented was not fully developed at the time of the offer. In 2007, Symmetry Health and OptumInsight merged. OptumInsight emerged as the sole surviving company and sole owner of the patent at issue.

Following the merger, OptumInsight sued Cave Consulting Group, alleging that it infringed the patent, but ultimately dismissed the lawsuit. Cave Consulting then sued OptumInsight, alleging that it misrepresented ETG's conception date in the re-examination proceedings and thus violated federal antitrust law by asserting a fraudulently procured patent in its lawsuit against Cave Consulting.

During discovery in Cave Consulting's lawsuit, Cave Consulting sought communications from both pre- and post-merger periods relating to the conception date and first sale. OptumInsight objected to the request for post-merger documents, arguing that Symmetry Health's earlier submission could not be construed as waiver over post-merger communications between OptumInsight and its counsel. The district court granted Cave Consulting's motion to compel as to all communications, leading up to OptumInsight's dismissal of its infringement suit.

The Federal Circuit declined to adopt a categorical rule against attributing a predecessor's waiver to its successor entity. Instead, the Court explained that the question of subject-matter waiver should be analyzed "through a fairness lens." The Court noted that the authority to assert and waive a corporation's attorney-client privilege survives succession, and concluded that "[l]ogically, if a successor company can assert privilege over its predecessor's communications, the flipside of that principle is that a successor company can also be subject to its predecessor's intentional waiver in certain circumstances."

Finding no abuse of discretion in the district court's analysis, the Federal Circuit denied the writ of mandamus and directed OptumInsight to produce its communications in accordance with the district court's order.

**BIOSIMILARS**

---

***Supreme Court / Patents / Biosimilars***

---

**BIOSIMILAR NOTICE MAY BE GIVEN PRIOR TO FDA APPROVAL**

---

Sandoz Inc. v. Amgen Inc., Docket No. 15-1039 (Supr. Ct., June 12, 2017) (Thomas, Justice) (Breyer, Justice, concurring).

In a unanimous decision, the Supreme Court of the United States explained that under the Biologics Price Competition and Innovation Act of 2009 (BPCIA), biosimilar makers do not have to wait for approval before giving 180-day notice of commercial marketing under the BPCIA, and no federal injunction is available to compel biosimilar makers to disclose their approval applications to rivals. *Sandoz Inc. v. Amgen Inc.*, Docket No. 15-1039 (Supr. Ct., June 12, 2017) (Thomas, Justice) (Breyer, Justice, concurring).

The BPCIA establishes processes both for obtaining US Food and Drug Administration (FDA) approval of biosimilars and for resolving patent disputes between manufacturers of licensed biologics and manufacturers of biosimilars. A manufacturer of a biologic product must obtain a license from the FDA to market its drug. A manufacturer may obtain a license either by demonstrating that the drug is “safe, pure and potent” or by piggybacking on the showing made by the manufacturer (sponsor) of a previously licensed biologic (reference product), showing that its product is “highly similar” (i.e., a biosimilar) to the reference product and that there are no “clinically meaningful differences” between the two in terms of safety, purity and potency.

The BPCIA facilitates litigation during the period preceding FDA approval, enabling the parties to bring infringement actions at certain points in the application process to resolve their patent disputes before commercial marketing (or other acts that would traditionally constitute patent infringement) commences.

An applicant seeking FDA approval of a biosimilar must provide its application and manufacturing information to the sponsor within 20 days of the date the FDA notifies the applicant that it has accepted the application for review. Moreover the statute requires that a biosimilar applicant “shall provide notice to the reference product sponsor not later than 180 days before the date of the first commercial marketing of the biological product licensed [by the FDA] under subsection (k).” The issues before the Supreme Court were (1) whether notice provided prior to the FDA decision to license the biosimilar is effective, and (2) whether the requirement that the applicant provide the application and manufacturing data is itself enforceable by injunction ([IP Update, Vol. 20, No. 1](#)).

The BPCIA provides various consequences for failing to comply with its procedural requirements. If an applicant fails to provide its application and manufacturing information to the sponsor, the sponsor may immediately bring an action “for a declaration of infringement,” which makes it an artificial act of infringement to submit a biosimilar application.

**District Court Proceedings**

Amgen markets a filgrastim product called Neupogen, a biologic used to stimulate the production of white blood cells, and has done so since 1991. Amgen holds patents on the methods of manufacturing and using filgrastim. After Sandoz filed an application with the FDA seeking approval to market a filgrastim biosimilar under the brand name Zarxio, with Neupogen as the reference product, Amgen sued Sandoz for patent infringement and asserted claims under California’s unfair competition law. Amgen alleged that Sandoz engaged in “unlawful” conduct (under California law) by (1) failing to provide its application and manufacturing information, and (2) providing notice of commercial marketing before, rather than after, the FDA licensed its biosimilar. Sandoz counterclaimed for declaratory judgments that the asserted patent was invalid and not infringed and that it had not violated the BPCIA.

During the pendency of the district court case, the FDA licensed Zarxio, and Sandoz provided Amgen further notice of commercial marketing following the grant of the license. The district court granted partial judgment on the pleadings to Sandoz on its BPCIA counterclaims and dismissed Amgen’s unfair competition claims with prejudice. Amgen appealed.

### Federal Circuit Proceedings

On appeal, the US Court of Appeals for the Federal Circuit affirmed the dismissal of Amgen's state law claim, finding that Sandoz did not violate the BPCIA in failing to disclose its application and manufacturing information, and therefore committed no unlawful conduct. The Federal Circuit found that the remedies contained in the BPCIA are the exclusive non-compliance remedies.

The Federal Circuit also concluded that an applicant may only provide effective notice of commercial marketing *after* the FDA has licensed the biosimilar. Thus, Sandoz's 180-day clock did not begin until Sandoz's post-licensure notice. Because the Federal Circuit found this notice requirement to be mandatory, the Court extended its injunction pending appeal to bar Sandoz from marketing Zarxio until 180 days after the date it provided its second notice ([IP Update, Vol. 18, No. 8](#)).

### Supreme Court Decision

Addressing whether the requirement that an applicant provide the sponsor with its application and manufacturing information is enforceable by an injunction under either federal or state law, the Supreme Court affirmed the Federal Circuit's holding that disclosure of the biosimilar application is not enforceable by an injunction under federal law. However, the Supreme Court rejected the Federal Circuit's reasoning on this point, finding that Sandoz's failure to disclose its application and manufacturing information was not an act of artificial infringement under the statute. Rather, when an applicant fails to comply with application disclosure requirements, the statute authorizes the sponsor to bring an immediate declaratory judgment action for artificial infringement. Thus, the remedy for this violation vests the sponsor with the control that the applicant otherwise would have exercised over the scope and timing of the patent litigation, depriving the applicant of the certainty it could have obtained by bringing a declaratory judgment action prior to marketing its product. The Supreme Court found that this remedy provision of the BPCIA excludes all other *federal* remedies, including injunctive relief.

The Supreme Court also remanded the case to the Federal Circuit to determine whether California law would treat non-compliance with the disclosure section as an "unlawful" act and whether the BPCIA pre-empts any additional remedy available under state law for this non-compliance.

Finally, the Supreme Court addressed the issue of whether an applicant may provide effective notice prior to FDA licensure. Reversing the Federal Circuit's statutory interpretation, the Court found that the phrase "of the biological product licensed under subsection (k)" modifies "commercial marketing" rather than "notice." In other words, it is "commercial marketing" that marks the point in time by which the biosimilar must be "licensed" by the FDA. In terms of notice, however, the Court concluded that the statute permits an applicant to provide notice either before or after receiving FDA approval.

Justice Breyer wrote a concurrence, joining the Supreme Court's opinion and providing additional commentary on the FDA's ability to depart from or modify the Supreme Court's interpretation of the BPCIA.

**Patents / BPCIA / Mandatory Disclosures****NO RIGHT TO DISCOVERY OF UNIDENTIFIED PATENTS DURING BPCIA LITIGATION**

*Amgen, Inc. v. Hospira, Inc.*, Case No. 16-2179 (Fed. Cir., Aug. 10, 2017) (Dyk, J).

Addressing for the first time the issue of whether a sponsor has the right to obtain discovery related to infringement of non-asserted patents in a biosimilar litigation, the US Court of Appeals for the Federal Circuit concluded that there is no right to discovery not otherwise permitted by the Federal Rules of Civil Procedure. *Amgen, Inc. v. Hospira, Inc.*, Case No. 16-2179 (Fed. Cir., Aug. 10, 2017) (Dyk, J).

Hospira filed an application seeking approval for a biosimilar of Amgen's EPOGEN product. Pursuant to the requirements of the Biologics Price Competition and Innovation Act (BPCIA), Hospira produced its biosimilar application. Amgen, the listed patent owner, requested that Hospira provide additional information regarding the specific composition of components used in its manufacturing process in order to evaluate whether it could reasonably assert infringement of additional patents. Hospira refused to provide the requested information. Amgen sued Hospira and asserted patents directed to the EPOGEN product and method of manufacture, but did not assert or otherwise identify any additional patents.

During the ensuing litigation, Amgen again sought information regarding the composition of specific components used in manufacturing. Hospira again refused, and Amgen moved to compel. The district court denied the motion because the requested discovery had "essentially, no relevance to the patents that are asserted." Amgen appealed the decision, and in the alternative, requested a writ of *mandamus* compelling the district court to order production of the requested discovery.

As a threshold matter, the Federal Circuit addressed whether jurisdiction was proper since Amgen did not appeal a "final judgment." Amgen argued that jurisdiction was appropriate under the collateral order doctrine, which allows for appeal of an order that "conclusively determine[s] the disputed question, resolve[s] an important issue completely separate from the merits of the action, and [is] effectively unreviewable on appeal from a final judgment." Amgen argued that the order was "effectively unreviewable" because forcing Amgen to wait until final judgment would "defeat . . . the purpose of [the BPCIA's] disclosure requirements—to enable the sponsor [] to commence infringement litigation immediately." The Court disagreed, explaining that "there is no clear-cut statutory purpose that would be undermined by denying immediate appeal," and concluded that the present dispute was no different from other "run-of-the-mill discovery disputes."

The Federal Circuit next turned to Amgen's petition for a writ of *mandamus* and focused on whether Amgen established that it had a "'clear and indisputable right' to the relief it seeks"—a prerequisite to issuing a writ. The Court concluded that Amgen did not have any such clear and indisputable right to the requested discovery, since that discovery was admittedly not relevant to the instant patent litigation. Amgen argued that discovery was necessary for it to exercise its rights under the BPCIA and that asserting a patent for which it did not possess sufficient information to evaluate infringement would put it at risk for potential sanctions under Rule 11 and/or antitrust liability. The Court rejected Amgen's concerns, explaining the proper mechanism to obtain the information Amgen sought.

Specifically, the Court explained that, based on the applicant's initial disclosure, the BPCIA "requires the sponsor to list patents that it 'believes . . . could reasonably be asserted.'" The "reasonableness" requirement of the BPCIA does "not preclude a sponsor from listing a patent for which an applicant has not provided information" as part of its initial statutory disclosure. Then, "once a patent is listed by the sponsor, the BPCIA's information exchange further requires the applicant to 'provide to the . . . sponsor, with respect to each patent listed . . . a detailed statement that describes, on a *claim by claim basis*, the factual and legal basis' for the applicant's assertion that 'such patent is invalid, unenforceable, or will not be infringed.'" At that point, if the applicant "fails to comply" with its disclosure obligations, the "sponsor would have a reasonable basis for asserting a claim of patent infringement."

The Federal Circuit found that these considerations dispelled any notion that Amgen would need to bring suit simply based on its unsupported belief of potential infringement. Since Amgen could have listed the unasserted patents, the denial of discovery did not undermine the purpose of the BPCIA. Accordingly, the Court dismissed the appeal for lack of jurisdiction and denied Amgen's petition for a writ of *mandamus*.

**CLAIM CONSTRUCTION**

---

***Patents / Claim Construction***

---

**ON APPEAL, INFRINGEMENT RULING GETS THE JITTERS**

---

Power Integrations Inc. v. Fairchild Semiconductor Int'l, Inc., Case No. 15-1329 (Fed. Cir., Dec. 12, 2016) (Chen, J).

Addressing multiple issues in the long-running litigation between competing power supply controller chip companies, the US Court of Appeals for the Federal Circuit affirmed in part, reversed in part and vacated in part the district court's final judgment, ultimately reducing both parties' liability for infringement. *Power Integrations Inc. v. Fairchild Semiconductor Int'l, Inc.*, Case No. 15-1329 (Fed. Cir., Dec. 12, 2016) (Chen, J).

Power Integrations (PI) sued Fairchild Semiconductor International in 2008 alleging direct and indirect infringement of four patents. Fairchild counterclaimed that PI directly and indirectly infringed three patents. Both parties' patents relate to different aspects of power supplies, including frequency jitter, which is the concept of varying the frequency of the controller chip's oscillator, and current limiting, the concept of using a regulator to steadily increase the power supply's current threshold. The jury returned a mixed verdict finding that both sides' patents were valid and that each side infringed some (but not all) of the patents under various theories. The district court granted PI's motion for a permanent injunction and denied Fairchild's motion for permanent injunction. Both sides appealed.

Fairchild appealed the jury's finding that it induced infringement of two frequency jitter patents, arguing that the jury instructions misstated the law on inducement. Specifically, the instructions stated that under a theory of induced infringement, the "infringement need not have been actually caused by the party's actions. All that is required is that the party took steps to encourage or assist that infringement, regardless of whether that encouragement succeeded, or was even received." The Federal Circuit agreed with Fairchild, finding that these instructions provided the jury with the improper understanding that a party could be liable for induced infringement without ever actually communicating with and inducing a third-party infringer. Instead, the term "induce," as used in § 271(b) and explained by the Supreme Court of the United States, requires successful communication between the alleged inducer and the third-party infringer. Without actual inducement, there can be no finding of induced infringement. The Court vacated the jury's inducement verdict but declined Fairchild's request for judgment as a matter of law of no induced infringement, finding that the evidentiary record allowed more than one reasonable finding on the inducement issue and that PI presented significant evidence at trial to support a finding of inducement.

PI appealed the finding of infringement under the doctrine of equivalents. Specifically, at trial PI successfully argued that its product contained only a single feedback signal, rather than two distinct signals, and so it could not infringe. The jury found no literal infringement but found infringement under the doctrine of equivalents. On appeal, PI argued that the jury's verdict could not be reconciled with the law, and the Federal Circuit agreed. Applying a claim vitiation analysis, the Court explained that, if a finding of infringement under the doctrine of equivalents would entirely vitiate a particular claimed element, the court should rule that there is no such infringement. Here, because the jury found no literal infringement, it must necessarily have found that PI's products contained only a single feedback signal. Furthermore, any finding that the single feedback signal was equivalent to the two distinct feedback signals would vitiate the distinction required by the claims.

Turning to the permanent injunction question, the Federal Circuit found that because it had reversed the jury's infringement verdict with respect to PI, Fairchild's appeal regarding a permanent injunction was moot. The Court also vacated the permanent injunction against Fairchild, explaining that it had "significantly reduced the scope of Fairchild's liability" by vacating the jury's finding of induced infringement, among other rulings. The Court concluded that, given the changed circumstances, the district court is in the best position to determine in the first instance if a permanent injunction is appropriate.



## **SKKY FOUND THE LIMIT FOR “MEANS” TERMS**

---

*Skky, Inc. v. MindGeek, s.a.r.l.*, Case No. 16-2018 (Fed. Cir., June 7, 2017) (Lourie, J).

The US Court of Appeals for the Federal Circuit agreed that the Patent Trial and Appeal Board (PTAB) did not err in its conclusions that a claim element reciting “means” did not invoke § 112 ¶ 6 and that the challenged claims were unpatentable as obvious. *Skky, Inc. v. MindGeek, s.a.r.l.*, Case No. 16-2018 (Fed. Cir., June 7, 2017) (Lourie, J).

The patent at issue describes a method for delivering audio and/or visual files to a wireless device. Prosecution leading to the patent lasted almost seven years, and the Examiner eventually allowed the claims over the prior art after the claims were amended to recite a “wireless device means,” which the Examiner believed to be a means-plus-function term that would invoke 35 USC § 112 ¶ 6.

In the institution decision, the PTAB determined that the “wireless device means” claim term did not invoke § 112 ¶ 6 “because ‘wireless device’ is not purely functional language, but rather language that denotes structure.” After institution, patent owner continued to argue that regardless of whether the term at issue was a means-plus-function term, it should be construed to require “multiple processors, one of which must be a specialized processor.” In its final written decision, the PTAB rejected patent owner’s arguments and reiterated that the “wireless device means” recitation did not invoke § 112 ¶ 6 and that the term should not be construed to require additional processors. Patent owner appealed.

On appeal, the parties continued to dispute whether “wireless device means” should be construed as a means-plus-function term. The Federal Circuit agreed with the PTAB that the recitation did not invoke § 112 ¶ 6 because it recited sufficient structure. Specifically, the Court found that “[a]lthough the term uses the word ‘means’ and so triggers a presumption, the full term recites structure, not functionality; the claims do not recite a function . . . and ‘wireless device’ is used in common parlance to designate structure.” The Federal Circuit noted that notwithstanding the Examiner’s statements to the contrary, the Court was not bound by either the parties’ or the Examiner’s understanding of the law or claims. Additionally, the Court rejected patent owner’s argument that the claims require multiple processors, because the written description contains embodiments where only a single processor is required or where no additional hardware is needed.

On the issue of obviousness, the Federal Circuit rejected patent owner’s argument that the PTAB erred in its obviousness determination because it considered no more than the references previously considered by the Examiner. The Court cited the Supreme Court of the United States’ *Cuozzo* decision ([IP Update, Vol. 19, No. 7](#)) to note that one congressional objective of the *inter partes* review process is to give the US Patent and Trademark Office “significant power to revisit and revise earlier patent grants.”

---

## **INTERPRETATION OF MEANS-PLUS-FUNCTION CLAIM LIMITATIONS**

---

*Core Wireless Licensing S.A.R.L. v. Apple Inc.*, Case No. 15-2037 (Fed Cir., Apr. 17, 2017) (O'Malley, J).

Addressing claim construction issues in connection with “means-plus-function” limitations, the US Court of Appeals for the Federal Circuit affirmed the district court’s decision to uphold a non-infringement verdict based on a construction that introduced new functionality not explicitly recited in the means-plus-function claim. *Core Wireless Licensing S.A.R.L. v. Apple Inc.*, Case No. 15-2037 (Fed Cir., Apr. 17, 2017) (O'Malley, J).

Core Wireless owns a patent directed to sending packet data in a cellular system. Core Wireless brought a patent infringement action against Apple, asserting that Apple infringed, among other things, a claim that requires “[a] mobile station connected with a cellular system, comprising means for sending uplink packet data to the system using a selected channel . . . characterized in that it also comprises: . . . means for comparing said threshold value of the channel selection parameter to a current value of the channel selection parameter for basis of said channel selection.” The district court construed this means-plus-function limitation to require that the mobile station have the capability to perform channel selection. Based on that construction, the jury found that Apple did not infringe any of the asserted claims.

According to 35 USC 112, ¶ 6, a means-plus-function limitation “shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof.” The broadest reasonable interpretation of a means-plus-function limitation is determined by the structure in the specification that is described as performing the function recited in the means-plus-function limitation.

On appeal Core Wireless argued that the district court erred in construing the means-plus-function limitation. According to Core Wireless, because the claim did not explicitly recite the mobile station as performing channel selection, it was not proper for the district court to introduce this new functionality into the claim.

The Federal Circuit disagreed and found that each embodiment of the claimed invention disclosed in the specification, the prosecution history and the extrinsic evidence supported the district court’s claim construction, which required the mobile station to have the capability to perform channel selection. First, all of the embodiments of the claimed mobile station disclosed in the specification showed the mobile station both performing the comparison and subsequently using the result of the comparison for channel selection. The prosecution history indicated that the applicant’s position during prosecution was that the mobile station performed the channel selection. Similarly, the invention disclosure described the mobile station as having the capability to perform channel selection.

**Practice Note:** A construction of means-plus-function limitations under 35 USC 112, ¶ 6 may introduce new functionality that is not explicitly required in the claim, if that functionality is required by the corresponding structure disclosed in the specification.

---

## **DISCLOSED STRUCTURE RESTRICTS BREADTH OF MEANS-PLUS-FUNCTION LIMITATIONS**

---

*IPCom GmbH & Co. v. HTC Corp.*, Case No. 16-1474 (Fed. Cir., July 7, 2017) (Chen, J).

In an opinion addressing claim construction and Patent Trial and Appeal Board (PTAB) jurisdiction, the US Court of Appeals for the Federal Circuit concluded that while the PTAB had the authority to consider the patentability of the challenged claims, its obviousness rejections were based on a faulty claim construction. *IPCom GmbH & Co. v. HTC Corp.*, Case No. 16-1474 (Fed. Cir., July 7, 2017) (Chen, J).

After IPCom sued HTC for infringing its patent, HTC requested that the US Patent and Trademark Office (PTO) conduct *inter partes* re-examination of several claims of the patent. After the examiner found the claims patentable, HTC appealed to the PTAB, which issued a new ground of rejection against the claims for which re-examination was sought, as well as several other claims. IPCom amended the claims that were subject to the re-examination request, but the PTAB found the amended claims obvious. IPCom appealed.

On appeal, IPCom argued that the PTAB's obviousness rejections were based on a flawed claim construction because (i) the PTAB never identified the structure in the specification corresponding to a means-plus-function claim limitation, and (ii) that the PTAB lacked jurisdiction to review a subset of the amended claims because those claims were not expressly considered by the PTAB in its first review of the examiner's rejection.

Regarding the claim construction issue, the Federal Circuit agreed that the PTAB failed to properly construe the means-plus-function limitation, noting that § 112, ¶ 6 sets a limit on how broadly the PTO may construe a means-plus-function limitation even under the broadest reasonable interpretation standard. The language of a §112, ¶ 6 claim element must be interpreted in light of the corresponding structure disclosed in the specification, and the PTO may not disregard that structure when considering patentability. In construing the claim element in issue here, the PTAB rejected IPCom's proposed three-step algorithm disclosed in the specification, but failed to identify what it believed to be the correct algorithm. After rejecting IPCom's proposed algorithm, the PTAB treated the means-plus-function limitation as purely functional and concluded that the cited references disclosed the claimed function.

As for the PTAB's jurisdiction regarding the subset of amended claims, the Federal Circuit noted that IPCom filed a request to reopen prosecution of the challenged claims (which included the subset of claims) in view of the PTAB's initial decision, and that the matter was remanded to the examiner for consideration in view of the newly submitted claim amendments. The Federal Circuit explained that by amending the subset of claims, IPCom altered the scope of those claims, thus permitting HTC to challenge their validity. Hence, the PTAB properly considered HTC's challenge to the amended subset of claims after IPCom reopened prosecution.

**Patents / Claim Construction/ Plain and Ordinary Meaning****BEWARE OF RELYING ON “PLAIN AND ORDINARY” MEANING**

*TVIIM, LLC v. McAfee, Inc.*, Case No. 16-1562 (Fed. Cir., Mar. 21, 2017) (Reyna, J)

Addressing the issue of whether jury determinations of invalidity and non-infringement were inconsistent where claim terms had more than one possible “plain and ordinary meaning,” the US Court of Appeals for the Federal Circuit upheld the verdict and the district court’s subsequent denial of a new trial, concluding that the patentee had waived any claim construction arguments, that the determinations of non-infringement and invalidity were consistent, and that any claim construction error was harmless in light of the patentee’s concessions regarding invalidity. *TVIIM, LLC v. McAfee, Inc.*, Case No. 16-1562 (Fed. Cir., Mar. 21, 2017) (Reyna, J).

TVIIM, a non-practicing entity, filed a patent infringement suit against McAfee alleging that McAfee’s “Program Updates” product/feature infringed TVIIM’s patent. The asserted patent covers a method of providing a security assessment for a computer by broadly undertaking the following steps: identifying the configuration of a computer, such as installed programs; identifying vulnerabilities associated with the configuration; and performing various utility functions (i.e., corrective measures) in response to the identified vulnerabilities. McAfee’s accused Program Updates feature had four basic functions: identifying non-Windows programs on a computer; checking a national database to determine whether there were any known vulnerabilities for the current version of the identified programs; determining whether an update was available for the identified programs; and downloading any available update, regardless of whether known vulnerabilities were found.

Prior to the trial, TVIIM asked the district court to construe a single term: “vulnerability.” The court found that the term should have its “plain and ordinary meaning.” Both parties thereafter agreed that no further construction was necessary. At trial, McAfee argued that two prior art references anticipated, or rendered obvious, the asserted patent. The references disclosed identifying vulnerabilities in a computer system and providing detailed information to the user. For both references, the user (and not the system) had to take any desired corrective action. The proper scope of the asserted claims became a key issue at trial, including whether the McAfee product or prior art references took action “in response” to identifying vulnerabilities. At the close of trial, the jury found that the asserted patent was not infringed and was invalid. TVIIM filed motions for judgment as a matter of law (JMOL) and a new trial, arguing that the jury had rendered an inconsistent verdict because it could not have arrived at both a non-infringement and an invalidity determination using a single construction of three key claim terms. TVIIM conceded that it did not seek construction of any of these terms before or during trial. After the district court denied the motions, TVIIM appealed.

The Federal Circuit upheld the verdict and the district court’s denial of JMOL or a new trial. First, the Court restated the axiom that “claim terms must be construed the same way for the purpose of determining invalidity and infringement.” It held, however, that TVIIM had waived any claim construction arguments by failing to seek construction of the three terms it alleged were construed differently for infringement versus invalidity. Next, the Court went through each of the three claim terms and found that substantial evidence supported the jury verdict of non-infringement based on using the same construction the jury had likely used for its invalidity verdict. Finally, the Court noted that any potential error in claim construction was harmless because TVIIM conceded that the jury’s invalidity determination could be proper under “any single ordinary meaning construction.”

**Practice Note:** Jurors may interpret the “plain and ordinary meaning” of claim terms differently than a party expert. If there is doubt as to the meaning of a claim term, likely best practice is to propose a clear meaning for the term.

**Patents / Claim Construction / Collateral Estoppel****RULE 36 AFFIRMANCE CAN CREATE ISSUE PRECLUSION FOR CLAIM CONSTRUCTION**

*Phil-Insul Corp. v. Airlite Plastics Co.*, Case No. 16-1982 (Fed. Cir., Apr. 17, 2017) (O'Malley, J)

Addressing the scope of collateral estoppel from a Rule 36 affirmance, the US Court of Appeals for the Federal Circuit determined that despite the summary nature of such decisions and the absence of a written opinion outlining any reasons for affirmance, the prior judgment in this case had a preclusive effect on the issue of claim construction in the patent owner's subsequent assertion of infringement. *Phil-Insul Corp. v. Airlite Plastics Co.*, Case No. 16-1982 (Fed. Cir., Apr. 17, 2017) (O'Malley, J).

The patent at issue relates to insulated concrete forms (ICFs) used as molds for casting concrete walls. After the concrete sets in the mold, the ICFs remain in place to serve as insulation around the wall. The ICFs not only interconnect sideways, they also stack on top of each other, allowing the molds to reach the desired height for the final wall. The patent claimed a structure that made it "easier to interconnect" the stacked ICFs by having "adjacent" rows of "alternating projections and recesses" with "substantially the same dimension."

In a first litigation between the patent owner, IntegraSpec, and a first defendant, Reward Wall, the district court construed the terms "adjacent" and "dimension" of asserted claim 1. Applying its construction, the district court granted Reward Wall's motion for summary judgment of non-infringement. Because literal infringement was not at issue, the district court decided only whether Reward Wall's products infringed under the doctrine of equivalents. IntegraSpec appealed the district court's claim construction, and the Federal Circuit affirmed under Rule 36, which allows the Court to summarily affirm the judgment without a written opinion when certain conditions exist and the "opinion would have no precedential value."

In a second litigation (the subject of this appeal), IntegraSpec asserted dependent claim 2 against a second defendant, Airlite, arguing for a new claim construction of the same terms "adjacent" and "dimension." In this case, the district court granted Airlite's motion for summary judgment, finding that the Federal Circuit's prior Rule 36 judgment had collaterally estopped IntegraSpec from seeking a new claim construction because the issue of claim construction had been fully and fairly litigated to finality. IntegraSpec appealed, arguing that Rule 36 opinions have no precedential value and therefore cannot create issue preclusion in other cases. IntegraSpec also argued that the construction of claim 1 in the prior case was a different issue, so it could not be estopped from litigating new claim construction issues raised with respect to claim 2 in the subsequent litigation.

The Federal Circuit disagreed. The Court explained that a Rule 36 judgment is preclusive as long as the issues are necessary to the Court's final judgment. Because claim construction is a necessary first step to any infringement analysis, a summary judgment of non-infringement that is clearly based on resolving a claim construction dispute means that claim construction is an issue necessarily decided by appellate affirmance. Here the earlier district court's judgment of non-infringement depended entirely on its claim construction of the terms "adjacent" and "dimension," and the Federal Circuit affirmed that prior judgment. Thus, the prior claim construction was necessary to the previous judgment and had a preclusive effect.

In addition, the Federal Circuit rejected IntegraSpec's argument regarding the new issue it allegedly raised under claim 2. Because claim 2 included all of the limitations of claim 1 and the same claim terms must be used consistently throughout the patent, this was effectively the same issue that was previously raised, was fully litigated and became binding on IntegraSpec with finality of the prior appeal.

**Patents / Claim Construction / Divided Infringement****INFRINGEMENT OF METHOD CLAIM STILL REQUIRES PERFORMANCE OF EVERY CLAIMED STEP**

*Medgraph, Inc. v. Medtronic, Inc.*, Case No. 15-2019 (Fed. Cir., Dec. 13, 2016) (Lourie, J)

Addressing the issue of divided infringement, the US Court of Appeals for the Federal Circuit upheld the district court's dismissal of patent owner's claims of infringement because not all steps of the claim were performed, either directly by the defendant or by attribution. *Medgraph, Inc. v. Medtronic, Inc.*, Case No. 15-2019 (Fed. Cir., Dec. 13, 2016) (Lourie, J).

The claims at issue are drawn to systems and methods for improving or facilitating diagnosis and treatment of patients, with steps of using a device to take medically relevant measurements from a patient, ensuring that the device is detached after measurement is complete, uploading the measurement data into a computer, and transmitting the data to a central storage device where physicians can then access the data. Medtronic makes and sells various systems for diabetes management in which a patient uploads data (e.g., blood sugar readings) to Medtronic's central computer server. Patients can opt to share the data with their physicians through remote transmission.

Some of the claimed steps are performed by patients and doctors, not by Medtronic itself—resulting in so-called “divided infringement.” The case law on divided infringement has been developing since the Federal Circuit decided *Akamai I* in 2010 (IP Update, Vol. 14, No. 1). After four more rounds in the courts, the Federal Circuit issued a per curiam en banc decision in 2015 (*Akamai V*) that clarified when acts of another may be attributed to an accused infringer in the context of divided infringement (IP Update, Vol. 18, No. 6). In *Akamai V*, the Court held that “attribution” is proper in either of two circumstances: (1) when a third party performs steps of the claim under the direction or control of the accused infringer, e.g., when a contractual obligation or agency relationship exists, or (2) “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” (emphasis added).

Applying this standard to Medtronic's accused systems, the Court found that Medtronic did not perform all of the claimed steps because the patient- and doctor-performed steps could not be properly attributed to Medtronic. Although Medtronic instructed its users to perform the claimed steps, that was not enough for attribution under *Akamai V* because the evidence “indisputably” showed that Medtronic does not condition the use of its systems on performance of the claimed steps. For example, Medtronic does not deny patients access to the accused systems if they do not remove the measurement device after the measurement is taken. In fact, the opposite is true: Medtronic's patients actually benefit when its continuous glucose monitoring device is not removed from the body. Similarly, Medtronic does not deny any benefit to its users if they choose not to perform the step of synchronizing the measurement data to allow their physicians to access the data remotely. Instead of synchronization, patients can bring hard copy printouts of their measurements to the physician's office, or data can be extracted locally from their devices while at the physician's office.

The case also dealt with a second issue relating to proper construction of “and.” The Court acknowledged that there have been prior cases in which “and” was properly construed to mean “or,” but noted that all of those cases had “a common theme that distinguishes them from this case: the specification compels a disjunctive construction for ‘and’” (emphasis in original). In the present case, however, the Court concluded that the specification could be read as supporting either a disjunctive or a conjunctive meaning. As such, plain meaning controls: “and” means “and.”

## EXHAUSTION

---

### *Patents / Exhaustion*

---

## **SUPREME COURT TO PATENT HOLDERS: SELL PRODUCT ANYWHERE, EXHAUST PATENT RIGHTS EVERYWHERE**

---

*Impression Products v. Lexmark International.*, 581 US 1523 (2017) (Roberts, J)

On May 30, 2017, the United States Supreme Court took a hard line on patent exhaustion in *Impression Products v. Lexmark International*. Reversing long-standing Federal Circuit precedent, the Supreme Court has now held that a patentee extinguishes its patent rights on a product upon its sale of that product, regardless of (1) whether the patentee placed a restriction on the sale (prohibiting reuse or resale), or (2) whether the sale occurred within the United States. The Supreme Court's decision, authored by Chief Justice Roberts, was unanimous on this first issue, while Justice Ginsburg dissented with respect to the second issue. Justice Ginsburg took the position that a foreign sale does not exhaust a US inventor's US patent rights.

Under the principle of "patent exhaustion," a patentee extinguishes their patent rights on a product once it makes a sale of that product. The purchaser is thereafter free to dispose of the product in any way they see fit without any obligation to the patentee. The Federal Circuit previously held in *Mallinckrodt v. Medipart*, however, that patent exhaustion applies only where the sale was unrestricted / unconditional. In other words, the patentee could reserve some patent rights by conditionally selling a product, with an express restriction precluding the ability of the purchaser to reuse or resell the product to downstream users. Additionally, the Federal Circuit previously held in *Jazz Photo v. International Trade Commission* that the unrestricted sale had to occur within the United States, as the United States did not recognize "international exhaustion." The Supreme Court has now rejected both of those exceptions.

In reversing the Federal Circuit's holding, Justice Roberts concluded:

Allowing patent rights to stick remora-like to that item as it flows through the market would violate the principle against restraints on alienation. Exhaustion does not depend on whether the patentee receives a premium for selling in the United States, or the type of rights that buyers expect to receive. As a result, restrictions and location are irrelevant; what matters is the patentee's decision to make a sale.

The Court now has made clear that if a patent holder sells an article that embodies the claims in the patent, it may no longer extend the patent rights in that article. *Mallinckrodt and Jazz Photo* are no longer good law. This means that any patent holder who now tries to impose a post-sale restriction on an article that either the patent holder or a licensee sells, can no longer rely on using patent remedies to enforce that restriction and must now carefully consider whether any other legal theory can support the restriction. Perhaps more importantly, such a patent holder must now consider whether others can assert that any such restriction could raise legal issues under other substantive areas of the law, such as competition or false advertising law.

**Practice Note:** The US Supreme Court's decision brings much-needed clarity to the state of the patent exhaustion doctrine in the United States. This decision means that any post-sale restraints on patented products may not be enforced through patent law. Rather, such restraints would be subject to analysis under, among others, contract, antitrust and tort law. This decision should cause companies that license patents to consider the implications of patent exhaustion on their business models, in addition to any legal risks that may arise from licenses that relied on *Mallinckrodt or Jazz Photo*. This case is a landmark decision on patent exhaustion that will have broad implications in the use of patent rights.

## INFRINGEMENT

***Patents/ Infringement / Inducement / Divided Infringement*****MULTIPLE ACTORS MAY PERFORM STEPS IN METHOD CLAIMS FOR PURPOSES OF INDUCEMENT**

*Eli Lilly and Co. v. Teva Parenteral Medicines, Inc.*, Case No. 15-2067 (Fed. Cir., Jan. 12, 2017) (Prost, C.J.).

Addressing the issue of divided infringement, the US Court of Appeals for the Federal Circuit affirmed the district court's finding of induced infringement even though no single actor performed all steps of the asserted claims in a method patent. *Eli Lilly and Co. v. Teva Parenteral Medicines, Inc.*, Case No. 15-2067 (Fed. Cir., Jan. 12, 2017) (Prost, C.J.).

The patent at issue related to methods of administering the chemotherapy drug pemetrexed disodium (pemetrexed) after pretreatment with two common vitamins, folic acid and vitamin B12. Eli Lilly markets pemetrexed under the brand name ALIMTA<sup>®</sup>. After the patent issued in 2010, Teva and other drug makers notified Eli Lilly that they had submitted Abbreviated New Drug Applications seeking approval by the US Food and Drug Administration to market generic versions of ALIMTA<sup>®</sup>, and also filed Paragraph IV certifications declaring the patent invalid, unenforceable and not infringed. Eli Lilly brought suit against Teva and the other drug makers, alleging infringement under the Hatch-Waxman Act. The parties agreed that no single actor performed all steps of the asserted claims—rather, the steps were divided between physicians administering vitamin B12 and pemetrexed and patients administering folic acid.

During the litigation in 2013, the defendants conditionally conceded induced infringement under then-current law set forth in the Federal Circuit's *Akamai* decision ([IP Update, Vol. 15, No. 9](#)) (*Akamai II*). The Supreme Court of the United States, however, reversed *Akamai II*, holding that liability for inducement cannot be found without direct infringement, and remanded to the Federal Circuit to reconsider the standards for direct infringement ([IP Update, Vol. 17, No. 6](#)). This resulted in the Federal Circuit's *Akamai V* decision in 2015 ([IP Update, Vol. 18, No. 12](#)). After applying *Akamai V*, which broadened the circumstances in which others' acts may be attributed to a single actor to support direct infringement liability in cases of divided infringement, the district court found that defendants still induced infringement. Defendants appealed. Defendants also appealed the district court's finding that the asserted claims were not invalid.

The Federal Circuit affirmed, stating that under *Akamai V*, the performance of method steps is attributable to a single entity in two circumstances: (1) when that entity "directs or controls" others' performance, or (2) when the actors "form a joint enterprise." In the instant case, the question was whether physicians directed or controlled their patients' administration of folic acid. As to that question, the Court reiterated the two-prong test set forth in *Akamai V*, where directing or controlling others' performance includes circumstances in which an actor conditions participation in an activity or receipt of a benefit upon others' performance of one or more steps of a patented method, and establishes the manner or timing of that performance. The Court also noted that going forward, "other factual scenarios may arise which warrant attributing others' performance of method steps to a single actor."

Regarding the first prong, the Federal Circuit, after considering the product labeling and expert testimony, agreed with the district court's finding that physicians condition pemetrexed treatment on folic acid pretreatment. The Court noted that for purposes of applying the test, "conditioning" was not limited to "legal obligations or technological prerequisites." Regarding the second prong, the Federal Circuit again agreed with the district court's ruling that, in view of the record evidence, physicians establish the manner and timing of patients' folic acid pretreatment. The Court cautioned, however, that its holding "does not assume that patient action is attributable to a prescribing physician solely because they have a physician-patient relationship," and stated that it "leave[s] to another day what other scenarios also satisfy the 'direction or control' requirement." Turning next to the issue of whether Eli Lilly proved the requisite intent to find liability for induced infringement, the Federal Circuit found that the evidence established that the product labeling in issue would inevitably lead some physicians to infringe which was sufficient to establish the requisite intent for inducement.



**Patents / Infringement / Direct Infringement / Evidence****MESSAGE RECEIVED: DIRECT INFRINGEMENT OF SYSTEM CLAIM REQUIRES EVIDENCE OF USE**

*Intellectual Ventures LLC v. Motorola Mobility LLC*, 870 F.3d 1320 (Fed. Cir. 2017) (Dyk, J) (Newman, J, concurring in part and dissenting in part)

Addressing the issue of direct infringement in the context of a system claim, the US Court of Appeals for the Federal Circuit reversed the district court's denial of Motorola's motion for judgment as a matter of law, which challenged the jury's finding of infringement of the system claim at issue, concluding that the patentee had failed to establish "use" of the claimed invention. *Intellectual Ventures LLC v. Motorola Mobility LLC*, 870 F.3d 1320 (Fed. Cir. 2017) (Dyk, J) (Newman, J, concurring in part and dissenting in part).

Intellectual Ventures (IV) brought suit against Motorola alleging infringement of two patents, one relating to file transfers and the other to mobile device docking. Over the course of three jury trials, including one mistrial, the juries found the asserted claims to be infringed and not invalid. Motorola then moved for judgment as a matter of law, challenging the jury verdicts concerning infringement and no invalidity.

With respect to the issue of infringement, Motorola disputed the juries' finding of direct infringement (35 USC § 271(a)) of one of the asserted claims by Motorola and its customers. The parties treated the claim at issue as a system claim with limitations directed to three components: a "communications device," a "second device" and an "authenticating device configured to . . . generate a delivery report." Motorola argued that IV failed to offer evidence of a directly infringing "use" of the claimed system because none of the accused direct infringers "used" the "authenticating device" component of the system. After the district court denied Motorola's motions, Motorola appealed.

On appeal, the Federal Circuit analyzed the applicable standard for direct infringement of system claims by reviewing its previous decisions in *Centillion Data Sys. v. Quest* (2011) (IP Update, Vol. 14, No. 2) and *NTP v. RIM* (2005) (IP Update, Vol. 8, No. 8). The Federal Circuit concluded that those decisions together stood for the proposition that in order to prove an infringing "use" of a system under § 271(a), a patentee must demonstrate use (*i.e.*, "control" and "benefit") of the claimed system by an accused direct infringer. Further, the Court held that "to use a system, a person must control (even if indirectly) and benefit from each claimed component." The direct or indirect control required "is the ability to place the system as a whole into service."

Using the *Centillion/NTP* framework, the Federal Circuit considered whether, under the facts of the case, substantial evidence showed that Motorola's customers obtained a "benefit" from the authentication device configured to generate a delivery report in the accused phones. IV provided expert testimony in an attempt to show that Motorola customers could receive and display confirmation of a sent message on their Motorola phones. However, its expert conceded that all but one of the Multimedia Messaging Service Centers were technologically incapable of transmitting delivery reports to the sending phone. For the one carrier that could transmit delivery reports to the sending phone, the evidence demonstrated that unless a customer affirmatively took steps to alter the device configuration of his or her phone, the benefit of a delivery report could not be realized. IV also asserted theories of indirect benefit, but the Court dismissed them as "speculation or attorney argument." Thus, with no evidence pointing to a benefit of the authenticating device for Motorola customers, the Court held that judgment as a matter of law should have been granted that Motorola's customers did not directly infringe the system claim at issue.

The Federal Circuit also found that IV never presented a factual predicate for direct infringement liability against Motorola itself, and concluded that Motorola could not properly be found to have directly infringed the system claim. Finally, because a finding of direct infringement is a predicate to any finding of indirect infringement, none of the juries' verdicts concerning infringement were supported by substantial evidence. Judge Newman concurred with the Court's holding of non-infringement but dissented with respect to the issues of validity. IV's petition for panel rehearing or rehearing en banc was denied.

**Patents / Infringement / Indirect Infringement**

---

**AIRTIGHT VICTORY FOR RV SEAL SUPPLIER IN APPEAL TO OVERTURN DISMISSAL**

---

*Lifetime Indus., Inc. v. Trim-Lok, Inc.*, 869 F.3d 1372 (Fed. Cir. 2017) (Lourie, J)

The US Court of Appeals for the Federal Circuit reversed a district court's dismissal of direct and indirect infringement claims, finding that plaintiff had properly alleged direct infringement even though defendant did not manufacture both components of the accused product, and that plaintiff's induced infringement allegations were sufficient to plausibly allege that defendant intended that consumers would infringe the asserted patent. *Lifetime Indus., Inc. v. Trim-Lok, Inc.*, 869 F.3d 1372 (Fed. Cir. 2017) (Lourie, J).

Lifetime sued Trim-Lok for direct and indirect infringement of Lifetime's patent covering a two-part seal for use in an RV. The claims of the asserted patent required a product in which a seal is installed on an RV. According to Lifetime's complaint, two Lifetime engineers with knowledge of the asserted patent recently left Lifetime and joined Trim-Lok. After hiring Lifetime's former employees, Trim-Lok began offering an allegedly infringing two-part seal. Lifetime also alleged that it discovered a Trim-Lok two-part seal installed on an RV at a Forest River manufacturing plant. As part of its direct infringement allegations, Lifetime alleged that a Trim-Lok employee visited the Forest River plant and directly installed the Trim-Lok two-part seal on an RV. For its induced infringement allegations, Lifetime alleged that Trim-Lok influenced Forest River to include the Trim-Lok two-part seal on its RVs, and that Trim-Lok's employees assisted in the installation of the Trim-Lok seal.

The district court dismissed Lifetime's direct infringement counts because the asserted claims required both a two-part seal and an RV, and Trim-Lok did not manufacture an RV. The court determined that Trim-Lok's installation of its seal on a Forest River RV could only establish liability for indirect infringement, since the seal was only a component of the claimed product. Moreover, the district court dismissed the claims of induced infringement because Lifetime had not alleged any facts from which intent to infringe could be inferred. Lifetime appealed.

The Federal Circuit reversed. With respect to direct infringement, the Court found that "commercial manufacture is not the only way that a combination can infringe," explaining that Lifetime's allegations that Trim-Lok installed a two-part seal on an RV were sufficient to plead that Trim-Lok made an infringing seal-RV combination.

As for induced infringement, the Federal Circuit found that Lifetime pled sufficient facts to infer that Trim-Lok intended to induce Forest River to infringe the asserted patent. Lifetime had alleged that its former employees knew of the seal design and recently joined Trim-Lok, that Trim-Lok directed or assisted the installation of an infringing seal onto the Forest River RV, and that Trim-Lok had never made or sold an infringing seal before the former Lifetime employees joined the company. Based on these facts, the Court found that intent to induce could be inferred.

**INVALIDITY SECTION 101 SUBJECT MATTER ELIGIBILITY**

---

***Patents / Section 101 Subject Matter Eligibility***

---

**NO TICKET TO RIDE FOR TRANSIT-LIMITED CLAIMS**

---

*Smart Systems Innovations, LLC v. Chicago Transit Authority*, 873 F.3d 1364 (Fed. Cir. 2017) (Wallach, J) (Linn, J, concurring in part and dissenting in part)

The US Court of Appeals for the Federal Circuit affirmed a district court ruling that claims directed to the specific field of mass transit were directed to patent-ineligible subject matter under 35 USC § 101 because they failed both steps of the Alice inquiry. The Court found that the claims were directed to an abstract idea and otherwise lacked inventive concept. *Smart Systems Innovations, LLC v. Chicago Transit Authority*, 873 F.3d 1364 (Fed. Cir. 2017) (Wallach, J) (Linn, J, concurring in part and dissenting in part).

The representative claims in issue, taken from four related patents, were directed to either payment systems using a bankcard in connection with accessing mass transit, or data collection and storage systems regarding such payment systems. At the district court, the Chicago Transit Authority filed a motion for judgment on the pleadings, asserting that the claims were subject matter ineligible under 35 USC § 101. After the district court granted the motion, Smart Systems appealed.

The Federal Circuit considered all of the representative claims from the four patents together, and analyzed the claims under the two-part Alice test. In doing so, the Court agreed with the district court that the claims were directed to an abstract idea, namely, “formation of financial transactions in a particular field (*i.e.*, mass transit) and data collection related to such transactions,” or “paying for a subway or bus ride with a credit card.” Smart Systems argued that the patents were not abstract because the claims were directed to a particular, concrete field, *i.e.*, mass transit. The Court rejected this argument as “beside the point.” The Court distinguished *Enfish* (IP Update, Vol. 19, No. 6) and *DDR Holdings* (IP Update, Vol. 18, No. 1), noting that Smart Systems did not argue that the claims were directed at an improvement in computer technology. Similarly, the Court distinguished *McRO* (IP Update, Vol. 19, No. 10) as inapposite, noting that the claims in issue were not directed to specific rules that improve a technological process. Therefore, the Court concluded that all of the representative claims failed step one of the Alice inquiry.

Turning to step two of the Alice inquiry, the Federal Circuit affirmed the district court finding that the representative claims lacked an inventive concept because they merely required generic computer components, which do nothing more than run a “bankcard sale—that is, the performance of an abstract business practice.” The Court went on to reject each of Smart Systems’ arguments of “other indicia” of inventive concept, including the lack of preemption and satisfaction of the machine-or-transformation test, and ultimately concluded that all representative claims failed the “something more” aspect of Alice step two.

In dissent, Judge Linn argued that two of the four patents, which were directed to the payment systems using a bankcard in connection with accessing mass transit, were not directed to an abstract idea. Linn explained that the majority opinion erred by describing the claims at “such a high level of abstraction as to overlook and misstate what the inventors considered to be their invention.” Linn argued that the recited transit system is not merely a generic environment that may be ignored, and that the claims did not cover the kind of basic building blocks that would foreclose or inhibit future innovation.

Judge Linn agreed with the majority that the other two patents were directed at data collection and storage systems and thus failed both steps of the Alice inquiry. In particular, Linn agreed with the majority that these patents were directed at fundamental economic practices not tied to the transit system, and as such fell into a category of patents that are directed towards abstract ideas. Although Linn disagreed with this categorical exclusion, he concluded that he was bound to that finding by controlling precedent.

Smart Systems has since filed a petition for rehearing en banc.

**Patents / Section 101 Subject Matter Eligibility****HEADS UP! THAT'S PATENTABLE SUBJECT MATTER**

*Thales Visionix Inc. v. U.S.*, Case No. 15-5150 (Fed. Cir., Mar. 8, 2017) (Moore, J)

In addressing the first step of the Supreme Court of the United States' § 101 framework in *Alice* ([IP Update, Vol. 17, No. 7](#)) evaluating whether the claimed subject matter is an abstract idea, the US Court of Appeals for the Federal Circuit reversed a decision invalidating claims directed to a heads-up display patent as being patent ineligible under 35 USC § 101. *Thales Visionix Inc. v. U.S.*, Case No. 15-5150 (Fed. Cir., Mar. 8, 2017) (Moore, J).

Thales Visionix, a developer of helmet-mounted display systems (HMDS), sued the United States for patent infringement in the US Court of Federal Claims (Claims Court). The asserted claims are directed to HMDS used by fighter jet pilots. The claims utilize mathematical equations to determine the orientation of the helmet relative to the frame of a moving vehicle through inertial sensors such as accelerometers and gyroscopes. Elbit Systems, the government contractor that produced the HMDS for the government, joined the case as a third-party defendant. The Claims Court granted a motion brought by Elbit Systems and the government for judgment on the pleadings that the asserted claims are invalid for being directed to an abstract idea. The Claims Court found that all asserted claims (1) are directed to the abstract idea of using laws of nature governing motion to track two objects, and (2) provide no inventive concept beyond the abstract idea. Thales Visionix appealed.

The Federal Circuit reversed, concluding that the asserted claims are not directed to an abstract idea since they specify a particular configuration of inertial sensors and a particular method of using the raw data from the sensors. The Court emphasized that "it is not enough merely to identify a patent-ineligible concept underlying the claim; we must determine whether that patent-ineligible concept is what the claims is 'directed to.'"

To reach the conclusion that the asserted claims are not abstract, the Federal Circuit traced recent precedent, such as *Enfish LLC* ([IP Update, Vol. 19, No. 6](#)), as well as the Supreme Court's pre-*Alice* rationale in *Diamond v. Diehr*, finding the claims at issue "nearly indistinguishable from the claims at issue in *Diehr*." Although the claims utilize mathematical equations to determine the orientation of the helmet, the equations serve only to tabulate position while being dictated by the placement of the inertial sensors and application of laws of physics. Requiring a mathematical equation to complete the claimed methods and system "does not doom the claims to abstraction." Because the patentee did not claim the equations themselves and the claims were not directed to an abstract idea, the inquiry should therefore end with *Alice* step one.

**Practice Note:** Although this decision did not reach the question of whether the claims disclosed an "inventive concept," the Federal Circuit commented on the multiple advantages of the claimed methods and systems over the prior art. In other words, the Court's "abstract idea" analysis went to an evaluation of whether the subject matter is non-conventional or an improvement upon previously disclosed technologies. This decision suggests that drafting a specification and claims indicating a non-conventional use may provide some level of protection against a contention that the claimed subject matter is abstract.

## **CARDIOVASCULAR DISEASE CORRELATION DOESN'T BEAT § 101 CHALLENGE**

The Cleveland Clinic Foundation v. True Health Diagnostics LLC, Case No. 16-1766 (Fed. Cir., June 16, 2017) (Reyna, J).

Addressing the issue of whether method claims involving determination of risk of cardiovascular disease based on detection of a particular biomarker pass § 101 muster under the 2014 Supreme Court of the United States decision in *Alice* ([IP Update, Vol. 17, No. 7](#)), the US Court of Appeals for the Federal Circuit upheld the district court's finding that the claims were not patent eligible. *The Cleveland Clinic Foundation v. True Health Diagnostics LLC*, Case No. 16-1766 (Fed. Cir., June 16, 2017) (Reyna, J).

The patents at issue involve methods of detecting MPO, an enzyme released when arteries are damaged or inflamed, and evaluating the risk of cardiovascular disease based on the MPO levels. After Cleveland Clinic filed suit, True Health moved to dismiss on the grounds that the claims were directed to ineligible subject matter under § 101. The district court agreed and found all claims of the asserted diagnostic patents invalid. Cleveland Clinic appealed.

Cleveland Clinic argued that a motion to dismiss was an improper vehicle for assessing patent eligibility under § 101. Rather, the “district court should have undertaken claim construction and developed the factual and expert record before analyzing” validity under § 101. The Federal Circuit rejected this argument, noting that Cleveland Clinic “provided no proposed construction of any terms or proposed expert testimony that would change the § 101 analysis.”

Turning to the merits of subject matter eligibility, the Federal Circuit first evaluated whether “the claims are directed to ineligible subject matter, such as a law of nature,” under *Alice* step one. The Court concluded that the claims are directed to a natural law because they involve detecting naturally occurring MPO and then “[employ] the natural relationship between those MPO values and predetermined or control values to predict a patient’s risk of developing or having cardiovascular disease.”

Proceeding to *Alice* step two, the Federal Circuit examined “the elements of the claims to determine whether they contain an inventive concept sufficient to transform the claimed naturally occurring phenomena into a patent-eligible application.” In other words, having already identified the natural law—the presence of MPO in the body and its correlation with cardiovascular disease—in *Alice* step one, the Court focused on whether the claims added anything new sufficient to render the claims patentable. As part of that analysis, the Court distilled the claimed method to two steps: a “determining” step that involved analyzing MPO levels, followed by a “comparing” step that involved comparing MPO levels to statistically derived control or predetermined values. The Court concluded that both steps could be performed using known techniques, so the invention claimed reduced to the correlation between MPO and risk of cardiovascular disease. Accordingly, the Court concluded that the claimed method did “not sufficiently transform the natural existence of MPO in a bodily sample and its correlation to cardiovascular risk into a patentable invention.”

Cleveland Clinic argued that its claims were analogous to those in *CellzDirect* and therefore were directed to patent-eligible subject matter. In *CellzDirect*, the Federal Circuit found that the challenged claims were valid under § 101 because they were “directed to a new and useful laboratory technique for preserving [liver cells]” ([IP Update, Vol. 19, No. 8](#)). The Court, however, disagreed with the analogy. In *CellzDirect*, “the inventors took the discovery that certain liver cells will survive multiple freeze-thaw cycles and applied that to improve existing methods for preserving liver cells.” The Court concluded that the claimed invention here was not directed to a new laboratory technique but rather “uses well known techniques to execute the claimed method.”

**Practice Note:** Although the Federal Circuit determined that the claims in issue here were not patent eligible under § 101, it acknowledged a narrow path to § 101 eligibility under *CellzDirect*. Based on the Court’s reasoning, the claims could have survived the § 101 challenge had they required new and different methods of detecting MPO.

When appropriate, patent owners should consider raising substantive claim construction arguments (in response to a motion to dismiss on §101 grounds) in order to try to establish that the challenged method requires new techniques.

## **ELECTRONIC TRADING CLAIMS ARE PATENT ELIGIBLE**

---

*Trading Tech. Int'l, Inc. v. CQG, Inc.*, Case No. 16-1616 (Fed. Cir., Jan. 18, 2017) (Newman, J.) (non-precedential).

The US Court of Appeals for the Federal Circuit affirmed a district court's holding that claims directed to electronic trading are patent eligible. *Trading Tech. Int'l, Inc. v. CQG, Inc.*, Case No. 16-1616 (Fed. Cir., Jan. 18, 2017) (Newman, J.) (non-precedential).

Trading Technologies charged CQG with infringement of patents directed to the electronic trading of stocks, bonds, futures, options and similar products. The patents describe a trading system in which a graphical user interface displays the market depth of a traded commodity. CQG moved for judgment as a matter of law, asserting that the claims of the patents were directed to patent-ineligible subject matter under 35 USC § 101. The district court denied CQG's motion after finding that the claims were not directed to an abstract idea and that they recited an inventive concept. CQG appealed.

On appeal, the Federal Circuit affirmed the district court's patent-eligibility holding. Judge Newman, writing for the panel, evaluated the district court's application of the two-step *Alice* framework. First, the Court affirmed the district court's analysis and conclusion under *Alice* step 1. With respect to step 1, the district court found the patent claims to be directed to improvements in existing graphical user interface devices, rather than being directed more generally to a mathematical algorithm or a business practice. The Court agreed and emphasized that the graphical user interface system of these patents is not an idea that has long existed, calling that "the threshold criterion of an abstract idea and ineligible concept."

The Court also affirmed the district court's analysis and conclusion under *Alice* step 2. According to the district court, the challenged claims recite an inventive concept that allows traders to more efficiently and accurately place trades using the claimed electronic trading system. The Court found the district court's analysis to be in accord with precedent, including the Federal Circuit's decisions in *DDR Holdings*, *McRO* and *Enfish*.

---

## **SOFTWARE CLAIMS REFLECTING TECHNICAL IMPROVEMENT PASS § 101 MUSTER**

---

*Visual Memory LLC v. NVIDIA Corporation*, Case No. 16-2254 (Fed. Cir., Aug. 15, 2017) (Stoll, J) (Hughes, J, dissenting)

In addressing subject matter eligibility of software patent claims, the US Court of Appeals for the Federal Circuit found claims to be subject matter eligible where the claims were directed to configuration of a memory system based on the type of processor connected to that memory system. The Court concluded that the claims were directed to a technological improvement in memory systems rather than an abstract idea. *Visual Memory LLC v. NVIDIA Corporation*, Case No. 16-2254 (Fed. Cir., Aug. 15, 2017) (Stoll, J) (Hughes, J, dissenting).

The patent at issue relates to a memory system connected to different types of processors, where operational characteristics of a corresponding cache are programmed based on the type of processor connected to the memory system. The cache is divided into pages containing either code or non-code data, and the programmable operational characteristics provide a bias towards code pages or non-code pages depending on the type of processor connected to the memory system. The specification discloses that the memory system “allows different types of processors to be installed with the [same] subject memory system without significantly compromising their individual performance.”

After Visual Memory sued NVIDIA alleging patent infringement, the district court dismissed the complaint in the context of an R. 12(b)(6) failure to state a claim motion, concluding that the patent was directed to patent ineligible subject matter. The district court found that the claims were directed to “the abstract idea of categorical data storage” and found no inventive concept because the claims recited generic and conventional computer components and concepts. Visual Memory appealed.

The Federal Circuit reversed, finding that the challenged claims were patent eligible under § 101. Regarding step one of the Alice inquiry, the Court found that the challenged claims were not directed to an abstract idea because the claims reflected a technical improvement to computer memory systems as discussed in the specification. The Court cited its decisions in *Enfish* ([IP Update, Vol. 19, No. 6](#)) and *Thales* ([IP Update, Vol. 20, No. 4](#)) for guidance.

In *Enfish*, the self-referential table recited in the claims at issue was found to be an improvement in the computer’s functionality, where the specification described the benefits of using a self-referential table and highlighted the differences between the claimed self-referential table and a conventional database structure. In *Thales*, the Court found that the non-conventional use of inertial sensors and a mathematical equation to reduce errors in measuring the location and orientation of an object relative to a moving platform amounted to a technical improvement under step one of the Alice inquiry.

Like the specifications in *Enfish* and *Thales*, the specification in this case discussed the advantages offered by the technical improvement in the claimed memory system, where the teachings of the specification shed light on the claimed memory system’s efficiency and outperformance over other conventional approaches.

Although the Federal Circuit acknowledged that the abstract concept of categorical data storage underlay the claims at issue, it explained that the claims focused on a “specific asserted improvement in computer capabilities” (*i.e.*, the use of programmable operational characteristics that are configurable based on the type of processor) instead of “on a process that qualifies as an abstract idea for which computers are invoked merely as a tool.”

In dissent, Judge Hughes argued that distilling the purpose of the claims requires expressing the fundamental concept “at a level consistent with the level of generality or abstraction expressed in the claims themselves,” and that the fundamental concept cannot be described at a lower level than categorical data storage. The majority disagreed with the characterization of the “programmable operational characteristics” as a black box lacking support from the specification as to how the programmable operational characteristics are implemented, explaining that the specification and claims make clear that the



improved memory system is “achieved by configuring a programmable operational characteristic of a cache memory based on the type of processor connected to the memory system.”

**Practice Note:** This case reflects the Federal Circuit’s current jurisprudence as to what qualifies as patent eligible subject matter as it relates to software patent claims. Patent drafters may consider including in the written description an explanation of the advantages of the claimed subject matter over conventional approaches, since the Court has shown a pattern of reliance on the specification for determining whether the claims reflect a technical improvement. Practitioners may also consider providing code as part of the specification, as the Court has shown some proclivity to find that code that teaches an artisan about the “innovative programming effort” behind the invention may help demonstrate a technical improvement.

**INVALIDITY SECTION 102 ON-SALE BAR**

---

***Patents / On-Sale Bar***

---

**ON-SALE BAR UNDER THE AMERICA INVENTS ACT**

---

*Helsinn Healthcare S.A. v. Teva Pharmaceuticals USA, Inc.*, Case Nos. 16-1284; -1787 (Fed. Cir., May 1, 2017) (Dyk, J).

The US Court of Appeals for the Federal Circuit interpreted the scope of the on-sale bar provision, 35 USC § 102(a)(1), under the America Invents Act (AIA) and held that claims are invalid where there is public disclosure of a sale of an invention, even when the details of the invention are not public. *Helsinn Healthcare S.A. v. Teva Pharmaceuticals USA, Inc.*, Case Nos. 16-1284; -1787 (Fed. Cir., May 1, 2017) (Dyk, J).

The Federal Circuit has long held that the on-sale bar of “old” 35 USC § 102(b) is triggered when an invention is made available to the public through a commercial offer or contract to sell a product embodying that invention and the sale is made public. Congress amended the text of § 102 to add the phrase “or otherwise available to the public” when identifying bars to patentability. Under “new” § 102(a)(1), patents issued on applications filed after March 2013 are barred from patenting if the invention is “described in a printed publication, or in public use, on sale, or *otherwise available to the public*” (emphasis added).

In a Hatch-Waxman suit brought by Helsinn Healthcare, the district court interpreted the new text as requiring a public sale or offer for sale of the invention only when the sale publicly discloses the details of the invention.

Helsinn asserted four patents for a pharmaceutical treating chemotherapy-induced nausea. Three of the patents issued on applications filed before enactment of the AIA, and the fourth patent issued on an application filed after the AIA’s effective date. All four asserted patents claim priority to a provisional patent application filed on January 30, 2003, making the critical date for the on-sale bar January 30, 2002. The district court was asked to determine whether a license and purchase agreement for the pharmaceutical (entered into while the pharmaceutical was in clinical trials) barred patentability. The license and purchase agreement was publicly announced and disclosed in US Securities and Exchange Commission filings prior to the critical date. For the three patents governed by pre-AIA law, the district court found that the sale was not invalidating because the invention was not “ready for patenting” before the critical date. For the fourth patent, governed by new § 102(a)(1), the district court found that the AIA changed the meaning of what constituted a public sale, and concluded that the on-sale bar is only triggered when the sale publicly discloses the details of the invention. Teva appealed.

The Federal Circuit reversed the district court’s finding that under either the old or new version of the on-sale bar the invention was not ready for patenting before the critical date. Precedent requires that for the on-sale bar to apply, (1) there must be a sale or offer for sale before the critical date, and (2) the invention must be ready for patenting. For the three pre-AIA patents, the Federal Circuit concluded that although the district court was correct that there was a qualifying offer for sale, the district court applied the wrong standard in assessing whether the invention was ready for patenting. Under Federal Circuit precedent, an invention is ready for patenting when there is evidence that it works for its intended purpose. This is a lesser showing than what the US Food and Drug Administration (FDA) requires to approve new drugs. In this case, the district court had found the claimed invention not ready for patenting because at the time of the critical date the drug was still in clinical trials. The Federal Circuit explained that reliance on FDA standards for approval was too demanding. The correct inquiry is whether, before the critical date, the claimed invention was working for its intended purpose of reducing nausea during chemotherapy. Because there was overwhelming evidence that the pharmaceutical was reduced to practice before the critical date, the district court erred in finding the invention not ready for patenting. The three pre-AIA patents were therefore barred under old § 102(b).

In addressing the lone post-AIA patent, the Federal Circuit found that Congress did not change the meaning of the on-sale bar. Contrary to Helsinn’s argument that legislative floor statements limited the scope of the on-sale bar, the Federal Circuit explained that such statements only addressed public use, not an offer to sell. Moreover, the floor statements did not suggest that the sale or offer documents themselves must publicly disclose all the details of the claimed invention. As the Court noted, under AIA, “if the existence of the sale is public, the details of the invention need not be publicly disclosed in the terms of the

sale.” Here, the on-sale bar was triggered at the time the license and purchase agreement was made public, rendering the fourth asserted patent subject to the new § 102(a)(i) bar.

**Practice Note:** The Federal Circuit’s holding regarding the AIA amendments addresses *public* sales. This decision does not address whether a commercial sale that is confidential or not publicly disclosed would also trigger application of the on-sale bar for post-AIA patents.

## INVALIDITY SECTION 103 OBVIOUSNESS

**Patents / Obviousness****GENERAL “DESIRE” TO IMPROVE CAN PROVIDE SUFFICIENT RATIONALE TO COMBINE REFERENCES**

*In re Ethicon, Inc.*, Case No. 15-1696 (Fed. Cir., Jan. 3, 2017) (Lourie, J) (Newman, J., dissenting)

Pointing to the “normal desire” of scientists to improve what is already known as a rationale to combine, the US Court of Appeals for the Federal Circuit affirmed the Patent Trial and Appeal Board’s (PTAB’s) *inter partes* reexamination decision finding Ethicon’s claims obvious over a combination of three prior art references. *In re Ethicon, Inc.*, Case No. 15-1696 (Fed. Cir., Jan. 3, 2017) (Lourie, J) (Newman, J., dissenting).

Ethicon’s patents are directed to drug-eluting stents coated with a co-polymer made from two polymers, VDF and HFP, at an 85:15 percent weight ratio. In contrast to polymer-coated stents in the prior art, stents with the claimed co-polymer coating help prevent blood vessels from closing after implantation.

The PTAB concluded that the claims were obvious over the Tuch, Tu and Lo references, finding that (1) Tuch teaches stents coated with VDF alone, and teaches that coatings with low elasticity cause problems; (2) Tu teaches that VDF:HFP co-polymers have good elasticity, but does not teach the claimed ratio; and (3) Lo teaches that VDF:HFP co-polymers at the claimed 85:15 percent ratio provide good elasticity for non-biomedical, industrial applications. Ethicon appealed.

The Federal Circuit affirmed, concluding that “the claimed invention is merely the simple substitution of a coating (VDF:HFP) known to be useful in in vivo applications, including stents, in a weight ratio (85:15) known to provide a good balance between strength and elasticity, for the VDF coating disclosed in Tuch.”

Ethicon argued that there was no motivation to combine the three references, but the Federal Circuit relied on KSR in explaining that a specific teaching, suggestion or motivation to combine was not required. Instead, “[t]he normal desire of artisans to improve upon what is already generally known can provide the motivation to optimize variables such as the percentage of a known polymer for use in a known device.”

The Federal Circuit also rejected Ethicon’s argument that Tuch teaches away from use of non-bioabsorbable (BA) coatings such as VDF:HFP, finding instead that Tuch teaches both BA and non-BA coatings, and that BA is preferred. As the Court explained, there can be no teaching away absent “clear discouragement.” Nor was the Court persuaded by Ethicon’s argument that Tu relates to non-stent devices and thus teaches away from allowing a polymer like VDF:HFP to contact blood. Rather, the Court found that the teachings cited by Ethicon were clearly limited to one specific embodiment, and when read as a whole, Tu’s invention is broadly applicable to biomedical devices that come into contact with blood.

The Federal Circuit also rejected Ethicon’s argument that Lo concerns very old, non-analogous art that has nothing to do with medical devices. Citing the PTAB’s reliance on Lo’s teachings regarding properties of VDF:HFP co-polymers, the Court found substantial evidence that Lo is “reasonably pertinent” to the problem that the inventors were addressing. The Court further noted that the “mere age” of a reference is not persuasive evidence of non-obviousness absent concrete evidence of a long-felt need or failure of others.

The Federal Circuit gave little weight to Ethicon’s objective indicia of non-obviousness, finding “scant support in the record” and “conclusory” expert testimony concerning copying, commercial success, industry praise and unexpected results. The Court also concluded that Ethicon did not provide substantial evidence showing a nexus between the objective indicia and the VDF:HFP 85:15 coating.

Judge Newman, in dissent, characterized the obviousness analysis as pure hindsight and noted that an invention is not obvious simply because its component parts were “independently known in the prior art.” She concluded that the PTAB erred by “collecting the elements of the . . . Patent’s stent from assorted sources, and placing them in the template of the ’844 claim. The only guide to this reconstruction is the . . . Patent itself.” Judge Newman also noted that “[t]he Tu devices are different products requiring different properties for different purposes.” Indeed, Tu does not even mention stents, and the polymers in Tu must be cured at extremely high temperatures that far exceed the temperature ceiling described in the Ethicon patent.

**Patents / Obviousness****TOTALITY OF EVIDENCE MUST BE CONSIDERED IN ASSESSING OBVIOUSNESS**

*Bayer Pharma AG v. Watson Laboratories, Inc.*, 874 F.3d 1316 (Fed. Cir. 2017) (Moore, J)

Addressing inherent anticipation and inequitable conduct issues, the US Court of Appeals for the Federal Circuit vacated a The US Court of Appeals for the Federal Circuit reversed a finding of non-obviousness, concluding that the district court clearly erred in relying on selective expert testimony, rather than a totality of the evidence, in finding that a skilled artisan would not have been motivated to make the claimed combination. *Bayer Pharma AG v. Watson Laboratories, Inc.*, 874 F.3d 1316 (Fed. Cir. 2017) (Moore, J).

Bayer is the owner of a US patent directed to an oral dissolving tablet (ODT) formulation of the erectile dysfunction (ED) drug vardenafil (Staxyn). Watson filed an abbreviated new drug application seeking US Food and Drug Administration (FDA) approval to market its own generic form of Staxyn. Bayer sued for patent infringement. During the district court proceeding, Watson alleged that the claims were obvious based on several prior art references teaching that ED drugs would be good candidates for ODT formulations. Watson argued that one of ordinary skill in the art would have been motivated to formulate an ODT version of vardenafil based on these prior art disclosures. In response, Bayer argued that the claims at issue were non-obvious, relying on expert testimony and publications showing that ODT formulations were rare and generally inapplicable in the field of ED pharmaceutical technology.

The district court agreed with Bayer, finding the claims non-obvious. The district court's finding rested largely on the testimony of Bayer's expert, who testified that Bayer's competitors had not developed ODT formulations of ED drugs before the patent's priority date and that a person of skill would not consider ED drugs to be good candidates for ODT formulations. Watson appealed.

The Federal Circuit reversed the district court's finding of non-obviousness. First, the Court found that the district court clearly erred by selectively considering Bayer's expert testimony over the totality of evidence supporting Watson's position, which not only established that ED drugs were viable candidates for ODT formulations but also provided express suggestion to develop such formulations. Second, the Court found that the fact that no ODT versions of ED drugs had been approved by the FDA did "not negate an otherwise apparent motivation to formulate [the patented ODT] product." Third, the Court found that while the district court was free to find that ODT vardenafil would be less favorable than a delayed-release formulation given its bitter taste and increased bioavailability, the district court erred when it elevated these findings to a teaching away. Instead, the Court found that ODT vardenafil would still have been productive, and absent a showing that the prior art "was somehow so flawed that there was no reason to upgrade it," the record as a whole did not lead one of ordinary skill in the art away from the patented formulation.

Bayer has since filed a petition for panel rehearing and rehearing en banc.

**Patents / Obviousness / Inherent Anticipation****FACTUAL DISPUTE DEFEATS SUMMARY JUDGMENT ON INHERENT ANTICIPATION**

*U.S. Water Servs., Inc. v. Novozymes A/S*, Case Nos. 15-1950; -1967 (Fed. Cir., Dec. 15, 2016) (Wallach, J).

Addressing inherent anticipation and inequitable conduct issues, the US Court of Appeals for the Federal Circuit vacated a summary judgment of inherent anticipation, finding that material facts remained in dispute, and affirmed in part the district court's finding of no inequitable conduct. *U.S. Water Servs., Inc. v. Novozymes A/S*, Case Nos. 15-1950; -1967 (Fed. Cir., Dec. 15, 2016) (Wallach, J).

U.S. Water Services and Roy Johnson (collectively, Water Services) sued Novozymes for infringement of two patents related to the production of ethanol from a milled grain. Specifically, the patents disclose adding an enzyme known as phytase at various points during the ethanol production process to prevent fouling by converting the insoluble phytic acid or phytic salts (the unwanted byproduct) to soluble products. Fouling is a term used to describe the insoluble byproduct that deposits on or "fouls" the processing equipment.

The district court determined that two prior art references inherently anticipated the asserted claims by disclosing the addition of phytase, finding that all of the elements of the asserted claims were expressly disclosed in the prior art, except the element requiring reduction of the formation of insoluble deposits (fouls). The "critical issue" for the district court was whether the prior art inherently disclosed "adding phytase for the purpose of reducing deposits." The district court noted that the asserted patents describe a specific method for using phytase in terms of ranges for dosage, temperature and pH, and that both prior art references disclosed the same method using overlapping and sometimes narrower parameters. According to the district court, because "deposit reduction [was] a natural result of the methods for adding phytase during ethanol production," summary judgment was appropriate. Water Services appealed.

The Federal Circuit agreed that the question of inherent anticipation turned on whether the prior art inherently disclosed using phytase to reduce deposits in ethanol production. However, the Court reversed the summary judgment, noting that the record included expert testimony that raised a factual dispute as to whether adding phytase as described in the prior art would necessarily lead to a reduction of byproduct. The Court cautioned that the district court should not have "made credibility determinations and weighed conflicting evidence," as such functions are reserved for jurors, not judges on summary judgment rulings.

The Federal Circuit next addressed Novozymes' claim that Water Services committed inequitable conduct by taking allegedly contradictory positions before the US Patent and Trademark Office (PTO) and the courts, the latter during litigation of a related patent. Novozymes argued that the contradiction was not disclosed to the patent examiner. The Court, however, found that the examiner was fully aware of the differences between the pending claims of the patents-in-suit and the parent patent, and that therefore there was no genuine dispute as to whether Water Services withheld or misrepresented material information before the PTO. Having found no error under the materiality prong, the Court declined to address the issue of intent, since a party alleging inequitable conduct must prove both materiality and intent to deceive.

**Patents / Obviousness / PTAB Versus District Court****DISTRICT COURT RULING ON OBVIOUSNESS DOES NOT BIND PTAB**

*Novartis AG, et al. v. Noven Pharmaceuticals Inc.*, Case Nos. 16-1678; -1679 (Fed. Cir., Apr. 4, 2017) (Wallach J)

Addressing issues of motivation to combine and whether the Patent Trial and Appeal Board (PTAB) is bound by district court decisions of obviousness, the US Court of Appeals for the Federal Circuit found that the PTAB is not so bound, affirming the PTAB's finding of obviousness. *Novartis AG, et al. v. Noven Pharmaceuticals Inc.*, Case Nos. 16-1678; -1679 (Fed. Cir., Apr. 4, 2017) (Wallach J).

Novartis AG owns two patents for a transdermal drug patch containing rivastigmine. The patents were challenged in *inter partes* review (IPR), where the PTAB found the challenged claims unpatentable as obvious under § 103. By contrast, in a concurrent litigation, a district court analyzed the same arguments and prior art, and found the patents to be valid. Novartis appealed to the Federal Circuit, arguing that under Federal Circuit precedent, prior judicial decisions control the PTAB's findings, and that the PTAB failed to show any motivation to combine the prior art.

Regarding Novartis's argument that the PTAB should have been bound by the prior district court decision, the Federal Circuit disagreed on both factual and legal grounds. Factually, while the previous case may have been "substantively the same," the presence of an additional piece of prior art and new declaratory evidence undercut Novartis' argument that the facts were entirely the same. As the Court explained, different records may lead to different findings and conclusions. Legally, even had the records been exactly the same, the PTAB reviews patentability issues using a preponderance of evidence standard, while district courts require clear and convincing evidence to invalidate a patent. While the same evidence and argument will ideally result in the same findings, under the lower standard there is no mandate that the PTAB reach the same conclusion as a district court.

Novartis also argued that the PTAB erred by concluding that adding antioxidants to an acrylic polymer drug patch to prevent the degradation of the drug rivastigmine would have been obvious. Novartis argued that without any evidence of rivastigmine's oxidative degradation, a person having ordinary skill in the art (PHOSITA) would not have been motivated to include an antioxidant to stabilize the rivastigmine in a transdermal patch. While the prior art taught that antioxidants can forestall the breakdown that occurs when drugs are exposed to acrylic polymers, such as those in a patch, there was no express teaching that rivastigmine breaks down. But the Court pointed out that prior art does not have to explicitly disclose a motivation to combine. Furthermore, the PTAB had reasonably concluded a PHOSITA's level of skill would include organic chemistry training for analyzing and recognizing compound characteristics. That training would have allowed a PHOSITA to understand that rivastigmine had the potential to oxidatively degrade because of its chemical structure. That knowledge would motivate the PHOSITA to add antioxidants. Although Novartis argued that its expert's testimony countered this argument, the Court would not give the expert evidence more weight than the PTAB already had.



**Patents / Obviousness****FACTUAL FINDINGS REQUIRED TO SHOW “APPARENT REASON TO COMBINE”**

Los Angeles Biomedical Research Institute at Harbor-UCLA Medical Center v. Eli Lilly and Co., Case No. 16-1518 (Fed. Cir., Feb. 28, 2017) (Bryson, J) (Newman, J, concurring in part, dissenting from the judgment); Eli Lilly and Co. v. Los Angeles Biomedical Research Institute at Harbor-UCLA Medical Center, Case No. 16-1547 (Fed. Cir., Feb. 28, 2017) (Bryson, J).

Addressing issues of obviousness and anticipation in the context of an *inter partes* review, the US Court of Appeals for the Federal Circuit issued two decisions with respect to the same patent, vacating and remanding the Patent Trial and Appeal Board’s (PTAB’s) decision finding the claims invalid as obvious in the first case, and affirming the PTAB’s finding that the claims were not anticipated in the second case. *Los Angeles Biomedical Research Institute at Harbor-UCLA Medical Center v. Eli Lilly and Co.*, Case No. 16-1518 (Fed. Cir., Feb. 28, 2017) (Bryson, J) (Newman, J, concurring in part, dissenting from the judgment); *Eli Lilly and Co. v. Los Angeles Biomedical Research Institute at Harbor-UCLA Medical Center*, Case No. 16-1547 (Fed. Cir., Feb. 28, 2017) (Bryson, J).

The patent at issue relates to a method of “arresting or regressing” a condition known as penile fibrosis by long-term daily administration of drugs known as type 5 phosphodiesterase (PDE5) inhibitors. Penile fibrosis includes two conditions, penile tunical fibrosis and corporal tissue fibrosis, each of which can cause erectile dysfunction, although they do not always do so. Los Angeles Biomedical Research Institute (LAB) sued Eli Lilly, alleging induced infringement of its patent by Eli Lilly’s marketing of the drug Cialis, a PDE5 inhibitor. Eli Lilly subsequently filed a petition for *inter partes* review, contending that all claims of the patent were obvious in light of three prior art references. The PTAB ultimately concluded that the challenged claims were obvious because the combination of references satisfied each limitation of the challenged claims as construed and, further, because the combination provided a reasonable expectation of success in treating erectile dysfunction. LAB appealed.

The Federal Circuit agreed with LAB’s contention that the PTAB’s findings were insufficient to establish obviousness under the correct claim construction. Specifically, the Court found that, while the PTAB concluded that the prior art references rendered obvious the treatment of erectile dysfunction via the claimed method, it did not make factual findings to determine whether those references showed it would have been obvious to use long-term continuous treatment with a PDE5 inhibitor to treat individuals with penile fibrosis and to achieve the arrest or regression of that condition. The Court noted that the correct construction of the pertinent claim language required more than simply treating erectile dysfunction. The Court also noted that the PTAB failed to consider the possibility that, even if the combination of prior art references taught long-term treatment with a PDE inhibitor of individuals with some forms of erectile dysfunction, a person of skill in the art may not have been motivated to combine those same references to treat individuals with fibrosis-related erectile dysfunction, for whom, LAB argued, the results would have been expected to be detrimental.

The Federal Circuit remanded the case back to the PTAB to make factual findings as to whether there was an apparent reason to combine the prior art references to treat penile fibrosis and whether a person of skill in the art would have had a reasonable expectation of success from such a combination. The Court also remanded for the PTAB to make factual findings bearing on the obviousness of the “arresting or regressing” limitation, including consideration of inventor statements during prosecution that administration for 45 days of an extremely high dose of sildenafil (PDE5 inhibitor) was required to achieve the arrest or regression of penile fibrosis.

Judge Newman dissented, stating that she would affirm the PTAB’s decision. According to Newman, there was no reversible error in the PTAB’s decision, and the PTAB’s findings were supported by substantial evidence. With respect to the majority’s remand back to the PTAB, Newman noted that “such further proceedings fail the policy and purpose of the America Invents Act, and should be invoked only when there are major defects in the PTAB proceeding requiring activity and redetermination that is not available on the appellate record.” She also explained that, in this case, finality was available, and it was the Court’s

obligation to decide the merits because “the issues were fully developed, with eloquent argument all around, [along with] an extensive Board opinion.”

In the companion case, the Federal Circuit affirmed the PTAB decision finding that the challenged claims were not anticipated. The companion case related to a separate *inter partes* review petition by Eli Lilly contending that all claims of the same patent were anticipated. The PTAB instituted on the petition but ultimately concluded that the prior art did not anticipate the claims because it did not disclose a limitation requiring administration of a PDE5 inhibitor “at a dosage up to 1.5 mg/kg/day for not less than 45 days.” On appeal, Eli Lilly argued that the prior art’s definition of “chronic administration” anticipated the claimed requirement of daily administration for 45 days or more because a person of skill in the art would understand that erectile dysfunction (in the absence of therapy) can last longer than 45 days. The Federal Circuit was not persuaded, noting that Lilly’s argument was “at best, [ ] an obviousness argument.” According to the Court, substantial evidence supported the PTAB’s finding that the prior art did not disclose the claimed treatment regimen “with sufficient clarity to satisfy the demanding standard for anticipation.”

**Patents / Obviousness / Motivation to Combine****NOT INTUITIVELY OBVIOUS: FEDERAL CIRCUIT REMANDS FOR EXPLICIT RATIONAL TO COMBINE**

*In re Van Os*, Case No. 15-1975 (Fed. Cir., Jan. 3, 2017) (Moore, J.) (Newman, J., concurring in part, dissenting in part)

In a rebuke of the Patent Trial and Appeal Board's (PTAB's) obviousness analysis, the US Court of Appeals for the Federal Circuit vacated and remanded a PTAB obviousness determination, explaining that the PTAB failed to explicitly articulate a reason why it would have been obvious to combine the prior art references. *In re Van Os*, Case No. 15-1975 (Fed. Cir., Jan. 3, 2017) (Moore, J.) (Newman, J., concurring in part, dissenting in part). This decision follows on another recent decision where the Federal Circuit remanded a case to the PTAB because it found that the PTAB failed to articulate reasons why one of skill in the art would be motivated to combine the prior art references (*In re NuVasive*) ([IP Update, Vol. 20, No. 1](#)).

The patent application at issue relates to a graphical user interface that allows a user to rearrange the displaced icons in response to specific types of "touches" and after entering into a specific type of "interface reconfiguration mode." During the pendency of the application, the examiner finally rejected various claims, and the inventors appealed those rejections to the PTAB. The PTAB reversed most of the examiners' rejections but affirmed the obviousness rejection as to four claims. Without discussion, the PTAB found that the combination of two prior art references would have been "intuitive" and that the claims were therefore obvious. The inventors appealed.

The Federal Circuit vacated and remanded the case back to the PTAB, explaining that the PTAB's analysis lacked explicit factual underpinnings to provide support for its obviousness determination, and that a mere statement that a particular combination would have been "intuitive" was no more proper than merely stating that the "combination would have been obvious." The Court reminded the PTAB that a factual record with explicit reasons was necessary for the appellate review of whether an obviousness determination is supported by substantial evidence.

Concurring in part, Judge Newman agreed that the PTAB's obviousness analysis was insufficient. She wrote separately to suggest that while remand may be appropriate in post-grant review proceedings where the PTAB is the trier of fact, a reversal is required when the appeal is made from a final rejection in an examination. Judge Newman would have found that that where, as here, the PTAB fails to meet its burden to prove unpatentability, the patent should be granted without remand.

**Patents / Obviousness / Inherency****RELIANCE ON INHERENCY IN OBVIOUSNESS ANALYSIS: NOT COOL**

*Honeywell Int'l Inc. v. Mexichem Amanco Holding S.A.*, Case No. 16-1996 (Fed. Cir., Aug. 1, 2017) (Lourie, J) (Wallach, J, dissenting in part)

The US Court of Appeals for the Federal Circuit vacated a decision of the Patent Trial and Appeal Board (PTAB or Board), finding that the PTAB erred by improperly relying on inherency to find obviousness and also conducted an improper analysis in finding a motivation to combine references. *Honeywell Int'l Inc. v. Mexichem Amanco Holding S.A.*, Case No. 16-1996 (Fed. Cir., Aug. 1, 2017) (Lourie, J) (Wallach, J, dissenting in part).

Honeywell owns a patent directed to the use of a refrigerant and a lubricant in heat transfer systems, such as air conditioning units. Mexichem filed two requests for *inter partes* re-examination of the patent, which the US Patent and Trademark Office granted and merged into a consolidated proceeding. During the proceeding, the Examiner concluded that the claims would have been obvious over the cited prior art.

Honeywell appealed to the PTAB, arguing that the prior art did not provide a motivation to combine the claimed refrigerant with the claimed lubricant with a reasonable expectation of success. To support its argument, Honeywell submitted evidence that the claimed refrigerant and claimed lubricant were known to be reactive and unstable, and therefore a skilled artisan would not have been motivated to combine them. To further support its argument, Honeywell submitted evidence of secondary considerations, including the unexpected stability of the claimed refrigerant in combination with the claimed lubricant.

The PTAB rejected Honeywell's arguments. First, the PTAB found that the unexpected stability of the composition did not support patentability because a person of ordinary skill in the art would have "no more expected failure than success in combining the references." A skilled artisan would have had a reason to try the claimed combination to assess its stability, and in doing so, would have arrived at the claimed combination by routine testing, according to the PTAB. Second, the PTAB found the evidence of secondary considerations unpersuasive because of a perceived lack of nexus between the evidence and the claimed combination. Honeywell appealed.

On appeal, Honeywell argued that the PTAB erred in (1) finding a motivation to combine the references with a reasonable expectation of success and (2) rejecting Honeywell's evidence of secondary consideration. Honeywell also argued that the PTAB improperly relied on a new ground of rejection without giving Honeywell notice and an opportunity to respond.

Addressing Honeywell's argument regarding the motivation to combine, the Federal Circuit concluded that the PTAB committed legal error by relying on inherency to find obviousness. First, the Court found that the use of inherency in the context of obviousness must be carefully circumscribed because "that which may be inherent is not necessarily known and that which is unknown cannot be obvious." Using this rationale, the Court emphasized the PTAB's error in dismissing inherent properties of the claimed invention without further consideration of unpredictability and unexpectedness. According to the Court, "what is important regarding properties that may be inherent, but known, is whether they are unexpected." Here, the PTAB erred in dismissing properties of the claimed invention as inherent without considering whether such properties were unexpected.

Second, the Federal Circuit found that the PTAB erred because it used "reverse reasoning" to conclude that a skilled artisan would *not* have expected success because of the overall unpredictability, but then glossed over that finding with a routine testing rationale because Honeywell did not prove an expectation of failure. The Court found that the PTAB's reasoning that a skilled artisan would no more expect failure than success, as not a valid ground for holding an invention to be obvious, and therefore error. The Court thus vacated the PTAB's obviousness finding and remanded for further proceedings.

Finally, the Federal Circuit concluded that the PTAB relied on a new rejection when dismissing Honeywell's evidence of unexpected results. During the re-examination, Mexichem identified a reference in its "Third Party Requester Comments" and proposed a rejection based on that reference. Although the Examiner did not address the reference, the PTAB relied on it to

find the challenged claims obvious. The Court found that Honeywell did not have a fair opportunity to respond to the rejection since the patent owner responds to the Examiner's reasoning, not to the requester's unadopted argument. Thus the Court remanded with instructions to designate the reference as a new ground of rejection so as to provide Honeywell with an opportunity to respond.

**Patents / Obviousness****OBVIOUSNESS REVERSED FOR CLEAR ERROR IN FACTUAL FINDINGS ON COMBINATION OF REFERENCES**

*Millennium Pharmaceuticals, Inc. v. Sandoz Inc.*, Case Nos. 15-2066; 16-1008; -1009; -1010; -1109; -1110; -1283; -1762 (Fed. Cir., July 17, 2017) (Newman, J).

The US Court of Appeals for the Federal Circuit reversed a district court's judgment that the challenged claims were invalid for obviousness. The Court also vacated judgments in separate actions that had been entered based on collateral estoppel, concluding that the district court erred in its evaluation of the factual record in its obviousness analysis. *Millennium Pharmaceuticals, Inc. v. Sandoz Inc.*, Case Nos. 15-2066; 16-1008; -1009; -1010; -1109; -1110; -1283; -1762 (Fed. Cir., July 17, 2017) (Newman, J).

Millennium is the exclusive licensee of the patent at issue, which relates to a chemical compound described as a boronate ester of bortezomib and D-mannitol and also claims a lyophilized compound. Millennium developed the patented product under the brand name Velcade<sup>®</sup>, and it became "a cancer treatment that changed the decades-old standard of care for multiple myeloma and has saved thousands of lives. The [US Food and Drug Administration] approved Velcade<sup>®</sup> in record time, despite its novel structure and mechanism of action."

Sandoz filed abbreviated new drug applications (ANDAs) admitting infringement and seeking to invalidate various claims of the patent. The district court held the asserted and challenged patent claims invalid, based on its finding that they were the inherent result of an allegedly obvious process, *i.e.*, lyophilizing bortezomib in the presence of the bulking agent mannitol. Regarding the patent owner's evidence of secondary considerations, the district court found that Millennium did not establish unexpected results or long-felt need. Millennium appealed after the district court entered a final judgment in separate actions arising from ANDAs filed by Apotex and Teva based on collateral estoppel arising from the district court's judgment of invalidity of the asserted patent claims in the Sandoz action. The Federal Circuit consolidated the appeals.

Reversing the district court, the Federal Circuit found clear error in the district court's obviousness analysis. The Court noted that there was no teaching or suggestion in the prior art of the claimed compound (a mannitol ester of bortezomib), and that moreover there was no reference or combination of references that showed or suggested a reason to make the claimed compound in order to solve the problems of instability and insolubility so as to release bortezomib (the lead compound) at an effective rate in the bloodstream, all critical to effective use for treating multiple myeloma. The Court noted that none of the experts presented by the many defendants testified awareness of prior art to fill any of the gaps in terms of teaching or suggesting the patented Velcade<sup>®</sup> product. Rather, the Court found that the undisputed facts only showed failed attempts to achieve a stable formulation having the necessary properties of solubility and dissociation in the bloodstream, as did the claimed compound. The Federal Circuit explained that neither the requisite motivation nor reasonable expectation of success required to arrive at a determination of obviousness was found in the prior art.

Similarly, the Federal Circuit explained that the district court erred in its reasoning regarding inherency of the outcome, finding that the claimed compound was not inevitable: "[t]he inventor's own path itself never leads to a conclusion of obviousness; that is hindsight. What matters is the path that the person of ordinary skill in the art would have followed, as evidenced by the pertinent prior art." Here, the Court found no evidence that anyone "foresaw or expected" that the reaction between bortezomib and mannitol "would have the long-sought properties and advantages" of the claimed invention.

The Federal Circuit also concluded that the district court erred in its examination of secondary considerations of unexpected results and long-felt need. As to unexpected results, the Court found that the district court should have acknowledged the unrebutted evidence that the D-mannitol ester of bortezomib exhibited unexpected results compared with bortezomib, including unexpectedly superior stability, solubility and dissolution. As to long-felt need, the Court noted that there was no dispute that there was a long-felt need for a product to treat multiple myeloma, since available treatments prior to Velcade<sup>®</sup> gave poor remission rates and low survival rates.

**INVALIDITY SECTION 112 INDEFINITENESS**

---

***Patents / Indefiniteness***

---

**INDEFINITENESS STANDARD LESS STRICT WHERE CLAIM TERM DOES NOT CONCERN POINT OF NOVELTY**

---

*BASF Corporation v. Johnson Matthey Inc.*, 875 F.3d 1360 (Fed. Cir. 2017) (Taranto, J.)

Addressing indefiniteness under *Nautilus*, the US Court of Appeals for the Federal Circuit reversed a district court's finding that the claim term "effective for catalyzing" was indefinite even though the claim did not specify a way of measuring or a standard for determining "effectiveness." *BASF Corporation v. Johnson Matthey Inc.*, 875 F.3d 1360 (Fed. Cir. 2017) (Taranto, J).

BASF sued Johnson Matthey for infringement of a patent directed to systems for performing catalytic conversion of nitrogen oxides in an exhaust gas stream. The claimed systems included a novel arrangement of two catalytic surfaces, one coated with "material composition A" and the other with "material composition B." Each of these materials was claimed as being "effective for catalyzing" or "effective to catalyze" respective chemical reactions. The district court found the claims indefinite because they did not recite a minimum level of function necessary to meet the "effective" limitation or a particular measurement method to determine whether a composition is "effective" enough to fall within the claims. Thus, the district court reasoned that a person of ordinary skill in the art could not determine which materials were within the "material composition A" or "material composition B" limitations and which were not. BASF appealed.

On appeal, the Federal Circuit found that it was the arrangement of the catalysts, rather than the selection of particular catalysts, that purportedly rendered the claimed inventions a patentable advance over the prior art. The Court interpreted the functional language of the claims to refer to any known catalysts for the particular chemical reactions and considered significant that both the claims and the specification provide exemplary material compositions. The Court further stated that although the class of known catalysts was large, "the inference of indefiniteness simply from the scope finding is legally incorrect." Accordingly, the Court reversed the district court's indefiniteness finding and remanded for further proceedings.

**Patents / Indefiniteness**

---

**“VISUALLY NEGLIGIBLE” IS NOT INDEFINITE**

---

Sonix Technology Co., Ltd. v. Publications International, Ltd., Case No. 16-1449 (Fed. Cir., Jan. 5, 2017) (Lourie, J.).

The US Court of Appeals for the Federal Circuit reversed the district court’s decision that the claim term “visually negligible” was indefinite because the specification provided examples of visually negligible indicators, and concluded that neither the examiners nor the experts during prosecution and reexamination had apparent difficulty determining the scope of this term. *Sonix Technology Co., Ltd. v. Publications International, Ltd.*, Case No. 16-1449 (Fed. Cir., Jan. 5, 2017) (Lourie, J.).

The patent at issue describes a system and method for using a “graphical indicator” to encode information on the surface of an object. The inventor recognized that encoding information on the surface of an object is not new. For example, the patent describes a bar code as a conventional example of a graphical indicator. However, the patent purports to improve on conventional methods by rendering the graphical indicator visually negligible. Specifically, the graphical indicator can be a unique matrix of micro-unit dots, where the dots are so small that human eyes cannot differentiate one graphical indicator from others. The patent describes the micro-units as preferably being small enough that only a microscope can detect them, and includes two examples of such visually negligible indicators.

After two reexamination proceedings confirmed that the patent was not invalid in light of the cited prior art, the plaintiff filed suit against the defendant. Subsequent to the district court’s claim construction ruling and after expert reports were submitted, the plaintiff’s expert was asked, during his deposition, what “visually negligible” meant to him. He explained that he understood it to mean that “if these dot patterns are imprinted on a surface, with a cursory look, I will not notice” them. The expert went on to explain that there “is not a universal standard by any means because it depends on the visual acuity of the observer.” Based on this testimony, the district court granted summary judgment that the term “visually negligible” was indefinite and entered a judgment of invalidity. Sonix appealed.

Citing to the Supreme Court of the United States’ 2014 *Nautilus* decision ([IP Update, Vol. 17, No. 6](#)), the Federal Circuit explained that in order to survive an indefiniteness challenge, a claim “viewed in light of the specification and prosecution history, [must only] inform those skilled in the art about the scope of the invention with reasonable certainty,” and that the challenger must prove indefiniteness by clear and convincing evidence. The Court agreed with the plaintiff that a skilled artisan would understand, with reasonable certainty, what it means for an indicator in the claimed invention to be visually negligible.

The Federal Circuit found that the challenged term was not “purely subjective” because there is an objective baseline to determine what is visually negligible based on what can be seen by the normal human eye. The Court also relied on the fact that the patent specification provided two examples of visually negligible indicators. Finally, the Court observed that no one involved in either of the reexamination proceedings had any apparent difficulty in determining the scope of the term. Based on these facts, the Federal Circuit found that the term was not indefinite and reversed the district court’s summary judgment decision.

Finally, the Federal Circuit noted that the holding in this case does not mean that the existence of examples within the specification will always render a claim definite, or that listing requirements will always provide sufficient clarity. In addition, the fact that an expert applied a contested claim term without difficulty does not render a claim immune from indefiniteness challenge, the Court noted. These factors should be considered in determining whether a claim term is indefinite, however.



**JURISDICTION & VENUE**

---

***Patents / Jurisdiction & Venue / Personal Jurisdiction***

---

**NO SPECIFIC PERSONAL JURISDICTION ARISES FROM ACTIVITIES BEFORE PATENT ISSUED**

---

*NexLearn, LLC v. Allen Interactions, Inc.*, Case No. 16-2170 (Fed. Cir., June 19, 2017) (Moore, J).

Addressing the issue of personal jurisdiction over an alleged infringement defendant, the US Court of Appeals for the Federal Circuit affirmed the district court's dismissal of the complaint, finding no specific jurisdiction over the defendant based on pre-patent-issuance activities. *NexLearn, LLC v. Allen Interactions, Inc.*, Case No. 16-2170 (Fed. Cir., June 19, 2017) (Moore, J).

The parties in the case entered into a non-disclosure agreement (NDA) and end user license agreement (EULA) to allow Allen to learn more about NexLearn's software. After sharing information about its product, including a trial version of the software, NexLearn sued for patent infringement and breach of contract, asserting that Allen developed its own product based on information it learned. Both the NDA and EULA contained a choice of law provision stating that Kansas law governed. The EULA went a step further, providing that any dispute arising out of or related to the agreement or the product must be brought exclusively in a court sitting in Wichita, Kansas. NexLearn filed suit in Kansas, and Allen, a Minnesota corporation, moved to dismiss the complaint for lack of personal jurisdiction. Allen argued that it was not subject to jurisdiction in Kansas because of its limited contacts with the forum, which amounted to a single sale of its product and represented less than 1 percent of its revenue over the past five years. Furthermore, Allen argued that because NexLearn's complaint asserted that its breach of contract claim was supplemental to its patent infringement claim, NexLearn must establish personal jurisdiction over its infringement claim. After the district court dismissed on the personal jurisdiction issue, NexLearn appealed.

The Federal Circuit noted that NexLearn did not allege general jurisdiction, so it declined to address that issue. The Court further noted that the contacts NexLearn asserted over Allen occurred more than five years before the issuance of NexLearn's patent at issue and therefore did not "arise out of or relate to the defendant's contacts with the forum." Since the activities occurred before NexLearn ever had a property right, the Court determined that they could not constitute infringing acts giving rise to specific personal jurisdiction over NexLearn's claim.

The Federal Circuit also concluded that the NDA and EULA provisions did not render Allen subject to specific jurisdiction in Kansas. The Court determined that neither agreement specified the forum for disputes relating specifically to patent infringement. The Court found no evidence of Allen's deliberate affiliation with Kansas, or any reasonable foreseeability of possible litigation there relating to infringement.

With respect to the post-patent issuance contacts, the Federal Circuit concluded that Allen's two email contacts with NexLearn employees did not establish specific jurisdiction because they were manufactured by NexLearn's unilateral acts. Finally, NexLearn argued that Allen's website conferred specific jurisdiction because Kansas is listed in its drop-down menu of states and a Kansas resident could purchase products from its website. The Federal Circuit again disagreed, stating that while a Kansas resident could purchase Allen's software from the website, there was no evidence that any such sale had taken place. The mere existence of an interactive website does not create a substantial connection to the state. The Court concluded that the contacts created only an "attenuated affiliation" with Kansas as opposed to a "substantial connection" to warrant the exercise of specific jurisdiction.

**Patents / Venue**

---

**LOOKING BACK: TC HEARTLAND IS A CHANGE OF LAW**

---

*In re Micron Tech, Inc.*, 875 F.3d 1091 (Fed. Cir., 2017) (Taranto, J)

In remanding a case back to the district court, the US Court of Appeals for the Federal Circuit held that the Supreme Court of the United States' 2017 decision in *TC Heartland v. Kraft Foods* qualifies as a change of law, and that an alleged infringer's defense of improper venue was not waived by its earlier failure to raise that defense in motions filed before the *TC Heartland* decision issued. *In re Micron Tech, Inc.*, 875 F.3d 1091 (Fed. Cir. 2017) (Taranto, J).

In June 2016, Harvard College filed a patent infringement case in the District of Massachusetts against Micron, which is incorporated in Delaware and has its principal place of business in Idaho. In August 2016, Micron moved to dismiss the complaint for failure to state a claim under Fed. R. Civ. Pro. § 12(b)(6), but it did not include an objection to venue under § 12(b)(3). In December 2016, the Supreme Court granted review in *TC Heartland* to address the correct interpretation of the term "resides" in 28 USC C 1400(b), which addresses venue in patent cases. In May 2017, the Supreme Court issued its decision, holding that under C 1400(b), "a domestic corporation resides only in its State of incorporation for purposes of the venue statute" (IP Update, Vol. 20, No. 5).

After the Supreme Court's decision, Micron filed a second motion to dismiss or transfer the case, arguing that venue was improper in the District of Massachusetts because Micron is not incorporated there. The district court denied the motion, finding that under Rules 12(h)(1)(A) and 12(g)(2), Micron waived its venue defense by not objecting to venue in its first motion to dismiss filed in August 2016. Crucial to the district court's holding was its finding that *TC Heartland* was not a change of law and that the venue defense now asserted by Micron was available when Micron filed its first motion. Micron thereupon filed a writ of mandamus to the Federal Circuit.

Recognizing the widespread disagreement over whether *TC Heartland* changed the law on venue, the Federal Circuit granted mandamus. The Court found that *TC Heartland* was a change in law and that the venue defense was not available to Micron when it filed its original motion to dismiss. The Court explained that prior to *TC Heartland*, district courts were required to follow the Federal Circuit's 1990 decision in *VE Holding v. Johnson Gas* as binding precedent. Under *VE Holding*, venue was proper in Massachusetts. The Court went on to note that the Supreme Court's 1957 decision in *Fourco Glass v. Transmirra Products* did not address the post-1988 amendments to the patent venue statute, and thus there was no intervening Supreme Court precedent before *TC Heartland*. As a result, the Court concluded that the venue defense now raised by Micron was not available prior to the *TC Heartland* decision.

The Federal Circuit noted, however, that even though *TC Heartland* was a change in law, an accused infringer may forfeit an otherwise meritorious venue defense. While the Court left it up to future cases to elaborate on circumstances in which forfeiture is appropriate, it observed that timeliness, including when the defense became available and the stage of the litigation when the defense was raised, may be considered in deciding whether a defendant forfeited a venue defense based on *TC Heartland*.

**Patents / Jurisdiction & Venue / Declaratory Judgment / Subject Matter Jurisdiction****FOREIGN SUIT AGAINST CUSTOMERS INSUFFICIENT GROUNDS FOR US DECLARATORY JUDGMENT ACTION BY MANUFACTURER**

Allied Mineral Products, Inc. v. Osmi, Inc., 870 F.3d 1337 (Fed. Cir. 2017) (Moore, J.)

Addressing for the first time the issue of whether a suit against a manufacturer's customers in a foreign country for patent infringement creates a justiciable case or controversy sufficient for the manufacturer to bring a declaratory judgment action in the United States, the US Court of Appeals for the Federal Circuit upheld the district court's grant of a patent owner's motion to dismiss for lack of subject matter jurisdiction. *Allied Mineral Products, Inc. v. Osmi, Inc.*, 870 F.3d 1337 (Fed. Cir. 2017) (Moore, J).

Stellar owns a Mexican patent and a US patent containing English-language versions of the claims in the Mexican patent. Stellar sued two of Allied's distributors in Mexico alleging infringement of the claim of Stellar's Mexican patent. Allied manufactures the products accused of infringement in the Mexican action, and sells the same products in the United States under a different brand name. After the Mexican litigation was filed, Allied filed a complaint against Osmi and Stellar in US district court seeking a declaratory judgment that Stellar's US patent was invalid, unenforceable and not infringed.

The Declaratory Judgment Act confers subject matter jurisdiction where there is "a case of actual controversy." The test for "case of actual controversy" requires a showing that, in view of all of the circumstances, "there is a substantial controversy, between parties having adverse legal interest, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." To satisfy this standard, the declaratory judgment plaintiff must establish "some affirmative act by the patentee." Stellar moved to dismiss the declaratory judgment complaint for lack of subject matter jurisdiction. The district court granted the motion, concluding that Stellar's actions in Mexico could not, "without further affirmative action by Stellar, create an actual controversy with Allied with regard to its US Patent." Allied appealed.

The Federal Circuit concluded that there was no "affirmative act" sufficient to establish subject matter jurisdiction. The Court explained that "Stellar has not directed any actions towards Allied" or "litigated or threatened litigation in the United States or on its [US] patent." Stellar's actions abroad involved Allied's customers, not Allied. Furthermore, the Court found that Stellar had not engaged with Allied when given the opportunity. For instance, the Court noted that prior to the Mexican action, Stellar sent notice letters to Allied customers, and Allied responded on their behalf. However, Stellar did not respond to Allied's letters.

Allied countered that it had "been forced into an unwinnable business position; it can either continue to sell products in the United States knowing it may be the target of an infringement suit, or it can cease selling products it believes it has a right to sell." While the Court acknowledged Allied's plight, it explained that "fear of a future infringement suit is insufficient to confer jurisdiction." Quoting *Prasco v. Medicis Pharm.* (IP Update, Vol. 11, No. 9), the Court explained that "[a]lthough we understand [the declaratory judgment plaintiff's] desire to have a definitive answer on whether its products infringe defendants' patents, were the district court to reach the merits of this case, it would merely be providing an advisory opinion. This is impermissible under Article III.

---

## **PATENT OWNER MUST BE SUBJECT TO PERSONAL JURISDICTION FOR DECLARATORY JUDGMENT**

---

*New World Int'l, Inc. v. Ford Global Techs., LLC*, Case No. 16-2097 (Fed. Cir., June 8, 2017) (Bryson, J)

The US Court of Appeals for the Federal Circuit agreed with a district court that it lacked personal jurisdiction over a patent owner/declaratory judgment defendant where the defendant's only contacts with the forum were the presence of an exclusive licensee and cease-and-desist letters sent into the jurisdiction. *New World Int'l, Inc. v. Ford Global Techs., LLC*, Case No. 16-2097 (Fed. Cir., June 8, 2017) (Bryson, J).

This case relates to a series of cease-and-desist letters sent by Ford Global Technologies, Ford's intellectual property holding company, to New World International, a Texas company that sells aftermarket parts for Ford vehicles. Ford alleged that New World was selling products that infringed on two of its design patents, which it had exclusively licensed to LKQ Corp., another manufacturer of aftermarket parts that does business in all 50 states. Ford sent several letters to New World instructing it to cease all sales of the allegedly infringing parts and directing it how to dispose of them. New World responded by filing a declaratory judgment action in the Northern District of Texas, seeking declarations of invalidity and non-infringement. Ford moved to dismiss that suit for lack of personal jurisdiction. After the district court granted the motion, New World appealed.

The Federal Circuit applied the standard three-prong test for personal jurisdiction: "(1) whether the defendant 'purposefully directed' its activities at residents of the forum; (2) whether the claim 'arises out of or relates to' the defendant's activities with the forum; and (3) whether the assertion of personal jurisdiction is 'reasonable and fair.'" The Court found that the sending of the cease-and-desist letters was sufficient on its own to meet the first two prongs of the test. The Court required more to satisfy the third prong, however.

New World argued that it was reasonable and fair to subject Ford to personal jurisdiction in Texas because it had an exclusive licensee making sales in Texas and had agreed to indemnify that licensee and to not unreasonably refuse a request by the licensee to enforce the design patents against other infringers. Noting that neither of those provisions gave rise to the sort of ongoing relationship with the forum state necessary to make the exercise of personal jurisdiction reasonable and fair, the Federal Circuit disagreed.

New World also appealed the district court's denial of its motion to amend the complaint to add further jurisdictional bases. The district court had concluded that the only basis New World offered to amend its complaint was to buttress its arguments with facts it could have included the first time. The Federal Circuit agreed and concluded that the district court's refusal to allow New World a second chance at the pleading was not an abuse of discretion.

**Practice Note:** Parties filing a declaratory judgment action should carefully consider the limits on their forum selection and include robust jurisdictional factual support to protect themselves against jurisdictional challenges.

**Patents /Jurisdiction & Venue / Venue****VENUE IN PATENT CASES LIMITED BY § 1400(B)**

*TC Heartland LLC v. Kraft Foods Group Brands LLC*, Case No. 16-341 (Supr. Ct., May 22, 2017) (Thomas, Justice)

The Supreme Court of the United States has tightened restrictions on where patent infringement actions may be filed. In an 8–0 decision, the Supreme Court held that for purposes of venue in patent infringement actions, a domestic corporation “resides” only in its state of incorporation. As a result, a domestic corporation may only be sued for patent infringement in a judicial district (1) in its state of incorporation or (2) where the domestic corporation has committed acts of infringement and has a regular and established place of business. *TC Heartland LLC v. Kraft Foods Group Brands LLC*, Case No. 16-341 (Supr. Ct., May 22, 2017) (Thomas, Justice).

TC Heartland manufacturers flavored drink mixes and is incorporated under Indiana law and headquartered in Indiana. Kraft filed a patent infringement complaint in the US District Court for the District of Delaware accusing TC Heartland of infringing Kraft’s patents. TC Heartland argued venue was improper in Delaware under 28 USC § 1400(b) and moved to transfer the case to the US District Court for the Southern District of Indiana. Section 1400(b), also referred to as the patent venue statute, provides that “[a]ny civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.” TC Heartland argued that venue was improper in Delaware because TC Heartland (1) did not reside in Delaware and (2) did not have a regular and established place of business in Delaware.

Both the district court and the US Court of Appeals for the Federal Circuit rejected TC Heartland’s arguments. The Federal Circuit focused on the interplay between the patent venue statute (§ 1400(b)) and the general venue statute (28 USC § 1391(c)), and concluded that for purposes of venue in a patent infringement action, a corporate entity resides in any judicial district in which the entity is subject to personal jurisdiction ([IP Update, Vol. 19, No. 5](#)). Applying this logic, the Federal Circuit found that since the District of Delaware could exercise personal jurisdiction over TC Heartland, TC Heartland resided in Delaware for purposes of venue under § 1400(b). TC Heartland appealed to the Supreme Court.

In its petition for *certiorari*, TC Heartland argued that the Federal Circuit, relying on the 2011 amendments to § 1391(c), improperly held that the 1957 Supreme Court decision in *Fourco Glass v. Transmirra Prods.* (where the Supreme Court concluded that for purposes of § 1400(b), a domestic corporation “resides” only in its state of incorporation) is no longer the prevailing law when determining where venue is appropriate in a patent infringement action ([IP Update, Vol. 19, No. 12](#)). In *Fourco Glass*, the Supreme Court rejected the argument that § 1400(b) incorporated the broader definition of “reside” as recited in the general venue statute of § 1391(c). The precise question presented to the Supreme Court was the same as that decided in *Fourco*: “whether 28 U.S.C. § 1400(b) is the sole and exclusive provision governing venue in patent infringement actions and is not supplemented by 28 U.S.C. § 1391(c).”

The Supreme Court reversed the Federal Circuit and held that the 2011 amendments to § 1391 did not modify the meaning of “reside” in § 1400(b) as interpreted by *Fourco*, and that therefore a domestic corporation “resides” in its state of incorporation for purposes of the patent venue statute. The Supreme Court found no indication that Congress intended to alter the meaning of the patent venue statute, as interpreted by *Fourco*, when it enacted the 2011 amendment. In fact, the Supreme Court noted that the holding in *Fourco* was even stronger now that § 1391(c) expressly states that it does not apply when “otherwise provided by law” and thus contemplates that other venue statutes, including the patent venue statute, may retain a definition of “reside” that conflicts with the default definition provided by the general venue statute. The Supreme Court also found that Congress did not ratify the Federal Circuit decision in *VE Holding* when it passed the 2011 amendment. Instead, the 2011 amendment undermined *VE Holding*, since that decision relied almost exclusively on the addition of the phrase “[f]or venue purposes of venue under this chapter” in the 1988 amendment. By deleting the clause “under this chapter” in the 2011 amendment, the wording of the current version of § 1391 became nearly identically to the 1948 version of § 1391. Thus, the Supreme Court found that the interpretation of § 1400 in *Fourco* remains the prevailing law in determining venue for patent infringement actions and as applied to corporations, “reside” in § 1400(b) refers only to the state of incorporation.

**Practice Note:** The Supreme Court's decision will have a significant impact on patent litigation. First, the most immediate consequence is the likely diminishment of the Eastern District of Texas as a popular patent litigation forum, since most companies sued there are neither incorporated in Texas nor have a regular and established place of business in the Eastern District of Texas. Second, there may be a concomitant increase in the number of filings in Delaware (where many companies are incorporated) and the Northern District of California and Southern District of New York (where many companies are headquartered). Third, there will likely be increased motion practice as to whether a defendant has a "regular and established place of business" in a district sufficient to support venue under § 1400(b). Fourth, there may be an increase in the number of filings against the foreign parent corporations of US subsidiaries, since foreign defendants can be sued in any judicial district where personal jurisdiction is found. Finally, given that a plaintiff now likely must sue each defendant to a multi-party litigation in separate jurisdictions, there may be an increase in the use of multi-district litigation panels to address pre-trial issues. This could result in months of delay while motion practice before the multi-district litigation panel is resolved.

**Patents / Jurisdiction & Venue / Venue****FEDERAL CIRCUIT DEFINES “REGULAR AND ESTABLISHED PLACE OF BUSINESS”**

*In re: Cray Inc.*, Case No. 17-129 (Fed. Cir., Sept. 21, 2017)

The US Court of Appeals for the Federal Circuit defined “regular and established place of business” in a judicial district to require (1) a physical place in the district that is (2) regular and established, and that is (3) of the defendant. *In re: Cray Inc.*, Case No. 17-129 (Fed. Cir., Sept. 21, 2017).

Raytheon filed a patent infringement action against Cray in the Eastern District of Texas. Cray is a Washington corporation with its principal place of business located there. Following the Supreme Court of the United States’ 2017 decision in *TC Heartland v. Kraft Foods* ([JP Update, Vol. 20, No. 5](#)), a domestic corporation may only be sued for patent infringement in a judicial district (1) in its state of incorporation or (2) where the domestic corporation has committed acts of infringement and has a regular and established place of business. Cray moved to transfer the case, arguing that venue was improper in the Eastern District of Texas because Cray was not incorporated in Texas and did not maintain a regular and established place of business in the district.

The district court denied the motion, finding that Cray had a regular and established place of business because it employed a sales representative who worked from his home in the district. Attempting to provide future litigants with guidance, the district court identified factors it considered in deciding whether venue was proper in the district. These factors included whether the company has a physical presence in the district, has targeted interactions with customers in the district, and receives benefits based on its presence in the district. Cray petitioned the Federal Circuit for a writ of *mandamus*, requesting reversal of the district court’s denial of the motion to transfer.

The Federal Circuit found that the factors identified by the district court were incorrect. Instead, the Federal Circuit identified three requirements that must be met for venue to be proper. First, the defendant must have a physical place in the district. While the place does not need to be fixed in the sense of a formal office or store, there must be a physical location in the district from which the business of the defendant is carried out.

Second, the place must be “a regular and established place of business” that operates for a stable and meaningful time period, as opposed to one that has a temporary presence. For example, a business that semi-annually displays products at a trade show has only a temporary presence. Similarly, an employee who can move his or her home out of the district without approval of the defendant would cut against the home being considered a place of business of the company.

Third, the “regular and established place of business” must be the “place of the defendant.” Relevant considerations include whether the defendant owns, leases or exercises control over the place; whether the defendant conditioned employment on an employee’s continued residence in the district; and whether the defendant stores material at a place in the district so it can be sold or distributed from that place.

Applying the three requirements to the facts of the case, the Federal Circuit found that Cray did not have a regular and established place of business in the district. Instead, the Court found that the facts merely showed a physical location within the district where one of Cray’s employees carries on certain work. The Court noted, for instance, that Cray paid no part of the employee’s home or rent, did not store any materials there, did not believe a location within the district to be important to the business performed, and did not have any intent to maintain a place of business in the district if the employee moved. Under these circumstances, the Federal Circuit found that venue was improper in the Eastern District of Texas and remanded the case for further consideration as to where the case should be transferred.

**Patents / Jurisdiction & Venue / Remand Review Jurisdiction****AIA DOES NOT OVERRIDE 28 USC § 1447(D) REVIEWABILITY BAR**

*Preston et al. v. Nagel et al.*, Case No. 16-1524 (Fed. Cir., June 1, 2017) (Hughes, J)

The US Court of Appeals for the Federal Circuit ruled that provisions in the America Invents Act (AIA) related to federal courts' jurisdiction over patent claims do not override 28 USC § 1447(d)'s limit on appellate review of a district court's order to remand a case to state court. *Preston et al. v. Nagel et al.*, Case No. 16-1524 (Fed. Cir., June 1, 2017) (Hughes, J).

Preston filed a complaint against Nagel in state court alleging several state-law claims. Nagel responded by filing counterclaims seeking declarations of non-infringement of several patents held by Nagel. Nagel also removed the case to a federal district court under § 1441 (general removal statute) and § 1454 (patent removal statute). The district court determined that it lacked subject matter jurisdiction because Preston's claims arose under state law and Nagel did not establish that the counterclaims satisfied the Article III case-or-controversy requirement. The district court granted Preston's motion to remand the case to state court. Nagel appealed.

Appellate review of a district court's order to remand a case to state court is limited by 28 USC § 1447(d), which states:

An order remanding a case to the State court from which it was removed is not reviewable on appeal or otherwise, except that an order remanding a case to the State court from which it was removed pursuant to section 1442 or 1443 of this title shall be reviewable by appeal or otherwise.

Thus, according to § 1447(d), a district court order remanding a case to a state court is not reviewable by the Federal Circuit unless the case was removed from federal court under statutory exceptions not applicable in this case.

Nagel argued that an exception to § 1447(d)'s reviewability bar exists when defendants invoke § 1454 (patent removal statute) to remove patent claims over which federal courts have exclusive jurisdiction. As support, Nagel relied on the 2007 Supreme Court of the United States case *Osborn v. Haley* and argued that the AIA overrides § 1447(d)'s bar. In *Osborn*, the Supreme Court determined that remands of certified Westfall Act cases (relating to federal employees suing for common law torts that occurred in the course of their official duties) are reviewable, despite § 1447(d)'s bar on appellate review of remand orders. The Federal Circuit concluded that courts should review remand orders ordinarily governed by § 1447(d) only "in the extraordinary case in which Congress has ordered the intercourt shuttle to travel just one way—from state to federal court." The Court rejected Nagel's argument that provisions in the AIA made this case similarly "extraordinary."

Nagel relied on the Supreme Court's 2002 decision in *Holmes Group v. Vornado Air Circulation Systems* ([IP Update, Vol. 5, No. 6](#)), where the Supreme Court found that the Federal Circuit lacked jurisdiction to hear appeals from cases "in which the complaint does not allege a claim arising under federal patent law, but the answer contains a patent-law counterclaim." In response to *Holmes*, Congress included several provisions to strengthen federal courts' jurisdiction over patent claims:

- A clarification was added that state courts had no jurisdiction over "any claim for relief arising under any Act of Congress relating to patents."
- The Federal Circuit's exclusive jurisdiction was extended to include cases with compulsory patent counterclaims.
- A provision was added to permit a party to remove to federal court a case in which any party asserts a patent claim.

Nagel argued that the AIA contained "Holmes Group fix" provisions that were the one-way "intercourt shuttle" that *Osborn* described. According to Nagel, by depriving the state court of jurisdiction to hear patent claims (including counterclaims) and by creating a removal provision targeted at patent claims (and counterclaims), Congress created a vehicle for a defendant's patent counterclaims to be heard in federal court alongside a plaintiff's state-law claims.



The Federal Circuit, however, found that *Osborn*'s narrow exception did not apply in the AIA context. The Court explained that unlike *Osborn*, nothing in the AIA "foreclose[d] any jurisdictional inquiry" since the district court had undertaken a threshold inquiry before concluding that it lacked subject matter jurisdiction because Preston's claims arose under state law and Nagel did not establish that the counterclaims satisfied the Article III case-or-controversy requirement. The Court further noted:

To the extent the AIA prefers that closely related state-law claims and patent-law counterclaims be heard together, it does not follow that we have jurisdiction to review remand decisions that require such claims to be pursued in separate forums. Though hearing the state-law and patent-law claims together may promote important interests such as efficiency and avoiding inconsistent judgments, we are not persuaded that the AIA commands us to favor these interests over § 1447(d) and the presumption of remand non-reviewability. Had Congress sought to permit review of remands like the one at issue here, it certainly knew how to do so . . . we leave it to Congress to grant us reviewability here if it sees fit.

**REMEDIES**

---

***Patents / Remedies / Damages***

---

**REMAND TO DISTRICT COURT TO ATTEMPT TO IDENTIFY  
“ARTICLE OF MANUFACTURE” FOR DESIGN PATENT DAMAGES**

---

*Apple Inc. v. Samsung Elecs. Co., et al.*, Case Nos. 14-1335, 15-1029 (Fed. Cir., Feb. 7, 2017) (*per curiam*) (non-precedential)

Addressing the design patent battle between Apple and Samsung on remand from the Supreme Court of the United States, the US Court of Appeals for the Federal Circuit declined to apply the new standard or to order specific action by the district court. Instead, in a non-precedential decision, it simply remanded the damages dispute to the district court for analysis. *Apple Inc. v. Samsung Elecs. Co., et al.*, Case Nos. 14-1335, 15-1029 (Fed. Cir., Feb. 7, 2017) (*per curiam*) (non-precedential).

This case returned to the Federal Circuit after the Supreme Court held in favor of Samsung that the relevant “article of manufacture” for design patent damages can be a component of the product as sold ([IP Update, Vol. 19, No. 12](#)). By statute, design patent damages must be the “total profits” of the infringing article of manufacture, and the Federal Circuit had previously rejected Samsung’s argument that design patent damages must be apportioned to those profits causally attributable to the infringement ([IP Update, Vol. 18, No. 6](#)). Samsung dropped the later argument at the Supreme Court in favor of attack over what constitutes the article of manufacture. The Supreme Court set forth a two-part inquiry that involves first identifying the article to which the infringing design has been applied, then calculating the profit on that identified article. But the Supreme Court declined to identify the article upon which damages should be predicated in this case.

On remand, Apple attempted to preserve its favorable damages record by arguing that the Federal Circuit should be the court to identify the article of manufacture for a damages calculation. Samsung argued that the Federal Circuit should remand to the district court with express orders to conduct another damages trial based on the Supreme Court’s new standard. The Federal Circuit rejected both options and instead simply remanded the case with instructions that the district court should decide the issues in the first instance, which the Court said could include the opportunity to set forth a test for identifying the relevant article of manufacture for design patent damages or to conduct a new trial on damages with detailed jury instructions based on the Supreme Court ruling.

---

## **NO SECOND CHANCES FOR PROMEGA DAMAGES CLAIM**

---

*Promega Corp. v. Life Technologies Corp.*, 875 F.3d 651 (Fed. Cir. 2017) (Chen, J)

On remand from the Supreme Court of the United States, the US Court of Appeals for the Federal Circuit affirmed a district court decision granting defendant's motion for judgment as a matter of law (JMOL) that patent owner failed to prove its infringement case under 35 USC §§ 271(a) and 271(f), and denying plaintiff's motion for a new trial on damages and infringement. *Promega Corp. v. Life Technologies Corp.*, 875 F.3d 651 (Fed. Cir. 2017) (Chen, J).

This case generally concerns genetic testing kits assembled in the United Kingdom and sold by Life Technologies. The kits comprised five components, at least one of which was supplied from the United States. Promega, the exclusive licensee of a patent claiming methods and kits for analyzing DNA, sued Life Technologies for infringement, seeking damages. The Federal Circuit initially found that all of the accused products were infringing under § 271(f)(1). However, on review, the Supreme Court held that a single component does not constitute a substantial portion of the components that can give rise to liability under § 271(f)(1), thereby nullifying the Federal Circuit's conclusion that all of the accused products made by Life Technologies in the United Kingdom infringed under § 271(f) (IP Update, Vol. 20, No. 3).

On remand, the Federal Circuit considered whether a subset of the accused products was liable for infringement under § 271(f). At the district court, Promega had urged an "all or nothing" damages approach based on defendants' total worldwide sales under § 271(f). Promega did not set forth any evidence to support a damages award based on a subset of total sales. Promega provided no damages expert at trial and made no arguments that damages could be based on a figure other than worldwide sales, despite several reminders from the district court that Promega had not put in evidence to prove liability separately under § 271(a) and § 271(f)(1).

The Federal Circuit affirmed the district court's finding that Promega waived any argument that the trial record could support a damages award based on a subset of total sales by failing to oppose Life Technology's Rule 50(b) motion argument to the effect that Promega had only set forth evidence as to defendants' total worldwide sales, but provided no evidence to support a damages award based on a subset of the total sales. Thus, the Federal Circuit upheld the district court's grant of Life Technology's JMOL that Promega was entitled to no damages.

The Federal Circuit further found that the district court properly relied on its waiver finding (from its JMOL ruling) to support its decision to deny Promega's motion for a new trial on infringement and damages. Promega's failure to raise any argument that the evidence at trial supported a damages calculation based on anything other than worldwide sales in response to Life Technology's Rule 50(b) motion was a deliberate choice and a waiver. The Court found that Promega was on notice that it had not put in evidence to prove liability separately under § 271(a) and § 271(f)(1) because the district court gave Promega a second chance to admit such evidence and Promega declined that opportunity. Thus, the Federal Circuit held that it was not an abuse of discretion to refuse to give Promega unlimited chances to correct deficiencies in its arguments on the record, and that the district court properly denied Promega's motion for a new trial.

Promega has since filed a petition for rehearing en banc.

**Patents / Remedies / Damages****LATER DISCLAIMER CANNOT RETROACTIVELY DISSOLVE MARKING REQUIREMENT**

Rembrandt Wireless Techs., LP v. Samsung Elecs. Co., Ltd., Case No. 16-1729 (Fed. Cir., Apr. 17, 2017) (Stoll, J)

The US Court of Appeals for the Federal Circuit vacated a district court judgment as it relates to marking, finding that the patent owner cannot use disclaimer to avoid the marking requirement (35 USC § 287) and thereby attempt to collect pre-notice damages. *Rembrandt Wireless Techs., LP v. Samsung Elecs. Co., Ltd.*, Case No. 16-1729 (Fed. Cir., Apr. 17, 2017) (Stoll, J).

This case relates to an infringement action addressing patents claiming a system and method of communication between modems utilizing a modulation method. Samsung appealed several issues, among them the district court's decision refusing to bar Rembrandt's recovery of pre-notice damages based on Rembrandt's failure to mark products that were covered by an asserted patent claim that Rembrandt disclaimed after filing its complaint.

Rembrandt licensed one of the patents at issue in this case to Zhone Technologies. The license agreement between Rembrandt and Zhone did not require Zhone to mark its products with the patent number, and Zhone sold unmarked products embodying claim 40 of the asserted patent. After receiving notice of Rembrandt's patents on the filing of the complaint in this matter, Samsung moved to limit its potential damages pursuant to 35 USC § 287, the patent marking statute, based on failure of Rembrandt's licensee to mark products covered by claim 40. Eight days after filing its complaint, Rembrandt withdrew claim 40 from its infringement allegations and filed a statutory disclaimer at the US Patent and Trademark Office, formally disclaiming claim 40. The district court denied Samsung's motion to bar Rembrandt's recovery of pre-notice damages, accepting Rembrandt's argument that any prior obligation to mark products embodying claim 40 vanished once it disclaimed claim 40. Samsung appealed.

The Federal Circuit reversed, explaining that marking under § 287(a) is permissive, not mandatory. However, if a patent owner chooses not to mark, "no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice." The Court rejected Rembrandt's position that its obligation to mark its products embodying claim 40 vanished when Rembrandt disclaimed claim 40, concluding that it is irreconcilable with the statute's purpose to notify the public of the patent rights associated with patented products. As the Court explained, while a disclaimer relinquishes certain rights of the patent owner, it cannot serve to relinquish any rights of the public. Because the marking statute's focus is not only on the rights of the patentee but also on the rights of the public, the Court concluded that disclaimer cannot serve to retroactively dissolve the § 287(a) marking requirement.

On a related issue, the Federal Circuit found that whether the marking statute should attach on a claim-by-claim rather than on a patent-by-patent basis is a novel legal issue raised by Rembrandt that has not been squarely addressed in the Court's prior decisions. Because the parties did not address this legal issue in briefing on appeal, the Court remanded to the district court to address this legal issue in the first instance.

---

## **SETTLEMENT AGREEMENT MAY BE USED AS EVIDENCE OF DAMAGES**

---

Addressing evidentiary issues, the US Court of Appeals for the Federal Circuit agreed with the district court that a settlement agreement related to the patent at issue is admissible as proof of a reasonable royalty. *Prism Techs. LLC v. Sprint Spectrum L.P.*, Case Nos. 16-1456; -1457 (Fed. Cir., Mar. 6, 2017) (Taranto, J).

Prism owns several patents related to managing access to protected information provided over networks, and asserted these patents in separate suits against a number of wireless and telecommunications companies, including Sprint and AT&T. The district court consolidated some of the pre-trial proceedings for the related cases and issued a joint claim construction order. One of the key terms was “Internet Protocol network” and similar limitations, which the court construed as “an untrusted network using any protocol of the Internet Protocol Suite . . . .” The district court further defined “untrusted network” as a network with “no controlling organization.” The related cases were tried separately. AT&T proceeded to trial first but ultimately settled the dispute. In the trial against Sprint, over Sprint’s objections, the district court permitted Prism to use the settlement agreement with AT&T as evidence of reasonable royalty damages. The jury ultimately awarded Prism \$30 million in damages.

Both Sprint and Prism appealed certain aspects of district court’s rulings. The Federal Circuit considered five questions raised by the parties:

- Was Prism’s expert testimony consistent with the construction of “untrusted network”?
- Was the AT&T settlement agreement admissible?
- Did the district court impermissibly ignore Sprint’s allegations of legal error?
- Was Prism’s damages model sufficiently tied to the asserted patents?
- Should Prism be entitled to damages for ongoing infringement?

Sprint argued that the district court improperly allowed Prism’s expert to modify the court’s construction of “untrusted network” to mean that an “untrusted network” was one that had no single controlling organization. The Federal Circuit disagreed, finding the expert’s testimony consistent with the court’s construction because the expert was describing the internet—which the court (and patent) specifically identified as an example of an untrusted network.

Sprint also argued that the AT&T settlement agreement should have been excluded because it was more prejudicial than probative of a reasonable royalty. The Federal Circuit acknowledged that settlement agreements may not be probative of the actual value of a technology in certain situations (*e.g.*, the agreement may take into account risk of invalidity/non-infringement, enhanced damages or litigation costs). However, the Federal Circuit ultimately rejected Sprint’s arguments because Sprint failed to show any reason why the AT&T agreement would not be comparable to the royalty at issue. Instead Sprint argued that settlement agreements should be barred altogether. The Federal Circuit dismissed this contention, noting that Sprint itself introduced licenses for the asserted patents that stemmed from settlement agreements in other cases.

The Federal Circuit also rejected Sprint’s contention that the district court did not address Sprint’s allegations of legal error, explaining that the district court’s failure to address those arguments reflected “only a choice about what to discuss, not a choice about what to consider.”

In addition, the Federal Circuit concluded that Prism’s damages model, which tied damages to the cost Sprint would have incurred building or leasing a non-infringing alternative to the asserted patents, was reasonable and supported by the evidence. Finally, the Federal Circuit rejected Prism’s request for an ongoing royalty, agreeing with the district court that the reasonable royalty would have been in the form of a one-time payment that lasted the life of the entire patent.

**Patents / Remedies / Injunctions****DISCUSSION OF READ FACTORS NOT MANDATORY FOR ENHANCED DAMAGES DETERMINATION**

Presidio Components, Inc. v. American Technical Ceramics Corp., 875 F.3d 1369 (Fed. Cir. 2017) (Dyk, J)

The US Court of Appeals for the Federal Circuit affirmed in part, reversed in part, vacated in part and remanded the district court's findings of definiteness, grant of absolute intervening rights, denial of enhanced damages, award of lost profits and grant of permanent injunction. *Presidio Components, Inc. v. American Technical Ceramics Corp.*, 875 F.3d 1369 (Fed. Cir. 2017) (Dyk, J).

Presidio sued American Technical Ceramics (ATC) alleging infringement of a patent that claims a multilayer capacitor design and teaches a multilayer integrated network of capacitors electrically connected in series and in parallel. While the district court infringement suit was pending, ATC sought an ex parte re-examination of the asserted patent claims. Presidio amended the claims after the examiner rejected the claims as anticipated and obvious. The US Patent and Trademark Office issued a re-examination certificate amending certain claims at issue in the district court action. Thereafter, Presidio amended its complaint to assert these claims.

The district court granted ATC's motion for summary judgment on the affirmative defense of absolute intervening rights. After a jury trial, ATC was found to infringe and induce infringement of the asserted claims. The jury awarded Presidio more than \$2 million in lost profit damages and also found that ATC's infringement was willful. The district court rejected ATC's contention that the asserted claims were indefinite and denied ATC's motion that Presidio had failed as a matter of law to prove lost profits. The district court also denied Presidio's motion for enhanced damages despite the jury's willful infringement finding, and entered a permanent injunction against ATC. ATC appealed the district court's indefiniteness ruling, lost profits award and permanent injunction. Presidio cross-appealed the district court's intervening rights ruling and denial of enhanced damages.

The Federal Circuit affirmed the district court's holding that the claims were not indefinite, finding that the method of measuring capacitance was sufficiently well known in the art and referenced in the patent. (See also *BASF Corp. v. Johnson Matthey, Inc.*) The Court agreed with the district court's grant of absolute intervening rights, noting that a patentee is only entitled to infringement damages for the period following issuance of the re-examination certificate if an amendment during re-examination makes a substantive change to an original claim. Here, the Court found that under the claim construction of the original claims in an earlier infringement suit between the parties, fringe-effect capacitance could be determined by theoretical calculations that are insufficient under the amended claims. As such, the Court found there was a substantive change in claim scope.

Moving to remedies, the Federal Circuit reversed the district court's award of lost profits and remanded for determination of a reasonable royalty. Focusing on the second prong of the four-factor Panduit test, the Court explained that the correct inquiry is "whether a non-infringing alternative would be acceptable compared to the patent owner's product, not whether it is a substitute for the infringement product." The Court explained that the district court erred by relying on evidence of sales of a non-infringing ATC capacitor product in competition with its infringing capacitor products, rather than comparing the non-infringing ATC capacitor to Presidio's BB capacitors in a hypothetical market without the infringing capacitors.

Turning to enhanced damages, the Federal Circuit affirmed the district court's ruling declining an award of enhanced damages, and emphasized that a district court is "not require[d] to discuss the Read factors" because the Halo test "merely requires the district court to consider the particular circumstances of the case to determine whether [conduct] is egregious."

Lastly, the Federal Circuit vacated the permanent injunction and remanded with instructions to consider the relevant evidence and to determine whether Presidio had established the first factor of the eBay test—that "it has suffered an irreparable injury." In particular, the Court noted that the injunction may have created the hypothetical market necessary to determine whether

consumers would purchase Presidio's BB capacitors in the absence of the infringing capacitors. Both Presidio and ATC have since filed petitions for panel rehearing and rehearing en banc

**Patents / Remedies / Injunctions****INJUNCTION AGAINST THIRD PARTY MAINTAINED PENDING REMAND**

*Asetek Danmark A/S v. CMI USA Inc., FKA Cooler Master USA Inc., Cooler Master Co. Ltd.*, Case Nos. 16-1026; -1183 (Fed. Cir., Dec. 6, 2016) (Taranto, J) (Prost, CJ, dissenting in part)

The US Court of Appeals for the Federal Circuit affirmed a district court's ruling on infringement, invalidity and damages, but remanded the case to the district court to reconsider the breadth of the "injunctive" relief granted insofar as it enjoins conduct by a non-party to the case. *Asetek Danmark A/S v. CMI USA Inc., FKA Cooler Master USA Inc., Cooler Master Co. Ltd.*, Case Nos. 16-1026; -1183 (Fed. Cir., Dec. 6, 2016) (Taranto, J) (Prost, CJ, dissenting in part).

Asetek sued two parties, CMI USA (a US corporation) and Cooler Master, a Taiwanese supplier of computer components, for patent infringement. CMI was Cooler Master's exclusive distributor in the United States. Before trial commenced, Asetek dismissed its claims against the Taiwanese company. Asetek prevailed at trial and was awarded injunctive relief covering specific "Cooler Master" products found to infringe. The injunction was against both CMI and Cooler Master even though the latter was not a party to the suit. Cooler Master intervened and appealed.

On appeal, Cooler Master and CMI raised two arguments against the injunction. First, they argued that Cooler Master's dismissal with prejudice from the case constituted adjudication with claim-preclusive effect. The Federal Circuit disagreed, explaining that preclusion does not bar relief as to *future* conduct, but only as to pre-dismissal conduct. The Court reasoned that the "claim" covered by the dismissal (Cooler Master's pre-dismissal conduct) is not the same as a "claim" covering future conduct (Cooler Master's post-injunction conduct). The Court noted that the time interval in question differentiates the claims so that they are not the same "claim" for claim-preclusion purposes.

Second, appellants asserted that the injunction was too broad in scope, as it reaches Cooler Master's conduct beyond abetting a new violation by CMI, the only party adjudicated liable for infringement. The Federal Circuit explained that an injunction may not "make punishable the conduct of persons who act independently and whose rights have not been adjudged according to law." However, the Court noted that in accordance with Fed. R. Civ. P. 65(d), an injunction may bind non-parties that are "in active concert or participation with" parties to the action or "legally identified with the liable party."

In view of the relationship between the original defendants, the Federal Circuit also remarked that a non-party that sufficiently controls another's litigation of a case "may be said to have had its day in court and on that ground be subject to the injunctive obligations," noting that although Cooler Master possibly may be "legally identified" with CMI, that issue presents a fact-dependent determination that should be addressed by the district court. The Court remanded the case but did not vacate the injunction pending the remand determination.

Chief Judge Prost dissented, contending that the correct course of action would be to vacate the portions of the injunction that improperly reached Cooler Master. Prost pointed out that while the majority speculated about the relationship between Cooler Master and CMI, it provided no basis to justify the injunction against Cooler Master in its own capacity. Prost noted that the only exception to Rule 65(d) is Cooler Master aiding and abetting CMI's acts of infringement.



**PATENTS / MOOTNESS (COVENANT NOT TO SUE)****CONDITIONAL COVENANT NOT TO SUE INSUFFICIENT TO MOOT PATENT DISPUTE**

*ArcelorMittal v. AK Steel Corp.*, Case No. 16-1357 (Fed. Cir., May 16, 2017) (Hughes, J) (Wallach, J, dissenting).

The US Court of Appeals for the Federal Circuit affirmed a summary judgment of non-infringement based on invalidity of asserted reissue claims as impermissibly broadened, notwithstanding a covenant not to sue that the patent owner submitted in the case in an attempt to moot the dispute. *ArcelorMittal v. AK Steel Corp.*, Case No. 16-1357 (Fed. Cir., May 16, 2017) (Hughes, J) (Wallach, J, dissenting).

The appeal stems from a January 2010 lawsuit filed by ArcelorMittal against AK Steel and others for allegedly infringing its patent relating to coated hot and cold rolled steel. A jury found that the patent was invalid as anticipated and obvious, but the Federal Circuit reversed and remanded ([IP Update, Vol. 15, No. 12](#)). While the appeal was pending, the patent was reissued. ArcelorMittal then amended its complaint to replace the original patent with the reissue patent. The district court found that claims had been improperly broadened and invalidated the patent, including two new claims added on the reissue. In a May 2015 appeal, the Federal Circuit concluded that while the original claims of the patent were invalid because of impermissible broadening during the reissue proceeding, the two new claims remained valid.

On remand, ArcelorMittal moved to dismiss the case for lack of jurisdiction because it was not asserting the two new claims in the lawsuit and the remaining asserted claims had been found invalid. At the same time, the defendants moved for summary judgment of non-infringement of the two new claims. To avoid a judgment on the defendants' motion, ArcelorMittal executed and delivered to the district court a conditional covenant not to sue defendants and their customers under the reissue patent. The delivery included a statement to the district court that the covenant was tendered on condition that ArcelorMittal's motion to amend the complaint be resolved. Importantly, the delivery included a statement that the patentee would be "ready to deliver the covenant unconditionally" upon resolution of the motion and also that the point of the conditional delivery was to ensure that the district court maintained jurisdiction over the case. Nonetheless, the district court held the new claims invalid and denied the motion to amend as moot. ArcelorMittal appealed.

On appeal, the Federal Circuit agreed with the district court that it still held subject matter jurisdiction over the case because the covenant not to sue was not fully delivered:

Although a patentee's grant of a covenant not to sue a potential infringer can sometimes deprive a court of subject matter jurisdiction, the patentee "bears the formidable burden of showing" "that it 'could not reasonably be expected' to resume its enforcement efforts. . . . In this context, that requires ArcelorMittal to show that it actually granted a covenant not to sue to Defendants, and that the covenant enforceably extinguished any real controversy between the parties related to infringement of the [reissue] patent. . . .

At no time before the court entered summary judgment did ArcelorMittal unconditionally assure Defendants and their customers that it would never assert [reissue] claims 24 and 25 against them. ArcelorMittal certainly had ample opportunity to provide the unconditional assurances required to defeat jurisdiction. It did not. . . . The district court, well within its discretion in managing its docket, resolved the . . . summary judgment motion without having first resolved the motion to amend.

The primary disputed issue was whether the district court possessed subject matter jurisdiction when it granted summary judgment of invalidity and non-infringement. The majority found a sufficient case or controversy, while Judge Wallach, in dissent, would have found appellant's covenant not to sue sufficient to moot the dispute.

**Practice Note:** This case demonstrates that a case or controversy is not moot, and jurisdiction is not avoided, by tendering an unexecuted and conditional covenant not to sue.

**PATENTS / FINALITY (FOR APPEAL)****FEDERAL CIRCUIT DISMISSES PREMATURE APPEAL OF PRE-JUDGMENT INTEREST AWARD**

*Halo Electronics, Inc. v. Pulse Electronics, Inc.*, Case No. 16-2006 (Fed. Cir., May 26, 2017) (Lourie, J).

The US Court of Appeals for the Federal Circuit dismissed an appeal brought by an adjudged infringer because the district court had not determined or specified the means for determining the amount of pre-judgment interest. *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, Case No. 16-2006 (Fed. Cir., May 26, 2017) (Lourie, J). Because the Federal Circuit lacked jurisdiction, the appeal was dismissed in order for the district court to resolve the specifics of the pre-judgment interest award in the first instance.

This dispute has been ongoing for 10 years. The lawsuit began in 2007, with Halo accusing Pulse of infringing three patents. Following a jury trial, the district court entered judgment in favor of Halo on findings of direct infringement, induced infringement and \$1.5 million in reasonable royalty damages. While both sides initially appealed, Pulse's appeal of the district court's decision to set aside the jury's finding of willful infringement eventually found its way to the Supreme Court of the United States after the Federal Circuit affirmed the no willfulness finding ([IP Update, Vol. 19, No. 6](#)). While the Supreme Court decision was pending, the district court awarded Halo pre-judgment interest and ordered the parties to either file a stipulation on the amount of that award or file briefs explaining their position on how much pre-judgment interest should be awarded.

The parties could not agree on an amount of pre-judgment interest and disputed the period during which the interest accrued. Halo contended that the amount should be calculated from the day the complaint was served. Pulse disagreed and contended that the calculation of pre-judgment interest should account for the fact that Pulse's infringing activities were found to occur throughout the damages period and Halo had not suffered the full amount of damages at the time the complaint was served. Shortly after the briefing addressing the pre-judgment interest dispute was submitted to the district court, Pulse filed notice of appeal. That appeal arose from the district court's decision to award Halo any pre-judgment interest at all. The appeal proceeded, with Pulse indicating that the district court could wait to rule on the particulars of the disputed pre-judgment interest issues until after the Federal Circuit addressed the propriety of the decision to award any pre-judgment interest to Halo.

On appeal, the Federal Circuit declined to address the substantive issues raised because there was no "final decision" pursuant to 28 USC § 1295(a)(1) (final judgment rule). The Federal Circuit explained that it has jurisdiction over the "final decision" of a district court—*i.e.*, a decision that "ends the litigation on the merits and leaves nothing for the court to do but execute the judgment." There is a narrow exception to the final judgment rule pursuant to § 1292(c)(2), which gives the Federal Circuit jurisdiction over an appeal from a judgment in a patent infringement action when the case is final except for an accounting. However, here the Court explained that it lacked jurisdiction over the appeal under both the final judgment rule and the § 1292(c)(2) exception.

The Federal Circuit looked to the appealed-from decision dated April 6, 2016, and noted that the Order required the parties to either stipulate to the amount of pre-judgment interest or submit briefing addressing disputed items. The district court never resolved the parties' dispute regarding the date from which to begin calculating pre-judgment interest or set the amount of pre-judgment interest to be awarded. The presence of these outstanding disputes was dispositive. The Federal Circuit determined that there was no final decision that would confer jurisdiction on appeal. Similarly, the exception to the final judgment rule was not applicable because the order was not final. Regardless of whether pre-judgment interest is part of an accounting, § 1292(c)(2) has been interpreted to preclude consideration of a non-final order that is related to the accounting. Thus, because the order appealed from was not final under § 1295(a)(1), the Federal Circuit lacked jurisdiction under § 1295(c)(2). The appeal was dismissed for lack of jurisdiction, but the Federal Circuit clarified that Pulse preserved its rights to later file a proper appeal of a final award of pre-judgment interest.

**Patents / Remedies / Permanent Injunction / Irreparable Harm****DRIVING DEMAND: CAUSAL NEXUS BETWEEN INFRINGING FEATURES, ACCUSED SALES REQUIRED TO PROVE IRREPARABLE HARM**

*Genband US LLC v. Metaswitch Networks Corp.*, Case No. 17-1148 (Fed. Cir., July 10, 2017) (Taranto, J).

The US Court of Appeals for the Federal Circuit clarified that the causal nexus necessary to prove irreparable harm in a multi-purchaser, multi-component setting does not require proof that the infringing feature is the driver of demand (*i.e.*, that almost no buyers would purchase the product but for the infringing feature), but instead only requires evidence that the infringing feature is a driver of decisions by a substantial number of consumers considering multiple features. *Genband US LLC v. Metaswitch Networks Corp.*, Case No. 17-1148 (Fed. Cir., July 10, 2017) (Taranto, J).

In 2014, Genband sued Metaswitch, alleging that Metaswitch products infringed Genband's patents related to voice over internet protocol technology. After a jury found that Metaswitch infringed the patents, Genband moved for a permanent injunction. In order to obtain a permanent injunction, a patent owner must demonstrate that (1) it has suffered or will suffer irreparable harm, (2) other remedies (including damages) are inadequate, (3) the balance of hardships to the parties warrants an injunction, and (4) an injunction would not disserve the public interest.

Here, the district court (Judge Gilstrap) denied Genband's request solely on the basis that Genband failed to show that it would suffer irreparable harm. Importantly, the district court found that Genband had not demonstrated a causal nexus between the alleged harm (future sales) and the infringing features of the accused products. Genband appealed, arguing that the district court used too stringent a standard in evaluating the causal connection.

The Federal Circuit explained that for multi-feature devices where only one feature or component infringes, the traditional test for a causal nexus for irreparable harm requires that the infringing feature "drive demand" for sales of the product. However, this "drive demand" test is susceptible to different interpretations, some strict and some more flexible. On the stricter end, driving demand could require that the infringing feature be *the* driver of decisions by consumers as a whole—even requiring proof that almost no buyers would purchase the product but for the infringing feature. On the other hand, driving demand could require less—that the infringing feature merely be a driver of decisions by consumers considering purchasing a product.

The Federal Circuit ultimately rejected the stricter test, noting that the governing standard for irreparable harm is "some causal nexus" or "a nexus." This means that the patentee "need not show that one of the patent features is *the sole reason* consumers purchased the accused products," nor that consumers will buy the accused product instead of the patentee's competing product because it contains the infringing feature. Rather, the patentee "must show some connection between the patented feature and the demand for [the infringer's accused] products," which could involve "evidence that a patented feature is one of several features that cause consumers to make purchasing decisions," "evidence that the inclusion of a patent feature makes a product significantly more desirable," or "evidence that the absence of a patented feature would make a product significantly less desirable."

While the district court noted in its decision that Genband argued for the less stringent drive demand interpretation, the Federal Circuit could not determine from the opinion what test the district court actually used. Accordingly, it vacated the denial of the preliminary injunction and remanded for reconsideration consistent with the more flexible test.

**Practice Note:** The Federal Circuit ruling in *Apple v. Samsung* ([IP Update, Vol. 15, No. 11](#)), which involves the proper standard for issuing injunctions, is now on appeal to the Supreme Court of the United States.

**Patents / Remedies / Preliminary Injunction****APPELLATE COURT MOWS DOWN OBJECTIONS TO PRELIMINARY INJUNCTION**

*Metalcraft of Mayville, Inc. v. The Toro Co.*, Case No. 16-2433 (Fed. Cir., Feb. 16, 2017) (Moore, J).

Addressing preliminary injunction issues in a case between two competitors, the US Court of Appeals for the Federal Circuit affirmed the district court's grant of the injunction, finding that the plaintiff would likely suffer irreparable harm as a result of an "ecosystem effect" that made it difficult to quantify damages. *Metalcraft of Mayville, Inc. v. The Toro Co.*, Case No. 16-2433 (Fed. Cir., Feb. 16, 2017) (Moore, J).

Metalcraft (doing business as Scag) owns a patent directed to a lawnmower with a "suspended operator platform," which suspends the operator's entire body above the mower chassis so that the operator is isolated from vibrations or shocks resulting from rough terrain. After Scag began marketing and selling its suspended operator platform lawnmowers, Toro entered the market with its version of the product. Toro's suspended operator platform lawnmower was not identical, however; Scag's lawnmower included a suspended control platform, while the controls on Toro's mowers were fixed to the chassis. Scag filed an infringement action against Toro and moved for a preliminary injunction. After the district court granted Scag's request for a preliminary injunction, Toro appealed.

Reviewing the district court's grant of the preliminary injunction under an abuse of discretion standard, the Federal Circuit affirmed the district court. For each factor, however, the Federal Circuit reviewed the underlying determinations under their corresponding standards (i.e., reviewing infringement for clear error and reviewing claim construction and obviousness *de novo*), except for subsidiary factual findings (such as the district court's determination as to motivation to combine), which the Court reviewed for clear error.

The Federal Circuit found no error in the district court's infringement analysis and agreed with the district court's claim construction. On this issue, Toro argued that its mowers did not infringe because its platform did not suspend the "entire body" of the operator as Toro believed the claims required. According to Toro, because its lawnmowers included controls fixed to the chassis, the operator's hands would not be "suspended" when operating the controls. The Federal Circuit rejected this argument, finding that district court correctly determined that the claims did not require the controls to be mounted on the suspended platform.

The Federal Circuit also found that there was no substantial question of validity. On appeal, Toro argued that the district court improperly rejected Toro's motivation to combine certain prior art references. The Federal Circuit found no clear error in this factual determination, noting that Toro provided no explanation for how or why the references would be combined to arrive at the claimed invention.

As to irreparable harm, the district court found that Scag would likely suffer irreparable harm because it would be impossible to quantify Scag's damages. Specifically, testimony of record in the case showed that "ecosystem effects" made it too difficult to quantify harm, because customers who purchased an infringing Toro product may develop loyalty to Toro, continue to buy Toro's products and recommend Toro products to others. Given this unquantifiable, far-reaching and long-term impact on Scag's future revenues, the Federal Circuit agreed that Scag was likely to suffer irreparable harm without a preliminary injunction.

As to the balance of equities, the Federal Circuit found no abuse of discretion in the district court's determination that Scag's hardship in having to compete against its own patented invention outweighed Toro's perceived hardship in disrupting the status quo. Not only would the injunction highlight the importance of encouraging innovation, the public would also continue to have access to the patented system from Scag. For these reasons, the Federal Circuit agreed that the balance of equities favored Scag and that the grant of an injunction was in the public interest.

**Patents / Remedies / Arbitration**

---

## **WHEN ASSERTING ARBITRATION PROVISIONS, THINK INSIDE THE BOX**

---

*Roof N Box, Inc. v. Building Materials Corp.*, Case No. 16-2427 (Fed. Cir., June 5, 2017) (Taranto, J).

The US Court of Appeals for the Federal Circuit declined to apply an arbitration provision to a dispute where the asserted claims were not within the scope of the contract containing the arbitration provision. *Roof N Box, Inc. v. Building Materials Corp.*, Case No. 16-2427 (Fed. Cir., June 5, 2017) (Taranto, J).

Roof N Box (RNB) and Building Materials Corp. of America d/b/a GAF-ELK Corp. (GAF) entered into an agreement under which GAF would promote RNB's product. The agreement contained a provision requiring the parties to submit disputes "arising under" the agreement to arbitration. Some time later, RNB brought a design patent infringement suit against GAF that included claims of trade dress infringement and unfair competition, based on GAF's marketing of its own product in competition with the RNB product. GAF moved to dismiss or stay the action pending arbitration based on the arbitration provision. After the district court denied the motion, GAF appealed, arguing that the district court erred (1) by deciding whether the claims of the complaint were arbitrable (rather than reserving that issue for the arbitrator), and (2) by determining that the claims were not arbitrable.

The Federal Circuit affirmed the district court, accepting for the purposes of the appeal a "wholly groundless" standard to determine whether or not the district court properly rejected the request for arbitration. Under this standard, "the court may reject arbitration if and only if the assertion of arbitrability is wholly groundless." The Court found GAF's assertion of arbitrability wholly groundless because the relevant arbitration provision only reached claims "arising under" the promotion agreement, and the claims brought by RNB were unrelated to that agreement. The promotion agreement only concerned GAF's promotion of RNB's products, while the claims brought by RNB concerned allegations of making and selling a competing product. Because the latter claims did not involve any issue related to the performance or interpretation of the promotion agreement, the Court concluded that they were outside of the agreement and its arbitration provision.

## ATTORNEYS' FEES

***Patents / Attorneys' Fees / § 285 (EXCEPTIONAL CASE DOCTRINE)*****PATENTEE'S WILLFUL IGNORANCE, VEXATIOUS LAWSUITS SET OFF ALARM BELLS**

*Rothschild Connected Devices Innovations, LLC v. Guardian Protection Servs., Inc.*, Case No. 2016-2521 (Fed. Cir., June 5, 2017) (Wallach, J) (Mayer, J, concurring)

The US Court of Appeals for the Federal Circuit reversed a district court decision that an infringement case was not exceptional and found that the patentee's willful ignorance of prior art and commencement of multiple lawsuits alleging infringement justified an attorneys' fee award, even if the conduct did not violate Federal Rule of Civil Procedure 11. *Rothschild Connected Devices Innovations, LLC v. Guardian Protection Servs., Inc.*, Case No. 2016-2521 (Fed. Cir., June 5, 2017) (Wallach, J) (Mayer, J, concurring).

Rothschild is the owner of a patent for a system and method with which a user can customize products using a software interface that instructs hardware to mix solids and liquids as the user directs. Rothschild commenced almost 60 cases alleging infringement of its patent, including one against ADS Security and several other unrelated defendants. After answering, ADS moved for judgment on the pleadings that Rothschild's patent claimed unpatentable matter under § 101 and served a Rule 11 motion for failure to sufficiently investigate the relevant prior art. Rothschild moved to voluntarily dismiss the case, and ADS cross-moved for attorneys' fees under § 285. The district court granted Rothschild's motion to dismiss and denied ADS's motion for fees, in large part because Rothschild did what litigants faced with a strong Rule 11 motion are supposed to do: stand down. ADS appealed.

The Federal Circuit reversed, explaining that even under the deferential abuse-of-discretion standard that applies to § 285 determinations, the district court erred in three respects. First, the district court failed to consider Rothschild's willful ignorance of relevant prior art. In particular, the Court was troubled by Rothschild's simultaneous, inconsistent positions that it made a good-faith determination that its patent was valid and that it did not review the prior art identified by ADS. Because Rothschild provided no support for its assertions about its pre-suit review, the Court ascribed no evidentiary value to them.

Second, the district court did not appreciate the vexatious nature of Rothschild's assertion of patent infringement in almost 60 cases, particularly when Rothschild asserted its patent claiming a way to create customizable consumable liquid products (as Judge Mayer referenced in his concurrence) against defendants such as ADS, a security system company, that provide no such products, customizable or not.

Finally, the district court equated the exceptional case standard under § 285 with the standard for sanctions under Rule 11, notwithstanding the Supreme Court of the United States' guidance in *Octane Fitness* ([IP Update, Vol. 17, No. 5](#)) that whether a litigant violated Rule 11 is "not the appropriate benchmark" and that § 285 authorizes attorneys' fee awards when "a party's unreasonable conduct—while not necessarily independently sanctionable—is nonetheless so 'exceptional' as to justify an award of fees."

The case was remanded to the district court for a determination of the attorneys' fee award.

**Patents / Attorney's Fees / § 145 APPEALS / PTO Recovery Of Fees****PTO ATTORNEYS' FEES ARE FIXED COSTS AND THUS RECOVERABLE EXPENSES**

*Nantkwest, Inc. v. Matal*, Case No. 2016-1794 (Fed. Cir., June 23, 2017) (Prost, CJ) (Stoll, J, dissenting)

Addressing the issue of whether the US Patent and Trademark Office (PTO) is entitled to recover attorneys' fees in connection with the defense of a § 145 appeal, the US Court of Appeals for the Federal Circuit answered in the affirmative, reversing the district court's denial of attorneys' fees. *Nantkwest, Inc. v. Matal*, Case No. 2016-1794 (Fed. Cir., June 23, 2017) (Prost, CJ) (Stoll, J, dissenting).

Under 35 USC § 145, an applicant dissatisfied with a Patent Trial and Appeal Board decision may appeal directly to the district court, and regardless of the outcome, the applicant must pay "[a]ll of the expenses of the proceeding." After prevailing on the merits, the PTO filed a motion for fees. The district court granted the motion with respect to expert fees, but denied it with respect to attorneys' fees, citing the American Rule, which provides that litigants pay their own attorneys' fees unless a statute or contract provides otherwise. The district court concluded that § 145's "all expenses" provision was neither specific nor explicit enough to authorize recovery of attorneys' fees. The PTO appealed.

On appeal, the Federal Circuit stated that it had "substantial doubts" that § 145 implicates the American Rule, and disagreed with Nantkwest's argument that courts must apply the American Rule's requirements to all fee statutes irrespective of a prevailing party. Nevertheless, the Court concluded that even if the American Rule did apply, the "expenses" at issue included the PTO's attorneys' fees.

In reaching that conclusion, the Federal Circuit found support in the ordinary meaning and definition of "expenses" in legal dictionaries and treatises: "expenditure[s] of money, time, labor, or resources to accomplish a result." The Court also cited treatises that defined the term "expenses" to include attorneys' fees. Further, the Court cited the distinction between costs and expenses that the Supreme Court of the United States made in *Taniguchi*: "costs" represents only a fraction of "expenses," and the term "fees" includes "expenses borne by litigants for attorneys." The Court noted that the law does not require Congress to use any particular term or phrase, such as "compensation," "fee" or "attorney" (or some equivalent), to satisfy and meet the American Rule's requirement.

Moreover, the Federal Circuit reflected on the uniqueness of § 145, which requires that applicants name the director of the PTO as defendant to their suits. The majority goes on to characterize the resources—such as lawyers and supporting paralegals—that the director utilizes to defend the PTO's interests in these suits as overhead costs to the government because the solicitor, deputy, associates and paralegals receive fixed salaries as compensation. Because these parties do not bill hours for their work or collect fees from those whom they represent, the Court characterized the overhead associated with their work as an "expense" rather than a "fee," rejecting Nantkwest's view that the government should only be allowed to recover such expenses as printing, travel and expert witness costs. In the Court's view, that would ignore the vast majority of the expenses (attorneys' fees) that the PTO "incurred as the proximate cause" of the appeal.

In a lengthy dissent replete with citations to Supreme Court authority, Judge Stoll explained that he would invoke the American Rule, where "each party in a lawsuit ordinarily shall bear its own attorney's fees unless there is express statutory authorization to the contrary." In Stoll's view, the 1983 Supreme Court case *Hensley v. Eckerhart* "erects a strong presumption against fee-shifting, requiring an explicit provision permitting a departure from the American Rule or other evidence of congressional intent to make such an award available." Noting that § 145 neither mentions attorneys' fees nor reflects a congressional intent to authorize them, Stoll concluded that the statute "fails to provide the necessary congressional directive to overcome the American Rule's bar against shifting attorneys' fees."

## **FEDERAL CIRCUIT TO REHEAR FEE SHIFTING DECISION EN BANC**

---

*NantKwest, Inc. v. Matal*, Case No. 16-1794 (Fed. Cir., Aug. 31, 2017) (*per curiam: en banc*).

In June 2017, a panel of the US Court of Appeals for the Federal Circuit ruled that under 35 USC § 145, a court can award attorneys' fees to the US Patent and Trademark Office (PTO), regardless of whether the applicant, plaintiff or appellant prevails in a district court action against the PTO (*NantKwest, Inc. v. Matal*, [IP Update, Vol. 20, No. 7](#)). In that panel decision, Judge Stoll dissented, arguing that § 145 did not provide the necessary congressional directive to overcome the American Rule's bar against shifting attorneys' fees.

The ruling surprised many observers, and the en banc Federal Circuit has now sua sponte vacated the panel decision and reinstated the appeal. *NantKwest, Inc. v. Matal*, Case No. 16-1794 (Fed. Cir., Aug. 31, 2017) (*per curiam: en banc*).

The order requests that the parties submit briefs addressing the following question: Did the panel in *NantKwest, Inc. v. Matal*, 860 F.3d 1352 (Fed. Cir. 2017) correctly determine that 35 USC § 145's "[a]ll the expenses of the proceedings" provision authorizes an award of the PTO's attorneys' fees?

The order set a briefing schedule with appellant's brief due October 16, 2017, and appellee's brief due November 14, 2017. The order further provides that amicus briefs "will be entertained." [NOTE THAT BRIEFING SCHEDULE WAS ALTERED, NANTKWEST PERMITTED TO FILE EARLY JANUARY 2018]

If the *en banc* Federal Circuit reverses the earlier panel decision, it would create a split with the Fourth Circuit, which endorsed the PTO attorneys' fee entitlement, win or lose, in a 2015 trademark case.



## LACHES

---

### *Patents / Laches*

---

## **NO EQUITABLE DEFENSE OF LACHES IN PATENT LAW**

---

*SCA Hygiene Prods. Aktiebolag, et al. v. First Quality Baby Prods., LLC, et al.*, Case No. 15-927 (Supr. Ct., Mar. 21, 2017) (Alito, Justice) (Breyer, Justice, dissenting)

In a 7–1 decision, the Supreme Court of the United States held that the equitable defense of laches is no longer a valid defense to patent damages claims brought within the six-year damages limitation period of 35 USC § 286. *SCA Hygiene Prods. Aktiebolag, et al. v. First Quality Baby Prods., LLC, et al.*, Case No. 15-927 (Supr. Ct., Mar. 21, 2017) (Alito, Justice) (Breyer, Justice, dissenting).

The Supreme Court’s decision emphasizes the Court’s copyright law precedent in *Petrella v. Metro-Goldwyn-Mayer*, in which the Court held that “in the face of a statute of limitations enacted by Congress, laches cannot be invoked to bar legal relief” ([JP Update, Vol. 17, No. 5](#)). In *SCA Hygiene*, the Supreme Court found that “[t]he question in this case is whether *Petrella*’s reasoning applies to a similar provision of the Patent Act, 35 U.S.C. § 286 . . . We hold that it does.”

### **Case Background**

SCA Hygiene makes and sells adult incontinence products. In late 2003, SCA sent a warning letter to First Quality alleging that First Quality was infringing an SCA patent. First Quality responded that one of its own patents rendered the SCA patent invalid. SCA never responded to this allegation, and First Quality proceeded to develop, manufacture and sell its products. Without informing First Quality, however, SCA filed a re-examination proceeding at the US Patent and Trademark Office to determine whether its patent was valid over the First Quality patent. The re-examination ended in 2007 with the issuance of a certificate confirming the validity of the SCA patent. SCA did not inform First Quality of this event but instead waited until 2010 to file suit against First Quality. First Quality moved for summary judgment based on laches and equitable estoppel.

The district court granted First Quality’s summary judgment motion on both grounds. The US Court of Appeals for the Federal Circuit affirmed the district court’s decision on laches based on its 1992 decision in *A.C. Aukerman v. R.L. Chaides Constr.* However, the Federal Circuit reheard the case en banc to reconsider *Aukerman* in view of the Supreme Court’s decision in *Petrella*. In its 6–5 en banc decision, the Federal Circuit held that laches could apply as a defense in patent cases, even during the six-year damages limitation period of § 286, and that nothing in *Petrella* precluded that result ([JP Update, Vol. 18, No. 10](#)).

The en banc Federal Circuit explained that notwithstanding the provisions of § 286, US Congress codified laches as a defense in § 282 when it included an unenforceability defense in that statute. Thus, the Federal Circuit found that laches could bar a damages claim even for acts occurring within the six-year statutory period. The Federal Circuit also concluded, however, that the Supreme Court’s 2006 decision in *eBay Inc. v. MercExchange* required 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 *eBay*.

### **Cert Petition**

In its petition for certiorari, SCA argued that the Federal Circuit’s en banc decision conflicted 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 decision used a presumption in favor of laches that was inconsistent with Supreme Court precedent.

## Supreme Court Decision

The Supreme Court reversed the Federal Circuit and based its holding in large part on *Petrella*. The Supreme Court explained that its reasoning in *Petrella*, a copyright case, applies equally to patent law. Most of the remainder of the Supreme Court's opinion was spent on dismissing three of First Quality's and/or the Federal Circuit's positions that the Supreme Court found unpersuasive:

- The Patent Act's limitation period differs from the Copyright Act because the Patent Act does not contain a statute of limitations.
- The Patent Act codified laches as a defense in § 282.
- Settled practice prior to the 1952 Patent Act allowed the defense of laches, and the 1952 Act did not change this.

The Supreme Court stated that *Petrella's* elimination of laches in copyright cases relied on two principles: the difference between law and equity, and the separation of powers. The Court found that laches was designed to shield defendants in equity from stale claims, the same purpose that statutes of limitations served in law. The merger of law and equity brought the two principles into conflict. To resolve that conflict, the Supreme Court held that statutes of limitations reflect a legislative judgment about the time to bring suit, which courts cannot overrule based on the equitable doctrine of laches. The Supreme Court applied that reasoning to patent law, holding that the Patent Act's six-year damages limitation is a similar legislative judgment. Therefore, laches cannot bar a claim for damages within six years of filing suit.

The Supreme Court then reviewed three potential distinctions between patent law and copyright law and held that these were irrelevant. First, the Court reviewed the argument that the Patent Act's damages-limitation period was not a true statute of limitations. The Court disagreed because each new copyright infringement was judged on its own statute of limitations, allowing a party to recover the past three years of damages in the same way that the Patent Act's damages limitations period does. Second, the Supreme Court addressed the Federal Circuit's holding that the Patent Act codified laches, while the Copyright Act did not. The Supreme Court was not convinced by this argument because the Federal Circuit failed to point to clear language in the Patent Act preserving laches. Finally, the Supreme Court reviewed historical cases on which the Federal Circuit relied to show a patent-specific practice of invoking laches within a statute of limitations. The Supreme Court found that the general historical rule barred the defense of laches within the damages limitations period and that there was no established practice to the contrary in patent law.

## Dissent

Justice Breyer, in dissent, agreed with the Federal Circuit and found that the equitable doctrine of laches should remain as a defense to patent infringement. Justice Breyer disputed the majority regarding the historical application of the laches defense in patent cases, citing numerous cases that recognized laches as a defense. Justice Breyer also recognized practical implications that may result from eliminating the laches defense in patent cases.

Justice Breyer reviewed 150 years of case law and found an almost uniform practice of applying laches to patent claims despite a damages limitation period. He suggested that the 1952 Patent Act was designed to codify that practice based on the inclusion of "unenforceability" as a defense to patent infringement, and that Congress intended to codify the law in enacting the Patent Act in 1952.

With respect to practical concerns, Justice Breyer pointed to the "lock-in" problem, which arises if the damages look-back period is patent law's only limitations period. An unreasonable patentee could lie in wait, watching an infringer build its business and sell an infringing product for many years, only to suddenly file suit and collect damages over the preceding six years of infringement. This puts the infringer in the difficult position of having made significant business investments in the product, making it difficult to settle and difficult to stop selling should it lose the lawsuit.

**Practice Note:** The *SCA Hygiene* decision opens the door for plaintiffs to wait for essentially the entire life of a patent to file a complaint, even if the plaintiff became aware of its claim at the beginning of the patent's life, while an industry or technology is developed.

The Supreme Court seemed to suggest that Congress will need to amend the patent statute to specify “laches” in the list of defenses in § 282 to avoid potentially unintended results of this decision. Going forward, courts will be tasked with determining what equitable considerations may prevent a patent from being enforced or raised as a defense to liability for infringement. Currently, courts will still be able to consider equitable estoppel.

After issuing its decision in *SCA Hygiene*, the Supreme Court granted certiorari and remanded to the Federal Circuit three patent cases in which the defense of laches was a dispositive issue: *Medinol v. Cordis Corp.*, Case No. 15-998; *Endotach v. Cook Medical*, Case No. 16-127; and *Romag Fasteners v. Fossil*, Case No. 16-202.

**INTERNATIONAL TRADE COMMISSION (ITC)**

---

***Patents / International Trade Commission (ITC) / Enforcement***

---

**ITC DENIES EMERGENCY PETITIONS ON RELIEF FROM EXCLUSION ORDER**

---

*In re Certain Network Devices*, Inv. No. 337-TA-945 (ITC, June 20, 2017)

The US International Trade Commission (ITC) denied respondent's emergency petitions to modify, suspend or rescind the ITC's limited exclusion order and cease-and-desist order pending appeal of the Patent Trial and Appeal Board's (PTAB's) *inter partes* review final written decisions, which found unpatentable the claims of two patents previously held to be in violation by respondent under § 337. *In re Certain Network Devices*, Inv. No. 337-TA-945 (ITC, June 20, 2017).

The ITC instituted its investigation of Arista Networks' devices based on a complaint filed by Cisco Systems, which alleged § 337 violations by way of infringement of six Cisco patents. The ITC found a violation of § 337 as to certain claims of two Cisco patents, and as a result issued a limited exclusion order and a cease-and-desist order regarding Arista Networks' infringing devices.

Parallel to the ITC proceedings, the same two patents that formed the basis of the ITC's § 337 violation findings were subject to *inter partes* review at the PTAB. Ultimately, the PTAB issued final written decisions finding the claims of both patents unpatentable. In light of the PTAB's decisions, Arista Networks filed emergency petitions seeking the suspension or rescission of the ITC's remedial orders pending appeal of the PTAB decisions.

The ITC denied Arista Networks' emergency petitions, however, finding that "the PTAB's final written decisions do not constitute a changed circumstance such that the remedial orders should be rescinded." Specifically, the ITC noted that the legal status of those claims at issue would not change unless and until the US Patent and Trademark Office issued a certificate canceling the claims following the exhaustion of all appeals.

**COVERED BUSINESS METHOD (CBM) REVIEW**

---

***Patents / Covered Business Method (CBM) Review / Subject Matter Eligibility***

---

**“INVENTIVE CONCEPT” REQUIRES SPECIFIC USE OF COMPUTER COMPONENTS BEYOND THEIR GENERIC USE**

---

*Plaid Technologies, Inc. v. Yodlee, Inc.*, Case No. CBM2016-00088 (PTAB, Dec. 7, 2016) (Kim, APJ)

Addressing the “inventive concept” prong of a covered business method (CBM) patent review, the Patent Trial and Appeal Board (PTAB) instituted the CBM, finding that the challenged claims failed to recite an inventive concept where the claimed computer components performed anything more than their conventional generic functions. *Plaid Technologies, Inc. v. Yodlee, Inc.*, Case No. CBM2016-00088 (PTAB, Dec. 7, 2016) (Kim, APJ).

Yodlee sued Plaid Technologies alleging infringement of a patent directed to a system that collects transactional information for a particular person or enterprise and categorizes the collected information based on the corresponding transactional description. Plaid Technologies filed a petition requesting a CBM review of the patent, challenging the patent eligibility of the claims under § 101.

In its CBM jurisdictional analysis, the PTAB found that the claims were directed to a financial product or service and proceeded to consider whether the claims qualified for the “technological invention” exception. Presaging its § 101 analysis, the PTAB concluded that the recited computer hardware components were “well known.”

In terms of § 101 analysis, the PTAB applied the two-step *Alice* inquiry. After finding that the claims were directed to an abstract idea, the PTAB addressed whether the claims recited an innovative concept that encompasses “significantly more” so as to transform the abstract idea into patent-eligible subject matter. The PTAB concluded that the challenged claims added nothing but the instruction to automate the claimed process using conventional, generic computer hardware, finding that the patent lacked any indication in the claims or specification that any of the recited computer hardware was used in a manner apart from its conventional generic use. The PTAB explained that the challenged claims failed to specify how the claimed probability algorithm and computer components were used in a non-conventional manner, further noting that the specification described the computer components as conventional and “typical in the art.”

The PTAB concluded that the challenged claims focused on generic conceptual categorization methodology, not improvements to the operation of computer components, dismissing the patent owner’s argument that the claimed “collection function” and “processing function” amounted to an inventive concept. The PTAB found the challenged claims distinguishable from those at issue in *BASCOS* ([IP Update, Vol. 19, No. 8](#)), noting that the patent owner’s reliance on *BASCOS* was misguided. In *BASCOS*, the requisite inventive concept was found in the non-conventional and non-generic arrangement of known, conventional pieces. By contrast, in this case, the claims were recited at a high level and did not include sufficient details as to how the computer components execute the recited functions so as to carve out a specific mechanism for using computer components.

**Patents / Covered Business Method (CBM) Review / Subject Matter Eligibility****A COURT DIVIDED: JUDGES FILE WIDELY VARYING OPINIONS ON CBM REVIEW ELIGIBILITY**

*Secure Access v. PNC Nat'l Assoc.*, Case No. 16-1353 (Fed. Cir., June 6, 2017) (denying en banc review) (per curium) (Taranto, J, concurring, joined by Moore, J) (O'Malley, J, concurring) (Reyna, J, concurring) (Lourie, J, dissenting, joined by Prost, CJ; Dyk, J; Wallach, J; and Hughes, J) (Dyk, J, dissenting, joined by Wallach, J, and Hughes, J) (Plager, J, concurring).

The standards used by the Patent Trial and Appeal Board (PTAB) for determining what qualifies as a covered business method (CBM) patent under AIA § 18(d)(1) and 37 CFR 42.301(a) have not always been consistent (see, for example, [IP Update, Vol. 20, No. 3](#); [Vol. 19, No. 11](#); [Vol. 19, No. 6](#); [Vol. 19, No. 5](#); [Vol. 19, No. 4](#)). Even though the US Court of Appeals for the Federal Circuit appears to have settled on a uniform standard as set forth in the panel decisions of *Unwired Planet* ([IP Update, Vol. 19, No. 12](#)) and *Secure Access* ([IP Update, Vol. 20, No. 3](#)), recently filed concurrences and dissents in a *per curium* denial of an en banc rehearing show that the Federal Circuit remains sharply divided on the scope of a patent's eligibility for CBM review. *Secure Access v. PNC Nat'l Assoc.*, Case No. 16-1353 (Fed. Cir., June 6, 2017) (denying en banc review) (*per curium*) (Taranto, J, concurring, joined by Moore, J) (O'Malley, J, concurring) (Reyna, J, concurring) (Lourie, J, dissenting, joined by Prost, CJ; Dyk, J; Wallach, J; and Hughes, J) (Dyk, J, dissenting, joined by Wallach, J, and Hughes, J) (Plager, J, concurring).

Judge Plager wrote the Federal Circuit's original panel decision in *Secure Access*, holding that "the statutory definition of a CBM patent requires that the patent have a claim that contains, however phrased, a financial activity element," and reiterating *Unwired Planet's* holding that qualifying claims could not be merely "incidental to" or "complementary to" a financial activity. Judge Plager's concurring opinion in support of denial of *en banc* review reiterated his position that in view of the PTAB's constructions, the claims were not directed to the use of a financial product and therefore fell outside the statutory definition of a CBM. He characterized Judge Lourie's proposed test as one not grounded in claim construction. Judges O'Malley and Reyna wrote separately to concur with Judge Plager's reasoning.

Judge Taranto also concurred in Judge Plager's conclusion, as he had done in the original panel decision. This time, he wrote a separate opinion to highlight that the panel opinion "soundly resolves an ambiguity in the statutory language and is consistent with every one of our precedents and with a number of Patent Trial and Appeal Board decisions dating to when the program began." He further stressed the temporary nature of the CBM review program and, given that it was set to expire in three years and that this issue touched on only a limited number of patents, emphasized that it would be a waste of judicial resources to continue to debate the issue *en banc*, especially where any ambiguity had been correctly, consistently and conclusively resolved.

Judge Lourie disagreed, writing a dissent with which Judges Prost, Dyk, Wallach and Hughes joined. Judge Lourie had previously dissented in the *Secure Access* panel decision, and he reiterated here his position that while "the subject matter of the claim must have a particular relation to a financial product or service, and not merely be an incidentally-used invention like a light-bulb or ditch-digging," he found Judge Plager's interpretation to be too narrow. Judge Lourie suggested a "common sense" approach to interpreting whether the written description supports an understanding that the claims of a patent are directed to uses in the practice of financial products or services.

Judge Dyk, joined by Judge Lourie, wrote separately to address a different topic. He would have held that the entire issue of whether a patent qualifies as a CBM is limited to the institution decision and therefore is not appealable. He encouraged overturning the Court's prior decisions—*Versata* ([IP Update, Vol. 18, No. 8](#)) and its progeny—as inconsistent with the Supreme Court of the United States' more recent decision in *Cuozzo* ([IP Update, Vol. 19, No. 7](#)). *Versata* explains that whether a patent qualifies for CBM review is inextricably bound up with the final determination; Judge Dyk believes that this position conflicts with *Cuozzo* because that decision interpreted an almost identically worded statute directed to appeals from *inter partes* reviews.

**Practice Note:** Although the judges' opinions reveal a deeply divided Federal Circuit, one message is clear: the judges appear to agree that if Congress chooses to extend the transitional program for CBM review, it would be wise to draft new legislation resolving the ambiguity concerning eligibility.

**Patents / Covered Business Method (CBM) Review / Subject Matter Eligibility****PETITIONS SEEKING CBM REVIEW CONTINUE UPHILL BATTLE AFTER UNWIRED PLANET**

*Secure Access, LLC v. PNC Bank National Association*, Case No. 16-1353 (Fed. Cir., Feb. 21, 2017) (Plager, J) (Lourie, J, dissenting); *Twilio Inc. v. Telesign Corporation*, Case No. CBM2016-00099 (PTAB, Feb. 27, 2017) (Arbes, APJ); *Google Inc. v. Klaustech, Inc.*, Case No. CBM2016-00096 (PTAB, Feb. 27, 2017) (Zecher, APJ).

In a series of cases addressing the standard for initiating a covered business method (CBM) review, both the US Court of Appeals for the Federal Circuit and the Patent Trial and Appeal Board (PTAB) reached the same conclusion, finding the patents not eligible for CBM review. *Secure Access, LLC v. PNC Bank National Association*, Case No. 16-1353 (Fed. Cir., Feb. 21, 2017) (Plager, J) (Lourie, J, dissenting); *Twilio Inc. v. Telesign Corporation*, Case No. CBM2016-00099 (PTAB, Feb. 27, 2017) (Arbes, APJ); *Google Inc. v. Klaustech, Inc.*, Case No. CBM2016-00096 (PTAB, Feb. 27, 2017) (Zecher, APJ). These decisions come on the heels of the Federal Circuit's *Unwired Planet* decision, where the Court found Unwired Planet's patent to be ineligible for CBM review because the PTAB improperly used an overly broad definition of a CBM patent ([IP Update, Vol. 19, No. 12](#)).

In *Secure Access*, the patent at issue relates to computer security with a focus on authenticating a web page. The PTAB instituted CBM review of Secure Access's patent, explaining 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." The PTAB also reasoned that the patent disclosed a need by financial institutions to ensure that customers are confident that a financial institution's web page is authentic. In its final written decision, the PTAB maintained that Secure Access's patent was subject to CBM review. Secure Access appealed.

On appeal, the Federal Circuit reversed the PTAB, concluding that "the statutory definition of a CBM patent requires that the patent have a claim that contains . . . a financial activity element." The Court explained that Congress intended the CBM program to be more limited in scope, and that a broad reading of the statute would allow any patent to qualify for CBM review if it claimed a method or corresponding apparatus for performing *any* operations that happen to be used in "the practice, administration, or management of a financial product or service." According to the Court, to find otherwise would give the CBM program "a virtually unconstrained reach." In this case, as part of its broader discussion of what is a "financial product or service," the PTAB concluded that "[t]he method and apparatus claimed by the [] patent perform operations used in the practice, administration, or management of a financial product or service *and are incidental to a financial activity*" (emphasis in original). Citing *Unwired Planet*, the Court explained that the phrase "incidental to a financial activity" is not part of the statutory definition of a CBM patent. Thus, by expanding the definition, the PTAB reached beyond the question of whether the claims, as understood in light of the written description, met the statutory definition. For these reasons, the Court vacated the PTAB's ruling and remanded the case back to the PTAB.

In dissent, Judge Lourie argued that that the claims of the patent are directed to "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" (emphasis in original). He also argued that the patent met the statutory definition for a "financial product or service" because of the discussion in the specification regarding specific applications in the management of a financial service. Judge Lourie acknowledged that the term "financial" does not appear in the patent claims, but argued that should not decide the outcome because, as a matter of patent law, claims are not required to recite uses of products.

In *Telesign*, the PTAB denied institution of a CBM review of a patent directed to the verification of user identity during an online registration process. The PTAB determined that the claims of the challenged patent failed to meet this definition. Citing the Federal Circuit decision in *Unwired Planet*, the PTAB explained that the challenged patent must have at least one claim that contains "a financial activity element" to be eligible for CBM review. In this case, the PTAB found the words "service" and "notification event," as used in the claims, to be "generic, context-neutral terms, without any express or implicit connection to financial products or services." Even though the PTAB agreed with the petitioner that the specification describes embodiments



pertaining to finance-related services, the specification does not indicate that such embodiments are limited to finance-related activities. Rather, the specification describes the embodiments in contexts beyond those that are financial in nature.

In *Klaustech*, Google filed a petition challenging claims of Klaustech's patent directed to internet advertising with centralized control of ad content being presented at a browser. Before the patent owner's preliminary response, the PTAB afforded the petitioner an opportunity to file a paper in view of the Federal Circuit's decision in *Unwired Planet*. After considering the issues, the PTAB declined to institute CBM review, finding that the patent did not include any claim that satisfied the financial prong of the CBM patent eligibility test. The PTAB also considered *Secure Axxess*, but found that that case did not alter the final outcome or analysis, concluding it was consistent with *Unwired Planet*.

The PTAB explained that the CBM patent eligibility test is focused on the claim language and requires determining whether the claims recite explicit or inherent terminology or limitations that are financial in nature. The PTAB was not persuaded by petitioner's argument that the claims, when read in light of the specification, are directed to a CBM, explaining that the examples in the specification were permissive and did not limit the scope of the claims to being financial in nature. Although the PTAB acknowledged that internet advertising involves the sale of ad space, it concluded that the fact that a sale has occurred or may occur is not sufficient to transform a patent into a CBM-eligible patent when the challenged claims neither recite a sale nor are otherwise directed to the practice, administration or management of a financial product or service.

**Practice Note:** Going forward, petitioners seeking CBM review should be careful to make a showing that the challenged patent claims specifically relate to finance, since, in the wake of *Unwired Planet*, the PTAB is giving significant scrutiny to the "financial product or service" aspect of the CBM definition.

## AIA / CBM / SUBJECT MATTER JURISDICTION

**PATENT HOLDERS CAN EVADE CBM BY DISCLAIMING CBM CLAIMS**

*Facebook, Inc., et al. v. Skky, LLC*, Case No. CBM2017-00006 (PTAB, Apr. 11, 2017) (Easthom, APJ).

Addressing petitioner's urging that the Patent Trial and Appeal Board (PTAB) import the district court "time of filing" rule to institution decisions for covered business method (CBM) reviews, the PTAB once again held that disclaimed claims are to be disregarded when determining whether a patent is CBM eligible. *Facebook, Inc., et al. v. Skky, LLC*, Case No. CBM2017-00006 (PTAB, Apr. 11, 2017) (Easthom, APJ).

After Skky sued Facebook and Instagram in district court for infringement of numerous patents, including the patent in issue here, Facebook responded by filing both a petition for *inter partes* review and a petition for CBM review—the latter to advance its ineligible subject matter and insufficient written description attacks that are not permitted in an *inter partes* review.

Skky responded to the CBM petition by disclaiming certain dependent claims that recited financial activity, to thereby invoke a line of PTAB decisions holding that patent holders can disclaim claims directed to business methods to avoid CBM review. Facebook countered with various arguments attempting to overturn those holdings.

Facebook first argued that the PTAB should adopt the "time of filing" rule from US district courts whereby a complaint is considered based on the circumstances when it was filed, to prevent a defendant from depriving a plaintiff of its chosen forum by post-filing activity. The PTAB responded by pointing to long-established US Court of Appeals for the Federal Circuit precedent holding that disclaimed claims are treated as having never existed. The PTAB also concluded that the time of filing rule would contravene an America Invents Act provision stating that CBM review is permitted only if the patent "is" a CBM patent, rather than "was" one, and would violate a US Patent and Trademark Office regulation prohibiting institution based on disclaimed claims.

Facebook also attempted to invoke other PTAB decisions that held that disclaimed dependent claims can still be considered to show that the remaining independent claims could involve financial activity by being broad enough to encompass the dependent financial claims, but the PTAB rejected that argument and held that the remaining claims must require financial activity rather than merely contemplate it. The PTAB consequently denied institution.

**Patents / Covered Business Methods (CBM) Review / Standing****SIGNED, SEALED, DELIVERED: GOVERNMENT AGENCIES HAVE STANDING TO PETITION FOR CBM REVIEW**

*Return Mail, Inc. v. United States Postal Service*, Case No. 16-1502 (Fed. Cir., Aug. 28, 2017) (Prost, CJ) (Newman, J, dissenting)

The US Court of Appeals for the Federal Circuit found that federal government agencies have standing to challenge a patent in covered business method (CBM) review under the America Invents Act (AIA). *Return Mail, Inc. v. United States Postal Service*, Case No. 16-1502 (Fed. Cir., Aug. 28, 2017) (Prost, CJ) (Newman, J, dissenting).

Return Mail owns a patent directed to allowing returned mail to be processed automatically through the exchange of data files between computers. After being sued for infringement of Return Mail's patent, the US Postal Service (USPS) filed a petition for CBM review, arguing that the claims were directed to ineligible subject matter under § 101. In response, Return Mail argued that USPS did not have standing under the AIA to petition for CBM review, and also argued that the claims were patentable.

The Patent Trial and Appeal Board (PTAB) disagreed, finding that USPS had standing, and instituted CBM review. The PTAB ultimately held that the challenged claims were directed to ineligible subject matter. Return Mail appealed.

The Federal Circuit first considered whether it could address issues related to "standing" since PTAB institution decisions are final and non-appealable. USPS argued that under the 2016 Supreme Court of the United States decision in *Cuozzo v. Lee* ([JP Update, Vol. 19, No. 7](#)), the PTAB's decision on standing was not reviewable. The Court disagreed, finding that determining whether a party is qualified to petition for CBM review is a condition precedent independent from a threshold determination regarding the likelihood of success on the merits. The Court explained that despite the AIA's no-appeal provision, judicial review is still available to determine whether the PTAB exceeded any statutory limits to its authority, and this includes the decision on standing.

In arguing that USPS did not have standing, Return Mail focused on the interplay between § 18(a)(1)(B) of the AIA and 28 USC § 1498. Under § 18 of the AIA, a petition for CBM review of a patent may only be filed by a person after being sued or charged with infringement of the patent. Section 1498 is an eminent domain statute where the government has consented to be sued for taking a patent license without compensation. Return Mail argued that since the government was sued under § 1498, it was sued for taking a patent license by eminent domain and not for patent infringement. Return Mail concluded that since USPS was never "sued for infringement," it did not have standing under § 18 to file the CBM petition.

The Federal Circuit, however, rejected this argument and found that being sued under § 1498 is broad enough to encompass being "sued for infringement" as that term is used in § 18. The Court noted that § 18 does define the term "infringement" and both parties acknowledged that the ordinary meaning of "infringement" is broad. Moreover, the Court found that determining infringement of the patent by the government was a prerequisite for finding liability under §1498. Thus, USPS had been "sued for infringement" and had standing to file the CBM petition.

Having determined that USPS had standing, the Federal Circuit applied a routine analysis of the Alice two-step patentability test. It found that the claims were directed to an abstract idea and nothing transformed the abstract idea into "something more."

In dissent, Judge Newman argued that USPS is not a "person" under § 18 of the AIA since the general statutory definition of "person" does not include the United States and its agencies unless expressly provided. Judge Newman found that nothing in § 18 or the legislative history intended to include the government as a "person" and argued that USPS thus does not have standing to file a CBM.

## INTER-PARTES REVIEW (IPR) CONSTITUTIONALITY

---

### *Patents / Inter-partes Review (IPR) / Constitutionality*

---

## **DOES INTER PARTES EXTINGUISH PRIVATE PROPERTY RIGHTS?**

---

Oil States Energy Services, LLC v. Greene's Energy Group, LLC, Docket No. 16-712 (Supr. Ct., June 12, 2017).

The Supreme Court of the United States granted certiorari to decide whether only Art. III federal courts, not executive branch tribunals such as the Patent Trial and Appeal Board (PTAB), can decide whether a patent is invalid. *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, Docket No. 16-712 (Supr. Ct., June 12, 2017). The case was considered during the October 2017 term.

The US Court of Appeals for the Federal Circuit, in an unpublished *per curiam* decision issued on May 4, 2016 (reprinted at 639 Fed. Appx. 639), held that patents are public rights and that America Invents Act proceedings are constitutional, rejecting the petitioner's argument that patents are private property rights, which can only be revoked by an Article III court, and not public rights, which can be revoked by a government agency.

The US government urged the Supreme Court not to hear the case, arguing that "patents are quintessential public rights" because they are derived from a federal regulatory system.

The specific issue on which cert. was granted is whether *inter partes* review, an adversarial process used by the US Patent and Trademark Office to analyze the validity of existing patents, violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury.

**Patents / Inter-partes Review (IPR) / Constitutionality****NO EN BANC RESOLUTION ON WHETHER PATENT RIGHT IS PUBLIC RIGHT**

*Cascades Projection LLC v. Epson America, Inc.*, Case No. 17-1517; -1518 (Fed. Cir., May 11, 2017) (*per curiam*) (Newman, J, concurring) (Dyk, J, concurring, joined by Prost, CJ, and Hughes, J) (O'Malley, J, dissenting) (Reyna, J, dissenting)

In a 10–2 decision that included two concurrences and two dissents, the US Court of Appeals for the Federal Circuit denied a patent owner's petition to hear part of its appeal *en banc* in order to resolve whether a patent right is a public right. *Cascades Projection LLC v. Epson America, Inc.*, Case No. 17-1517; -1518 (Fed. Cir., May 11, 2017) (*per curiam*) (Newman, J, concurring) (Dyk, J, concurring, joined by Prost, CJ, and Hughes, J) (O'Malley, J, dissenting) (Reyna, J, dissenting).

In its petition for an *en banc* hearing, Cascades Projection argued that a patent right is not a public right and that therefore an administrative agency such as the US Patent and Trademark Office (PTO) cannot lawfully revoke a patent right, because doing so amounts to the exercise of judicial power. Cascade requested that the Federal Circuit initially hear part of its appeal *en banc* to resolve whether a patent right is a public right. Although the Court declined the petition to initially hear this issue *en banc*, Judges Newman and Dyk filed concurrences, and Judges O'Malley and Reyna filed dissents, providing some insight into this decision.

Judge Newman concurred in the denial, noting that a patent right is a property right with the attributes of personal property under 35 USC § 261. Newman identified the real issue in this case as “whether the statutory scheme created by the America Invents Act, in which the [Patent] Office is given an enlarged opportunity to correct its errors in granting a patent, with its decision subject to review by the Federal Circuit, meets the constitutional requirements of due process in disposition of property.” She concluded that the matter should be resolved only after full opportunity for panel consideration.

In his concurrence, Judge Dyk, joined by Chief Judge Prost and Judge Hughes, addressed the application of the 2015 Federal Circuit decision in *MCM Portfolio v. Hewlett-Packard* ([IP Update, Vol. 19, No. 1](#)), to the present petition. Judge Dyk noted that MCM—which held that adjudication of patent rights by the PTO in an *inter partes* review does not conflict with Article III of the Constitution—was correctly decided. The concurrence noted that MCM was consistent with Federal Circuit and Supreme Court of the United States precedent; the Supreme Court has repeatedly recognized that patent rights are public rights flowing from congressional legislation and that such public rights may be adjudicated by an administrative agency.

In dissent, Judge O'Malley argued that the issue of whether patent rights are public rights warrants consideration *en banc* because the issue is complex and could have far-reaching consequences. Citing the 1898 Supreme Court decision in *McCormick Harvesting Mach. C. v. Aultman*, O'Malley indicated that *MCM* may be at odds with long-standing Supreme Court precedent suggesting that the PTO does not have the authority to invalidate issued patents through IPR proceedings and that Article III adjudication is required.

Also in dissent, Judge Reyna argued that the state of the current law compels *en banc* review. Reyna included a detailed account of the initial drafting of the Patent Clause (US CONST. Art. I, § 8, cl. 8), including an examination of patents as property rights, and a detailed account of relevant case law. In his case law analysis, Reyna pointed out that the Federal Circuit has twice considered *McCormick* and twice declined to follow it for two distinct reasons, creating a conflict that compels *en banc* review. Reyna emphasized that Cascades' petition raises important issues of both separation of powers and the private-versus-public right distinction as it relates to patents, both of which require the Court to review the IPR process in the context of the constitutional role of Article III courts.

**Practice Note:** On June 12, 2017, the Supreme Court granted certiorari in *Oil States Energy Services, LLC v. Greene's Energy Group, LLC* ([IP Update](#), current issue) and therefore will address essentially this same issue, notwithstanding the PTO's urging the Supreme Court not to do so.

---

## **THE IMPORTANCE OF AFFIDAVIT EVIDENCE IN PROVING PUBLIC ACCESSIBILITY OF PRINTED PUBLICATIONS**

---

ABS Global, Inc. v. Inguran, LLC, Case No. IPR2016-00927, Paper 33 (PTAB, Oct. 2, 2017) (Kalan, APJ); Seabery North America, Inc. v. Lincoln Global, Inc., Case No. IPR2016-00840, Paper 60 (PTAB Oct. 2, 2017) (Giannetti, APJ)

Addressing the issue of evidence sufficient to establish when a document qualifies as printed publication and prior art, the Patent Trial and Appeal Board (PTAB) issued two decisions reaching differing conclusions, each based on whether the evidence established public availability. ABS Global, Inc. v. Inguran, LLC, Case No. IPR2016-00927, Paper 33 (PTAB, Oct. 2, 2017) (Kalan, APJ); Seabery North America, Inc. v. Lincoln Global, Inc., Case No. IPR2016-00840, Paper 60 (PTAB Oct. 2, 2017) (Giannetti, APJ).

In ABS Global, ABS challenged the patentability of a patent directed to sorting animal sperm cells according to DNA characteristics based on the Leary prior art reference. For purposes of institution, the PTAB accepted ABS's contention that Leary was a prior art printed publication. During trial, however, Inguran argued that ABS had failed to establish Leary's publication date. Specifically, Inguran argued that while ABS pointed to (1) a date stamp placed on the reference by a library, (2) a copyright notice, (3) a printout from the publisher's website stating the date published, and (4) the ISSN and ISBN, none of this information established whether Leary was publicly accessible on the relevant dates.

The PTAB agreed that the categories of evidence relied upon by ABS were insufficient to establish Leary as prior art under § 102. As to the library date stamp, the PTAB found that ABS provided no evidence about the library's procedure for indexing, cataloging and shelving publications, and thus the date stamp by itself did not establish when Leary became publicly accessible. As to the copyright notice and the printout from the publisher's website, the PTAB found that neither demonstrated that anyone received or could have ordered the publication on the dates listed. Finally, the PTAB disregarded the ISSN and ISBN dates because there was no evidence that they established public accessibility of Leary on a particular date. The PTAB thus concluded that because there was no evidence of the date on which Leary was publicly accessible, ABS failed to establish that Leary was prior art.

### **ABS has since appealed to the Federal Circuit.**

On the same day, the PTAB issued its decision in Seabery, finding that the prior art reference at issue was publicly accessible before the filing of the challenged patent. Lincoln Global owns a patent directed to tracking and analyzing welding activity. Seabery filed a petition for *inter partes* review challenging the validity of the patent based on a German doctoral thesis by Dorin Aiteanu. To establish the publication date of the thesis, Seabery provided evidence in the form of (1) library catalogue dates, (2) a copyright notice, (3) an online catalogue screen shot and (4) the ISBN. Seabery also submitted an affidavit from Aiteanu's thesis supervisor that university rules required the thesis to be deposited in the university's library before Aiteanu could receive his PhD, and that the thesis was indeed deposited before Aiteanu received his PhD. The supervisor also provided evidence of the thesis's check-out history in the library, and testified as to how dissertations are formally published, indexed in the national library system and assigned an ISBN. Relying on this additional evidence, the PTAB found that the thesis was accessible to the public before the filing of the challenged patent.

### **Lincoln Global has since appealed to the Federal Circuit.**

**Patents / Inter-partes Review (IPR) / Procedural Issues****FEDERAL CIRCUIT AVOIDS ADDRESSING JOINDER, QUESTIONS EXPANDED PANEL USE**

*Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co.*, Case No. 16-2321 (Fed. Cir., Aug. 22, 2017) (*per curiam*) (Dyk, J, concurring).

The US Court of Appeals for the Federal Circuit affirmed a Patent Trial and Appeal Board (PTAB or Board) decision finding claims invalid as obvious, but did not directly address the PTAB's determination that joinder was appropriate. *Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co.*, Case No. 16-2321 (Fed. Cir., Aug. 22, 2017) (*per curiam*) (Dyk, J, concurring). In a concurrence, however, two members of the panel opined that the PTAB's use of expanded panels to reach a position consistent with other panels was objectionable.

Nidec owns a patent directed to a low-noise heating, ventilating and air conditioning (HVAC) system. Compared to conventional HVAC systems, the patented system has an improved motor controller that uses sinewave communications instead of conventional square-wave communications. The use of sinewave communications results in less vibration and noise from the motor, since sinewave communications have more gradual and continuous oscillations in voltage as compared to square-wave communications.

Broad Ocean filed a first *inter partes* review (IPR) petition challenging certain claims of the patent as obvious over a combination of a US patent to Bessler and a published doctoral thesis by Peter Franz Kocybik. Broad Ocean also alleged that the challenged claims were anticipated by Japanese Patent Publication (Hideji). The PTAB instituted review on the ground of obviousness over Bessler and Kocybik, but declined to institute on the ground of anticipation by Hideji because Broad Ocean failed to submit an affidavit attesting to the accuracy of the submitted translation as required by 37 CFR § 42.63(b).

Broad Ocean filed a second IPR petition asserting that certain claims of the patent were anticipated by Hideji. This time, it included the required affidavit. Broad Ocean also requested that the second IPR petition be joined with the already-instituted IPR involving the first petition, since Broad Ocean was a party to both proceedings. A panel of three judges decided by a 2–1 vote to deny institution of the second petition as time barred under 35 USC § 315(b) because that petition was filed more than one year after Broad Ocean was served with a complaint alleging infringement of the '349 patent.

Broad Ocean requested rehearing of the panel's decision, which the PTAB granted by using an expanded panel of five judges. The expanded panel set aside the original panel's decision and concluded, by a vote of 3–2, that § 315(c) permits a party to join new issues to a proceeding to which it already is a party. The two members of the original panel that ruled against joinder were now in the minority.

Having determined that joinder was appropriate, the expanded panel instituted review of the second IPR petition and joined it with the already-instituted IPR involving the first petition. After proceeding through the trial, the PTAB determined that the challenged claims were obvious in view of Bessler and Kocybik and anticipated by Hideji. Nidec appealed.

On appeal, Nidec argued that the PTAB improperly applied the joinder and time bar statutes to allow joinder and institution of the second IPR petition. The Federal Circuit, however, found that it did not need to resolve the joinder issue because it affirmed the PTAB's conclusion that the challenged claims were obvious over the combination of Bessler and Kocybik as asserted in the first petition, which was timely filed.

As to the obviousness combination, Nidec argued that the PTAB erred in finding the challenged claims obvious in view of Bessler and Kocybik for two reasons. First, Nidec argued that the PTAB wrongly construed the term "HVAC system" in the claim preamble to be non-limiting. The Court found that regardless of whether Nidec was correct, the ultimate obviousness finding did not change, since the PTAB specifically found that even if the preamble was limiting, Bessler teaches HVAC systems.

Second, Nidec argued that Bessler teaches away from the asserted combination because its purpose is to reduce the complexity of HVAC systems. According to Nidec, incorporating sinewave communications into an HVAC system, as recited in the challenged claims, increases the complexity of HVAC systems and this therefore contrary to the fundamental goal of Bessler. The Federal Circuit rejected this argument, finding that Bessler simply states that its invention provides an HVAC system without a system controller, but does not teach away from use of sinewave communications in HVAC systems. The Court thus affirmed the PTAB's obviousness finding.

In a concurring opinion, Judge Dyk, joined by Judge Wallach, expressed concern regarding the US Patent and Trademark Office's (PTO's) position on joinder and expanded panels. The judges addressed the relationship between the joinder provision of § 315(c) and the time bar exception in § 315(b) and found that the time bar exception was designed to apply to situations where a time-barred party seeks to join an existing IPR timely filed by another party without adding any new patentability issues. To that end, the concurrence noted that the joinder provision does not allow, as was the case here, a time-barred petitioner to add new issues to an already existing IPR. The concurrence also questioned the use of expanded PTAB panels in situations where the PTO is dissatisfied with a three-member panel's earlier decision as an inappropriate mechanism for achieving uniformity of PTAB decisions.



**Patents / Inter-partes Review (IPR) / Sovereign Immunity****SOVEREIGN IMMUNITY CANNOT PROTECT PATENT CO-OWNED BY PRIVATE PARTY**

*Reactive Surfaces Ltd., LLP v. Toyota Motor Corp.*, Case No. IPR2017-00572, Paper 32 (PTAB, July 13, 2017) (Moore, APJ).

Addressing for the first time the issue of whether an *inter partes* review (IPR) may proceed where one of the co-owners was entitled to sovereign immunity under the 11th Amendment, the Patent Trial and Appeal Board (PTAB) held that the proceeding could continue against the co-owner not entitled to sovereign immunity, even in the absence of the other co-owner. *Reactive Surfaces Ltd., LLP v. Toyota Motor Corp.*, Case No. IPR2017-00572, Paper 32 (PTAB, July 13, 2017) (Moore, APJ).

Reactive Surfaces filed an IPR against a patent co-owned by Toyota and Regents of the University of Minnesota (collectively, patent owner), alleging that the patent owner's patented processes for preparation of a protein-polymer composite material, and the patented material itself, were obvious in view of prior art. During prosecution of the patent, three of the six named inventors assigned their interest in the patent to the Regents. The remaining three inventors assigned their rights to Toyota. Accordingly, the patent is co-owned by Toyota and the Regents.

After Reactive filed the IPR petition, patent owner was granted authorization to file a motion to dismiss the petition on the grounds that the Regents were entitled to sovereign immunity under the 11th Amendment and that the proceeding could not continue in their absence. Patent owner argued that sovereign immunity had already been held to apply to IPR proceedings, that the Regents (as an arm of the State of Minnesota) were clearly entitled to invoke it, and that the merits of the IPR proceeding could not be adjudicated in the absence of the Regents. Reactive opposed the motion on several grounds, arguing that the 11th Amendment does not extend to IPRs, that the patent owner failed to prove that the Regents were entitled to assert sovereign immunity, and that any sovereign immunity possessed by the Regents did not extend to Toyota.

The PTAB reiterated that sovereign immunity may be asserted in IPRs, citing its own precedent (which, while non-binding, was found to be persuasive). Next, the PTAB found that the Regents were entitled to assert sovereign immunity because "a state university typically enjoys sovereign immunity" and the Regents were "interchangeable [with the University of Minnesota] for purposes of 11th Amendment analysis." Finally, the PTAB determined that the proceeding could continue against Toyota in the absence of the Regents. The PTAB noted that the rules governing IPRs provided for "at least three circumstances" where proceedings could continue in the absence of a patent owner. Although the PTAB found that none of the three circumstances applied to the present situation, it demonstrated that the patent owner's argument "for a rule requiring automatic termination of a proceeding upon the dismissal of a party" was unsupported. Citing federal case law allowing actions to proceed against private defendants after a co-defendant had asserted sovereign immunity, the PTAB concluded that an IPR proceeding against a private co-owner could proceed where the co-owner "adequately represents the interest of the absent sovereign party." Here, where the same legal counsel represented both co-owners of the patent, the PTAB concluded that Toyota could adequately represent the Regents' interests.

**Practice Note:** Universities and other state actors should be aware that co-owning a patent with a private party leaves the patent susceptible to IPR challenges. It may behoove such state actors to completely own their patents to protect against post-grant challenges. Similarly, private parties should be aware that co-owning a patent with a state actor will not protect the patent from post-grant challenges.

## IPR PROCEDURAL ISSUES

***Patents / Inter-partes Review (IPR) / Procedure / Inventorship*****PATENT OWNER MUST RECEIVE NOTICE OF REFERENCES AGAINST EACH CHALLENGED CLAIM**

*EmeraChem Holdings, LLC v. Volkswagen Group of America, Inc.*, Case No. 16-1984 (Fed. Cir., June 15, 2017) (Moore, J).

In remanding a case back to the Patent Trial and Appeal Board (PTAB), the US Court of Appeals for the Federal Circuit explained that it was procedurally improper for the PTAB to find claims obvious during *inter partes* review (IPR) where the patent owner was not provided notice of a prior art reference that was used as a basis for invalidity. *EmeraChem Holdings, LLC v. Volkswagen Group of America, Inc.*, Case No. 16-1984 (Fed. Cir. June 15, 2017) (Moore, J).

In 2014, Volkswagen petitioned for IPR of certain claims of EmeraChem's patent related to methods for regenerating a catalyst after extended exposure to pollutants in the combustion gases of engines. The patent named a first inventor (Campbell) and incorporated by reference a prior patent (Campbell I) listing Campbell along with additional co-inventors. Volkswagen argued that the challenged claims were invalid over the combination of Campbell I and one or more of three secondary references (one of which was Stiles). EmeraChem submitted a declaration from Campbell that Campbell I could not count as prior art under § 102(e) because he invented the material from Campbell I that Volkswagen relied on to invalidate the challenged claims.

Volkswagen also included a claim chart specifically identifying the grounds for each challenged claim, but failed to identify Stiles for three of the challenged claims. On institution, the PTAB listed the challenged claims for which the petition was granted and the specific grounds for each, but did not list Stiles in connection with the three claims.

In its final decision, the PTAB invalidated all challenged claims, relying on Campbell I for all claims and on Stiles for the three claims not cited by the PTAB in its institution decision. It rejected Campbell's declaration as uncorroborated and found that Campbell I qualified as § 102(e) prior art. EmeraChem appealed, challenging the PTAB's reliance on Campbell I and arguing insufficient notice with respect to Stiles for the three challenged claims.

Addressing the prior art status of Campbell I, the Federal Circuit acknowledged that a reference cannot qualify as § 102(e) prior art if the portions of the reference relied upon and the subject matter of the claims represent the work of the same inventive entity, but agreed with the PTAB that Campbell's declaration by itself was insufficient to demonstrate that the disclosure was not by another. The Court noted that while corroboration is not "required in every case," in this case relying on the declaration alone "entails relying on an assertion by an inventor with an interest at stake" regarding portions of a patent issued years earlier that the disclosure relied on was not "by another." Absent any corroboration of Campbell's declaration, the Court affirmed that Campbell I qualified as prior art.

The Federal Circuit remanded the obviousness determinations of the three claims back to the PTAB for further clarification, however, as EmeraChem was not given sufficient notice that Stiles would be used as prior art to invalidate those claims. The Court found that general summaries included in the petition and institution decision stating that the challenged claims were invalid in view of Campbell I and Stiles were insufficient because the petition and institution decision also included specific grounds for each claim. These specific grounds failed to identify Stiles in connection with three challenged claims, so EmeraChem was not properly on notice. The Court also noted that "neither party ever mentioned Stiles in the context of discussing [the three] claims [during the later briefing], [which] helps make the point that neither party was on notice that Stiles was at issue as to those challenged claims."

**Patents /Inter-partes Review (IPR) / Procedure****FEDERAL CIRCUIT EVALUATES PTAB RELIANCE ON EXPERT TESTIMONY TO SATISFY SUBSTANTIAL EVIDENCE**

*Icon Health & Fitness, Inc. v. Strava, Inc.*, Case No. 2016-1475 (Fed. Cir., Feb. 27, 2017) (Wallach, J) (O'Malley, J, concurring in part and dissenting in part).

Addressing for the first time the extent to which the Patent Trial and Appeal Board (PTAB) may rely on expert testimony to satisfy the substantial evidence standard of review, the US Court of Appeals for the Federal Circuit affirmed in part, vacated in part and remanded the PTAB's decision of obviousness in an *inter partes* reexamination proceeding. *Icon Health & Fitness, Inc. v. Strava, Inc.*, Case No. 2016-1475 (Fed. Cir., Feb. 27, 2017) (Wallach, J) (O'Malley, J, concurring in part and dissenting in part).

Strava sought *inter partes* reexamination of Icon's patent. During the proceedings, Strava submitted expert declarations in support of its obviousness arguments. The declarations addressed the pertinent factual issues but also included opinions (from technical experts) as to the ultimate question of obviousness. The examiner rejected the claims as obvious in view of the prior art and in many cases expressly adopted Strava's reasoning and incorporated by reference the analysis provided in Strava's briefing. In due course, the PTAB affirmed the examiner's decision and, with respect to some of the claims, adopted the examiner's reasoning without providing independent fact finding or analysis. Icon appealed.

Icon argued that the PTAB erred in relying on the "legal conclusions" of Strava's expert in affirming the examiner's finding of obviousness. In particular, Icon argued that Strava's expert's declarations "go well beyond supplying opinions regarding factual matters" because they "improperly" reach the ultimate conclusion that the claims are obvious. Icon further argued that because the examiner cited to large portions of the expert's declarations, the expert's legal conclusions improperly supplanted the Examiner's analysis.

Icon did not dispute that Strava's technical expert was qualified, but argued that "the Examiner erred because he extensively cited to statements in the [expert] Declarations." As a result, Icon argued, "the Examiner 'did not form his own legal conclusions of obviousness' but rather 'adopted the legal conclusions provided to him by [Appellees' expert].'"

The Federal Circuit rejected Icon's arguments, explaining that to the extent that Icon "challenges the PTAB's factual findings, as adopted from the Examiner, the PTAB is permitted to weigh expert testimony and other record evidence and, in so doing, rely on certain portions of an expert's declaration while disregarding others." Further, with regard to Icon's challenge to the PTAB's legal conclusions, "there is no *per se* prohibition against relying on an expert's declaration in support of factual findings underlying a legal conclusion of obviousness solely because the declaration states that something 'would have been obvious.'" As the Court noted, "we frequently have affirmed PTAB determinations on obviousness that rely on expert declarations that include such statements, so long as other aspects of the declarations contain statements related to factual findings."

Even though the examiner and the PTAB were permitted to rely on expert testimony in finding the claims obvious, the Federal Circuit found that the wholesale adoption of such testimony without independent fact finding or explanation failed to satisfy the substantial evidence standard. For example, with respect to some of the claims at issue, the PTAB adopted and incorporated by reference the examiner's findings and analysis, but the examiner's findings and analysis were themselves limited to adoption and incorporation of Strava's arguments. As a result, "[n]either the PTAB nor the Examiner made any factual findings; instead both purported to incorporate by reference arguments drafted by Appellees' attorneys." But "[a]ttorney argument is not evidence," and the PTAB's and the examiner's "adoption" of such attorney argument cannot "transform Appellees' attorney argument into factual findings or supply the requisite explanation that must accompany such findings." The Court reached the opposite conclusion for claims where either the examiner or the PTAB made findings of fact and provided explanations sufficient to discern the link between the facts and the conclusion of obviousness.

**Patents / Inter-partes Review (IPR) Procedure / IPR Stay / Preliminary Injunction****PRELIMINARY INJUNCTION MAINTAINED DESPITE ADVERSE DECISION IN PARALLEL POST-GRANT REVIEW**

Tinnus Enterprises, LLC, Zuru LTD v. Telebrands Corporation, Bed Bath & Beyond, Inc., Case No. 16-1410 (Fed. Cir., Jan. 24, 2017) (Stoll, J).

Addressing the merits of an injunction in a case where the district court and the Patent Trial and Appeal Board (PTAB) disagreed as to the validity of a patent in parallel proceedings, the US Court of Appeals for the Federal Circuit affirmed the preliminary injunction by citing to the different standards applied by each forum. *Tinnus Enterprises, LLC, Zuru LTD v. Telebrands Corporation, Bed Bath & Beyond, Inc.*, Case No. 16-1410 (Fed. Cir., Jan. 24, 2017) (Stoll, J).

Tinnus produces the “Bunch O Balloons” toy for filling water balloons and owns a patent covering the toy. Telebrands sells a competing “Balloon Bonanza” product. Both products attach to a hose in order to simultaneously fill multiple water balloons. Tinnus sued Telebrands and Bed Bath & Beyond (collectively, Telebrands) for patent infringement and moved for a preliminary injunction. The magistrate judge issued a report and recommendation (R&R) recommending the injunction, which the district court entered. Telebrands appealed. At about the same time, the PTAB instituted a post-grant review (PGR) requested by Telebrands. Telebrands did not move for a stay pending the PTAB decision, so the litigation and the PGR proceeded concurrently. In a final written decision, the PTAB found all of the claims invalid as indefinite.

Telebrands appealed the district court’s conclusions with respect to the likelihood of success on the merits and irreparable harm. Because Telebrands failed to object to the R&R’s indefiniteness determination, that determination was reviewed under a plain error standard, rather than the abuse of discretion usually applied on appeal. The Federal Circuit found no plain error in the district court’s indefiniteness analysis, despite the contrary finding by the PTAB. In this case, the difference in result can be attributed to the different standards used to evaluate indefiniteness in district court and the PTAB. In a PGR proceeding, indefiniteness is evaluated under the Packard test, while in district court, indefiniteness is evaluated under the Supreme Court of the United States’ *Nautilus* standard. The difference is that the Packard test sets a threshold for indefiniteness when a claim contains words or phrases whose meaning is unclear and demands at least as much clarity, and potentially more, than *Nautilus*’s reasonable certainty requirement.

Telebrands also faulted the district court for its purported failure to construe several terms. However, the Federal Circuit noted that the R&R adopted by the district court acknowledged the parties’ disagreement with respect to construction of certain claim terms, but concluded that Tinnus was likely to succeed regardless of those terms’ interpretation. Telebrands also argued that each claim limitation must be found in the accused product itself and that reliance on an instruction manual to show one of the claimed features was clear error. The Federal Circuit again disagreed, explaining that a patentee is entitled to rely on circumstantial evidence such as instruction manuals to establish infringement.

Telebrands next argued that it was clear error for the magistrate judge to rely on evidence pre-dating patent issuance in support of its irreparable harm finding. The Federal Circuit disagreed, finding that the pre-issuance evidence demonstrated the possibility of identical harm post-issuance. Moreover, the Court found that the record also contained sufficient post-issuance evidence to support the district court’s finding of irreparable harm.

**Practice Note:** Depending on the applicable circuit law, and at least in the Fifth Circuit, practitioners should adequately object to a magistrate judge’s report and recommendation in order to avoid the more deferential plain error standard of review on appeal.

## **PTAB CAN ADOPT PETITIONERS' ARGUMENTS WHOLESALE**

---

*Outdry Tech. Corp. v. Geox S.P.A.*, Case No. 16-1769 (Fed. Cir., June 16, 2017) (Moore, J)

Addressing for the first time the issue of whether the Patent Trial and Appeal Board (PTAB) may rely on an *inter partes* review (IPR) petitioner's arguments and adopt its position wholesale, the US Court of Appeals for the Federal Circuit upheld a PTAB ruling essentially based on the petitioner's submissions, and found that the claims of the challenged patent were obvious in view of prior art and that there was sufficient motivation to combine the prior art references. *Outdry Tech. Corp. v. Geox S.P.A.*, Case No. 16-1769 (Fed. Cir., June 16, 2017) (Moore, J).

Geox filed an IPR petition against a patent owned by Outdry Technologies on the basis that Outdry's patented methods for waterproofing leather were obvious in view of prior art. The challenged patent disclosed that prior art methods of waterproofing leather clothing and shoes consisted of sewing or gluing a semi-permeable membrane inside the leather around the membrane's perimeter. The patent specification further stated these prior art methods allowed a water cushion to form in which water penetrated the leather and became trapped between the membrane and interior surface of the leather. The claimed invention sought to overcome this issue by "directly pressing" a semi-permeable membrane onto the leather via a dotted glue pattern. The PTAB found, however, that such method was obvious in view of prior art. Outdry appealed, arguing that the PTAB had incorrectly construed "directly pressing" and that it had failed to adequately articulate why a person of ordinary skill in the art would have been motivated to combine the various references.

Applying the broadest reasonable interpretation standard, the Federal Circuit upheld the PTAB's construction of "directly pressing," holding that Outdry's proposed narrow construction was not supported by the specification. The Court also agreed with the PTAB that the preamble of the challenged claims, reciting a "process for waterproofing leather," was simply a statement of intended use and was not claim limiting. Regardless, the PTAB concluded that "[s]atisfaction of the claimed steps necessarily results in satisfying a 'process for waterproofing leather,'" so the prior art references did not need to explicitly discuss "a process"—a conclusion with which the Court agreed.

On the substantive obviousness issues, Outdry argued that it was improper for the PTAB to rely solely on Geox's petition to find a motivation to combine without making any explicit findings of its own, and that the PTAB failed to identify a reason why one of skill in the art would have been motivated to combine the references to solve the specific problem identified in the challenged patent. The Federal Circuit, however, upheld the PTAB's determination that a person of ordinary skill in the art would have been motivated to combine the prior art references and that the PTAB was not required to limit its motivation to combine inquiry to the problem faced by the inventor of the challenged patent. As for the PTAB's reliance on the petitioner's arguments, the Court stated that such reliance "does not undermine its otherwise adequate explanation for finding a motivation to combine." In doing so, the panel distinguished prior decisions where similar reliance was reversed, finding that in this case the PTAB "clearly articulated arguments for why a person of ordinary skill in the art would have been motivated to" combine the references, and that there were sufficient factual citations and explanations from the PTAB.

**Practice Note:** Patent owners should fully respond to petitioners' motivation to combine arguments, pointing out any factual deficiencies and challenging the petitioner's explanations. Petitioners, on the other hand, should make sure that all arguments are sufficiently supported by factual citations and explanations, understanding that the PTAB may then adopt their position wholesale.

## IPR CLAIM AMENDMENTS

**Patents / Inter-partes Review (IPR) / Claim Amendments****PATENT OWNER EXTINGUISHES INTER PARTES REVIEW BY AMENDING CLAIMS**

*Amerigen Pharms. Ltd. v. Shire LLC*, Case No. IPR2015-02009 (PTAB, Mar. 31, 2017) (Scheiner, APJ).

In a rare case where the Patent Trial and Appeal Board (PTAB) granted a motion to amend the claims in an *inter partes* review (IPR), the patent owner successfully canceled all claims subject to review by changing the dependency of one of the claims at issue. *Amerigen Pharms. Ltd. v. Shire LLC*, Case No. IPR2015-02009 (PTAB, Mar. 31, 2017) (Scheiner, APJ).

Shire owns a patent related to dosage forms for the delivery of drugs that treat attention-deficit hyperactivity disorder in an immediate dose and at least one delayed, enteric dose with a rapid release (marketed as Adderall XR<sup>®</sup>). Amerigen filed a petition requesting IPR of Shire's patent, which the PTAB instituted. After institution, Shire filed a motion to amend, cancelling all of the claims on which trial had been instituted and proposing one substitute claim. Specifically, Shire's motion sought to replace instituted claim 25 with the following substitute claim 26:

Claim 25. The pharmaceutical composition of any one of claims 2, 13 or 18 to 20 wherein the pharmaceutically active amphetamine salt in (a) and (b) comprises mixed amphetamine salts.

Claim 26. The pharmaceutical composition of any one of claims 2[,] or 13 ~~or 18 to 20~~ wherein the pharmaceutically active amphetamine salt in (a) and (b) comprises mixed amphetamine salts.

The proposed substitute claim 26 was identical to multiple dependent claim 25, except that dependencies from instituted claims 18–20 were deleted.

The PTAB noted that claim 25 was part of the trial only to the extent it depended from claims 18–20, and that “the practical effect of substituting proposed claim 26 (which depends from claim 2 or claim 13) for claim 25 would be to leave no instituted claim remaining in the trial.” Notably, in instituting IPR on claims 18–21, 23 and 25, the PTAB differentiated claim 25 as having limitations that were dependent from claim 2 and limitations that were dependent from claims 18–20. The PTAB did not institute the IPR with respect to claim 2, and Amerigen did not challenge the patentability of claim 13.

Amerigen argued that Shire's motion should be denied because Shire failed to demonstrate the patentability of proposed substitute claim 26, as required by the PTAB's *Idle Free* decision ([IP Update, Vol. 17, No. 1](#)). According to *Idle Free*, the burden is on the patent owner to show “the substitute claim's patentable distinction over not only the prior art asserted in the petition, but also all prior art of record in the initial patent prosecution, reissue proceeding, prior litigations and other prior art known to [the] patent owner.”

The PTAB disagreed, explaining that *Idle Free* only applies where a feature “is added to each substitute claim, as compared to the challenged claim it replaces.” In this case, the substitute claim merely cancelled the three claims dependent on instituted claims 18–20 while preserving the two claims dependent on non-instituted claims 2 and 13, and “[e]ffectively, no claim [was] amended” because no other changes to the claims were being made. In granting Shire's motion to amend, the PTAB held that a patent owner is not required to prove “that original non-amended claims are patentable over all potential prior art, especially non-instituted claims.”

**IPR INSTITUTION**

---

***Patents / Inter-partes Review (IPR) / Institution***

---

***PTAB TO PETITIONERS: GET A MOVE ON***

---

*Int'l Bus. Mach. Corp. v. ZitoVault, LLC*, Case No. IPR2016-01851, (PTAB, Mar. 20, 2017) (Fishman, APJ)

Exercising its discretion, the Patent Trial and Appeal Board (PTAB) denied institution of a petition for *inter partes* review (IPR) because the petitioner previously had filed an IPR petition challenging some of the same claims, had been aware of the prior art references in the second petition for several months, and had waited too long to file the second petition. *Int'l Bus. Mach. Corp. v. ZitoVault, LLC*, Case No. IPR2016-01851, (PTAB, Mar. 20, 2017) (Fishman, APJ).

ZitoVault sued Amazon alleging infringement of a patent directed to cryptographic protocols. Amazon filed an IPR petition challenging certain claims of the patent. ZitoVault then sued IBM for alleged infringement of the same patent. IBM served invalidity contentions, identifying several prior art references that had not been asserted in the Amazon IPR. In the meantime, the PTAB instituted the Amazon IPR on every challenged claim except claim 4.

IBM filed an IPR petition that was substantially identical to Amazon's petition, along with a motion seeking joinder with the Amazon IPR. IBM's petition did not challenge claim 4. The PTAB joined the Amazon and IBM proceedings, and ZitoVault filed a response. About a month later, IBM filed a second IPR petition challenging the same claims, plus claim 4, based on prior art references that *were not* asserted in the Amazon/IBM proceeding but *were* identified in IBM's district court invalidity contentions. ZitoVault then filed its preliminary response, asking the PTAB to exercise its discretion and deny IBM's second petition.

The PTAB agreed with ZitoVault and denied institution. The PTAB reasoned that IBM had filed an earlier petition challenging the same claims except for claim 4. As to claim 4, the PTAB provided the following explanation: “[a]lthough claim 4 was excluded from Petitioner's earlier filing (IBM IPR), Petitioner had already challenged all other claims challenged in this Petition.” The PTAB also noted that IBM was aware of the new references, citing to the invalidity contentions IBM served in district court prior to filing its second IPR petition. According to the PTAB, “Petitioner could have filed this Petition at the same time as the earlier petition, applying the new references, instead of, or in addition to, those used in the earlier petition.”

In addition, the PTAB noted that IBM filed its petition after ZitoVault filed its response in the Amazon/IBM IPR. “Petitioner waited more than five months after knowing of the new references; waited more than five months after our Decision on Institution in the Amazon IPR; waited more than four months after filing its petition in the IBM IPR to join in the Amazon IPR; and waited more than a month after Patent Owner's Response was filed in the Amazon IPR.” For these reasons, the PTAB denied institution of IBM's second IPR petition.

**Patents / Inter-partes Review (IPR) / Institution****PTAB UNDERSCORES REASONS FOR DENYING INSTITUTION UNDER 35 USC § 325(D)**

*CULTEC, Inc. v. Stormtech LLC*, Case No. IPR2017-00777 (Aug. 22, 2017) (Grossman, APJ); *Hospira, Inc. v. Genentech, Inc.*, Case No. IPR2017-00739 (Jul. 27, 2017) (Pollock, APJ); *Unified Patents Inc. v. John L. Berman*, Case No. IPR2016-01571 (Dec. 14, 2016) (Haapala, APJ)

The Patent Trial and Appeal Board (PTAB or Board) designated as informative three decisions denying institution of *inter partes* reviews. *CULTEC, Inc. v. Stormtech LLC*, Case No. IPR2017-00777 (Grossman, APJ) (Aug. 22, 2017); *Hospira, Inc. v. Genentech, Inc.*, Case No. IPR2017-00739 (Pollock, APJ) (Jul. 27, 2017); *Unified Patents Inc. v. John L. Berman*, Case No. IPR2016-01571 (Haapala, APJ) (Dec. 14, 2016). In each decision, the PTAB denied institution based on its discretionary power under 35 USC § 325(d) because the same or substantially the same prior art or arguments previously had been presented to the US Patent and Trademark Office.

In *CULTEC*, the petitioner asserted five obviousness grounds of unpatentability against the challenged patent. Each ground was based on the same primary prior art reference either alone or in various combinations with three other references. The PTAB panel observed that the primary reference was submitted during original prosecution of the challenged patent by petitioner's lead counsel in a third-party prior-art submission. The PTAB panel further noticed that one of the petitioner's secondary references had been cited and applied by the examiner throughout prosecution of the application for the challenged patent. Finding that the petitioner cited the two remaining references for teaching the same subject matter as the first two references, the PTAB panel denied institution under § 325(d).

In *Hospira*, the petitioner alleged that the challenged patent was not entitled to its putative priority date and was consequently anticipated by each of three prior publications. During prosecution of the challenged patent, the examiner had similarly rejected the pending claims as being anticipated by the earliest of the petitioner's three references and likewise disregarded the application's earliest priority claim, in the same way the petitioner had. Specifically, in the examiner's initial rejection of the challenged claims, the examiner found that the earlier applications in the challenged patent's priority chain failed to satisfy the written description and enablement requirements under 35 USC § 112. The PTAB panel noted that the applicant overcame the examiner's initial rejection by argument and amendment of the claims, causing the examiner to withdraw the rejection based on the earliest prior art reference since it was not prior art against the challenged patent. Because the other two references relied on by the petitioner had later publication dates, they also were not prior art against the challenged patent. As the petitioner had not raised any other arguments, the PTAB panel denied institution under § 325(d).

In *Unified Patents*, the petitioner asserted that the challenged claims were invalid based on three grounds of obviousness. Two of the petitioner's grounds relied on a primary reference that the Patent Owner overcame during prosecution. For those grounds, the PTAB determined that the petitioner's secondary reference was relied on in the same way as references used by the examiner during prosecution. Because the PTAB panel discerned nothing that distinguished the petitioner's arguments from the examiner's prior consideration of the primary reference, the PTAB declined to institute review based on those two grounds, concluding "[t]his would not be an efficient use of PTAB resources in this matter." Significantly, the PTAB treated the petitioner's third ground differently, since the petitioner relied on a secondary reference not considered during prosecution, in order to teach certain claimed subject matter. Addressing the third ground on the merits, the PTAB found that the petitioner had failed to adequately explain how the combined teachings of the prior art rendered the challenged claims obvious.

Unified Patents' petition for rehearing was denied.



**Patents / Inter-partes Review (IPR) / Institution Discretion****IF YOU NEED A SECOND BITE AT THE INTER PARTES REVIEW APPLE, TAKE IT QUICKLY**

*Nautilus Hyosung Inc. v. Diebold, Inc.*, Case No. IPR2017-00426 (PTAB, June 22, 2017) (Benoit, APJ).

In a decision denying a second petition for *inter partes* review (IPR), the Patent Trial and Appeal Board (PTAB) elucidated the factors weighing against granting the petitioner's request. The decision underscores the PTAB's concern regarding serial attacks against a patent owner. *Nautilus Hyosung Inc. v. Diebold, Inc.*, Case No. IPR2017-00426 (PTAB, June 22, 2017) (Benoit, APJ).

Diebold had earlier filed both a district court action and a US International Trade Commission (ITC) complaint against Nautilus, alleging infringement of the challenged patent. The patent was directed to methods for sensing magnetic ink character recognition lines on financial checks, such as those typically used by automated teller machines (ATMs). Nautilus filed a first IPR petition against the asserted claims, but the PTAB declined institution. Nautilus then filed a second IPR petition against the patent. In its preliminary response to the second IPR petition, Diebold claimed that the second petition represented a serious inequity, allowing Nautilus the opportunity to adjust its positions based on Diebold's preliminary response to the first petition and the PTAB's prior institution decision, as well as the initial determination from the ITC investigation. According to Diebold, the second petition should be dismissed for equitable reasons under 35 USC § 314(a), and under 35 USC § 325(d) as being based on prior art and arguments that were substantially the same as those previously presented to the PTAB. Nautilus sought and received permission to file a response addressing the patent owner's inequity argument. According to Nautilus, the patent owner's statutory interpretation was "tantamount to an outright prohibition on subsequent petitions, which is inconsistent with Congressional intent and the Board's precedent."

In considering the arguments, the PTAB observed that the petitioner had already challenged the same claims of same patent. The PTAB noted that the parallel ITC investigation, in which petitioner was a respondent, involved the same prior art asserted in the second petition. The PTAB found, based on evidence from the ITC investigation, that at the time of the filing of the first petition, the petitioner was aware of three of the four prior art references asserted in the second petition and that the petitioner had not given an explanation for why the arguments and evidence relied upon in the second petition were not included in the first petition.

The PTAB was particularly concerned with the timing of the second petition. The PTAB noted that the second petition was filed seven months after Diebold filed its preliminary response to the first petition and more than three months after the first petition was denied. According to the PTAB, because of this hiatus, Nautilus "had sufficient time to take advantage of Patent Owner's and the Board's responses to the First Petition when filing its Second Petition."

Rejecting the petitioner's tantamount-to-a-prohibition argument, the PTAB cited the US Court of Appeals for the Federal Circuit's *Harmonic* opinion stating "the PTO is permitted, but never compelled, to institute an IPR proceeding." The PTAB emphasized that it was "not saying that multiple petitions against the same claims of the same patent by the same petitioner are never permitted." Instead, it examines the particular circumstances of each proceeding, "including what rationale a petitioner offers for filing multiple petitions and for the time elapsed between those filings." The PTAB did not reach Diebold's § 325(d) argument.

**Practice Note:** This decision underscores how critical it is for an IPR petitioner to file a "second bite" petition—due to page count considerations or the like—quickly after the first petition. Having the benefit of the patent owner's preliminary response and the institution decision from the first IPR are factors that weigh against institution of the second IPR. This decision also underscores that a petitioner should offer a suitable explanation for why the arguments and evidence in the second petition were not included in the first petition, such as a statement that the cited prior art was not "known or available" at the time of filing of the initial IPR petition.

**AIA / Inter-partes Review (IPR) / Design Patents****DESIGN PATENT SURVIVES AIA REVIEW**

In a rare *inter partes* review (IPR) decision involving a challenge to a design patent, the Patent Trial and Appeal Board (PTAB) issued a final decision finding that the petitioner had not shown that a sole claim of a design patent, in this case directed to insulation having a cloud-like appearance with a swirl pattern including colors and a variety of hues, is unpatentable. *Johns Manville Corporation, et al. v. Knauf Insulation, Inc., et al.*, Case No. IPR2015-01453 (PTAB, Jan. 11, 2017) (Daniels, APJ).

Johns Manville Corporation, et al. v. Knauf Insulation, Inc., et al., Case No. IPR2015-01453 (PTAB, Jan. 11, 2017) (Daniels, APJ)

Johns Manville Corporation filed a petition to institute an IPR of a design patent directed to the appearance of mineral fiber insulation. In its petition, Manville relied on several articles and advertisements depicting insulation that it asserted anticipated or at least rendered the claimed design obvious. After institution, Knauf Insulation, the patent owner, argued that the declarations Manville submitted to support the prior art status of the articles and advertisements did not evidence personal knowledge of the prior art status of the documents (which were therefore not properly authenticated). Knauf also argued distinctions between the claimed design and the designs depicted in the articles and advertisements.

The PTAB started from the well-settled premise that a design is represented better by an illustration than a description. Citing *Egyptian Goddess*, the PTAB noted that “[a]lthough preferably a design patent claim is not construed by providing a detailed verbal description, it may be ‘helpful to point out . . . various features of the claimed design as they relate to the . . . prior art.’” In that regard, in its institution decision, the PTAB determined that the claimed design includes the features shown in the sole figure of the patent and “that color is an element of the claimed design; this element includes colors that sufficiently impart or convey a variation of distinct hues, but is not limited to ‘brown and cream.’” The PTAB noted, however, that the figure (depicting “material having a cloud-like appearance with variations in a swirl pattern”) lacks clear structure, form and environment, and the PTAB provided a verbal claim construction to compare the claimed design to the prior art. The PTAB further explained that specific colors and hues cannot be precisely articulated in a verbal claim construction (“a single color can be described by a variety of names, and a variety of colors can be described by a single name”), and thus, the claimed design was interpreted as including colors (not limited to brown and cream) and a “variation of distinct hues” as shown in the sole figure of the patent.

The PTAB agreed with Manville that the articles and advertisements it relied on qualified as prior art. However, the PTAB agreed with Knauf that an “ordinary observer” would not have found the patented design to have been anticipated by the prior art pink-colored insulation depicted in the primary reference relied on by Manville.

In terms of obviousness, the PTAB looked to the “designer of ordinary skill” and the two-step analysis comprising (1) an evaluation of the primary reference in terms of its design characteristics that are the same as the claimed design, then (2) a determination whether it would have been obvious to a designer of ordinary skill to have modified the primary reference by a secondary reference to create a design having the same overall appearance as the claimed design. After considering various possible combinations of primary and secondary references, the PTAB concluded that the prior art, while depicting a similar fiber insulation pattern as the claimed design, did not show “the swirling variation in distinct colors, or hues, including brown and cream” of the Knauf patent. The PTAB therefore concluded that Manville failed to show by a preponderance of the evidence that the claimed design would have been obvious, because a designer of skill, viewing the prior art from the vantage of the “ordinary observer,” would not have combined references to create the claimed combination of “brown, chocolate, coffee, beige or almond.”

---

## **EN BANC FEDERAL CIRCUIT TO CONSIDER AIA APPEALS BASED ON TIME BAR PROVISION**

---

*Wi-Fi One v. Broadcom*, Case Nos. 15-1944; -1945; -1946 (Fed Cir, Jan 4, 2017) (*per curium*).

In a September 2015 panel decision, *Achates Reference Publishing v. Apple*, the US Court of Appeals for the Federal Circuit ruled that under 35 USC 314(b), decisions of the Patent Trial and Appeal Board (PTAB) finding that an America Invents Act (AIA) petition is not time-barred cannot be appealed ([IP Update, Vol. 18, No. 10](#)). Soon after, the Supreme Court of the United States issued its decision in *Cuozzo Speed Technologies v. Lee*, which at least suggested that some aspects of AIA institution decisions can be appealed ([IP Update, Vol. 19, No. 7](#)).

Wi-Fi One petitioned for *en banc* review, arguing that *Cuozzo* threw the Federal Circuit's rulings in *Achates* and *Wi-Fi One* into question. Wi-Fi One argued that in *Cuozzo*, the Supreme Court explained that while (under § 314(b)) most institution decisions cannot be appealed, in cases where the PTAB exceeds its statutory authority or violates due process, its decision may be reviewable.

The Federal Circuit has agreed to *en banc* review of the following question:

Should this court overrule *Achates Reference Publishing v. Apple* and hold that judicial review is available for a patent owner to challenge the US Patent and Trademark Office's determination that the petitioner satisfied the timeliness requirement of 35 USC § 315(b) governing the filing of petitions for *inter partes* review?

### **Background on *Wi-Fi One***

Wi-Fi One filed suit against various customers of Broadcom, asserting the subject patent. After Broadcom challenged Wi-Fi One's patent by petitioning for an AIA review, Wi-Fi One argued that the petition was time-barred under § 315 because, even though Broadcom was not itself sued under the patent, it worked with other companies that were sued more than a year before it filed its petition. The PTAB refused Wi-Fi One's request to take discovery on that issue and ultimately invalidated the patent.

The Federal Circuit panel affirmed that decision, citing *Achates* in ruling that PTAB decisions on the time bar are part of the institution decision and are not appealable ([IP Update, Vol. 19, No. 10](#)). *Wi-Fi One v. Broadcom*, Case Nos. 15-1944; -1945; -1946 (Fed Cir, Jan 4, 2017) (*per curium*).

In a concurrence to that panel decision, Judge Reyna importuned that the issue should be reconsidered *en banc* because disallowing on appeal from a decision that an AIA petition was timely renders the time bar "toothless." In another case dealing with the same issue, *Click-to-Call Technologies v. Oracle Corporation* (Nov. 17, 2016) (*per curiam*), Judges O'Malley and Taranto (concurring) also said that the Court should take up the question *en banc* ([IP Update, Vol. 19, No. 12](#)).

**Patents / Inter-partes Review (IPR) / Institution / Exercise of PTAB Discretion****EXPANDED PTAB PANEL EXPLAINS EXERCISE OF DISCRETION ON SECOND-BITE PETITIONS**

*General Plastic Industrial Co., Ltd. v. Canon Kabushiki Kaisha*, Case Nos. IPR2016-01357; -01358; -01359; -01360; -01361 (PTAB, Sept. 6, 2017) (McShane, APJ)

A rare expanded panel (including the chief judge) of the Patent Trial and Appeal Board (PTAB or Board) issued a precedential decision denying requests for rehearing of decisions denying institution in five *inter partes* reviews (IPRs). In doing so, the PTAB underscored its reliance on the Nvidia factors as a threshold test in deciding whether to institute review of follow-on petitions. *General Plastic Industrial Co., Ltd. v. Canon Kabushiki Kaisha*, Case Nos. IPR2016-01357; -01358; -01359; -01360; -01361 (PTAB, Sept. 6, 2017) (McShane, APJ).

General Plastic (GP) filed a first set of IPR petitions against two patents asserted by Canon in an International Trade Commission investigation in which GP was named as a respondent. The PTAB denied institution of trial for each petition based upon the merits of the asserted prior art positions. Nine months after the filing of the first set of petitions, GP filed multiple follow-on petitions against each of the same patents. The PTAB denied institution for each new petition, citing its discretion under 35 USC § 314(a) and relying on its 2016 Nvidia seven-factor test. GP requested rehearing, seeking review by an expanded panel.

According to GP, in denying the follow up petitions, the PTAB erred by relying on § 314(a) instead of § 325(d), since only the latter specifically refers to follow-on petitions. GP also alleged that the PTAB relied too heavily on “the perceived burdens that would be imposed on to the Patent & Trademark Office and Patent Owner” and that the legislative history of § 314(a) requires the PTAB, when considering follow-on petitions, to give more weight to whether it can issue a final determination within one year of institutions than to any other factor.

GP also alleged that the PTAB abused its discretion by finding that certain prior art “should have been known” at the time the initial petitions were filed. According to GP, the Nvidia factor on which the PTAB relied for that conclusion was self-defining to be adverse to petitioners in every instance, and therefore was not properly a factor “analyzed” by the PTAB. Because an IPR petition can only be based on “prior art consisting of patents or printed publications,” and because the US Court of Appeals for the Federal Circuit in *In re Lister* held that to qualify as such prior art, a reference must be locatable by a reasonably diligent search, it therefore followed—per GP’s syllogism—that any prior art reference that is properly citable in a second petition necessarily could have been found by a reasonable prior art search performed prior to filing the first petition. Accordingly the PTAB’s reliance on § 314(a) and misapplication of the Nvidia factors created a de facto bar against all follow-on petitions.

Addressing GP’s arguments, the PTAB explained that § 314(a) specifies that institution is at the Director’s discretion, which in turn has been delegated to the PTAB. The PTAB clarified that there is no per se rule precluding the filing of follow-on petitions, and that when exercising its discretion under § 314(a), it has consistently considered the equitable factors of the Nvidia test. Recognizing Congress’ concern of avoiding the use of America Invents Act proceedings as “tools for harassment” against patent owners, the PTAB explained that “we are concerned here by the shifts in the prior art asserted and the related arguments in follow-on petitions,” as “[m]ultiple, staggered petitions challenging the same patent and same claims raise the potential for abuse.” The PTAB cautioned that “[t]he absence of any restrictions on follow-on petitions would allow petitioners the opportunity to strategically stage their prior art and arguments in multiple petitions, using our decisions as a roadmap, until a ground is found that results in the grant of review.” Because of the permissive language in both § 314(a) and § 325(d), the PTAB disagreed that § 325(d) was intended to be the sole factor for the PTAB to consider when reviewing follow-on petitions. The PTAB also noted that, although the legislative history reflects recognition of a desire for a “safety valve” to alleviate backlog, it does not limit the exercise of discretion under § 314(a) to circumstances in which there is a high volume of pending proceedings.

Revisiting the denials of the second set of petitions, the PTAB found that six of the seven Nvidia factors weighed against institution. Regarding the issue of whether GP “should have known” of the prior art relied on in the follow-on petitions, the PTAB explained that the relevant issue was not whether the prior art references constituted printed publications, but whether they could have been found with reasonable diligence. According to the PTAB, “a petitioner is free to explain why a reasonably diligent search could not have uncovered the newly applied prior art,” but GP had not given any such explanation, nor had it argued that there were any changed circumstances that reasonably justified its new prior art searches and associated filing of follow-on petitions. Finally, the PTAB reiterated that “multiple, staggered petition filings, such as those here, are an inefficient use of the *inter partes* review process and the PTAB’s resources.”

## IPR OBVIOUSNESS

*Patents / Inter-partes Review (IPR) / Obviousness***PTAB MUST ARTICULATE FACTUAL BASIS FOR OBVIOUSNESS DETERMINATION**

*In re: Stepan Company*, Case No. 16-1811 (Fed. Cir., Aug. 25, 2017) (Moore, J) (Lourie, J, dissenting).

Addressing whether a claimed feature was the result of routine optimization, as well as the Patent Trial and Appeal Board's (PTAB or Board) obligation to consider factual evidence, the US Court of Appeals for the Federal Circuit vacated and remanded a PTAB decision finding that the claims of a patent were obvious, and instructed the PTAB to articulate its reasoning for such a finding. *In re: Stepan Company*, Case No. 16-1811 (Fed. Cir., Aug. 25, 2017) (Moore, J) (Lourie, J, dissenting).

Stepan owns a patent application directed to an herbicidal formulation containing glyphosate salt with a surfactant system. The surfactant enhances the salt's effectiveness as an herbicide by providing better adherence to leaves and thereby enhancing penetration. The claims require using a surfactant system having a cloud point (the temperature at which a chemical becomes insoluble) above 70 °C. During prosecution, the Examiner rejected the claim based on prior art that described an herbicide and surfactant combination but recited a cloud point above 60 °C. The PTAB adopted the Examiner's findings and upheld rejection of the patent claim. Stepan appealed.

On appeal, the Federal Circuit found that the PTAB committed three errors. First, the Federal Circuit found that the PTAB failed to explain why it would have been routine optimization to select and adjust the levels of the claimed surfactants and achieve a cloud point above 70 °C. The Federal Circuit ruled that "the Board must provide some rational underpinning explaining why a person of ordinary skill in the art would have arrived at the claimed invention through routine optimization." The US Patent and Trademark Office argued that there was evidence for why the cloud point feature was the result of routine optimization. However, the Federal Circuit countered that the PTAB did not make these findings, and "we may not accept appellate counsel's *post hoc* rationalization for agency action."

Second, the Federal Circuit found that the PTAB had committed further error in failing to consider evidence proffered by appellant regarding notable differences in exemplified surfactant systems of the cited art and how the prior art did not achieve a cloud point above 70 °C. The PTAB merely stated that this evidence was not relevant. The Federal Circuit found that the proffered examples in the prior art contained components of the claimed surfactant system but did not achieve a cloud point above 70 °C, and were thus relevant.

Finally, the Federal Circuit found that by failing to adequately articulate its reasoning and not providing evidence that it would be obvious to achieve a cloud point greater than 70 °C, the PTAB failed to make a *prima facie* case of obviousness. The Court concluded that it was thus an error to shift the burden of proving patentability to Stepan.

Accordingly, the Federal Circuit vacated the decision and remanded to the PTAB for further proceedings.

Judge Lourie, in dissent, agreed that the PTAB should have articulated its reasoning but found that its conclusions were not erroneous. He argued, "[w]hile the majority faults the Board for not explaining itself adequately, based on reasoning with which I do not disagree, the rejection of the claims based on a reference we can plainly see, and which nearly anticipates the claims, does not in my view justify overturning the Board."

**Practice Note:** A cursory statement that a claim feature is the result of routine optimization may not be sufficient to support a rejection based on obviousness. Rather, a rejection should articulate why a skilled artisan would perform the optimization and have a reasonable expectation of success.

---

## **SECONDARY CONSIDERATIONS OF NON-OBVIOUSNESS CAP ON OBVIOUSNESS SHOWING**

---

*World Bottling Cap, LLC v. Crown Packaging Technology, Inc.*, Case No. IPR2015-01651 (PTAB, Jan. 19, 2017) (Saindon, APJ).

In a rare case where secondary considerations of non-obviousness carried the day, the Patent Trial and Appeal Board (PTAB) concluded that even though the petitioner made a sufficient obviousness showing, the patent owner's evidence of secondary considerations was sufficiently compelling to overcome such a showing. *World Bottling Cap, LLC v. Crown Packaging Technology, Inc.*, Case No. IPR2015-01651 (PTAB, Jan. 19, 2017) (Saindon, APJ).

The patent at issue is directed to a specific type of bottle cap, called a crown cap, used for glass beer or soda bottles. Crown caps have been around for more than a century but, according to the patent, Crown Packaging's cap was unique because it was made with thinner and harder steel than conventional caps.

World Bottling Cap argued that the patent was obvious over a combination of two prior art references. According to the petitioner, the first reference taught the overall process of forming a bottle cap, and the second reference taught the desirability of a steel bottle cap having the hardness of steel recited in the claims. In response, the patent owner argued that the two references could not be combined because the hard steel of the second reference would not work in the process of the first prior art reference. The PTAB disagreed with the patent owner and found the second reference's teachings sufficient to lead one of ordinary skill in the art to the claimed bottle cap, even if there would have been some associated disadvantages.

The PTAB then examined the patent owner's evidence of secondary considerations of non-obviousness, including evidence of commercial success, industry praise and copying by others. As for the specific evidence of non-obviousness, the patent owner submitted information of an increase in market share upon introduction of the new bottle cap, despite increasing international competition. Specifically, the PTAB credited evidence of increased market share in Peru (where there was no patent barrier) as significant. The PTAB credited the patent owner's evidence, particularly because the petitioner's rebuttal arguments had no evidentiary support and because the patent owner's evidence had a strong nexus to the claimed invention. Regarding industry praise, the PTAB found that the industry had long been attempting to make thinner, harder bottle caps, but could not overcome technical limitations that reduced pressure performance.

In support of its decision, the PTAB observed that "[a]lthough we do not find the argument that 'if it were so obvious, someone would have done it by now' persuasive as a matter of course, in the presence of certain additional facts, it can be a useful (but not sufficient) indicator of nonobviousness."

**Patents / Inter-partes Review (IPR) / Obviousness**

---

**REMAND TO PTAB FOR FAILURE TO ARTICULATE OBVIOUSNESS RATIONALE**

---

*In re NuVasive, Inc.*, Case No. 12-1670 (Fed. Cir., Dec. 7, 2016) (Wallach, J)

The US Court of Appeals for the Federal Circuit remanded a final decision of the Patent Trial and Appeal Board (PTAB) in an *inter partes* review (IPR) proceeding, criticizing the PTAB's obviousness determination for failing to clearly articulate a reason why it would have been obvious to combine the references on which it relied. *In re NuVasive, Inc.*, Case No. 12-1670 (Fed. Cir., Dec. 7, 2016) (Wallach, J).

The panel provided guidelines for how the PTAB must articulate a motivation to combine references. In the field of bone implants, NuVasive owns a patent directed to particularly placed radiopaque markers on bone implant structures. NuVasive's patent was challenged in an IPR as obvious over an alleged combination of patent and non-patent references.

During the initial proceedings at the PTAB, NuVasive challenged the public accessibility of the non-patent references on which the petitioner relied. NuVasive later abandoned those arguments at the hearing and instead focused on the non-obviousness of the proffered combination.

Ultimately, the PTAB determined that the claims were obvious over the cited references, rejecting NuVasive's arguments against such a combination because it "vastly underestimate[s]" the ordinary level of skill in the relevant field. The PTAB was not persuaded that it would have "confused" a person of ordinary skill in the art to make the alleged combination. NuVasive appealed.

The Federal Circuit faulted the PTAB for failing to make appropriate factual findings to support a motivation to combine. The PTAB's reasoning merely dismissed NuVasive's arguments as to why the two references were not combinable without stating explicit reasons why a person of ordinary skill in the art would have been motivated to make the combination. Without a record of explicit reasons, the Federal Circuit stated that it was unable to perform appellate review of the PTAB's obviousness determination because it could not assess whether it was supported by substantial evidence.

The Federal Circuit went on to provide examples of how the PTAB's prior decisions adequately articulated explicit reasons to combine and how other decisions fell short. Importantly, the Federal Circuit noted that "it is not adequate to summarize and reject arguments without explaining why the PTAB accepts the prevailing argument," and that conclusory statements or mere "common knowledge or common sense" cannot serve as a substitute for the required reasoned analysis and underlying evidentiary support.

**Practice Note:** The panel decision echoes the Federal Circuit's non-precedential decision in *Cutsforth v. MotivePower* remanding a final written decision for an explanation based on evidence as to obviousness. Similarly, in *Nike v. Adidas*, the Federal Circuit faulted the PTAB for failing to explain why the patent owner's commercial success evidence presented to support the non-obviousness of proposed claims in a motion to amend were not discussed, and remanded the case back to the PTAB.



## IPR CLAIM CONSTRUCTION

*Patents / Inter-partes Review (IPR) / Claim Construction***FEDERAL CIRCUIT OVERTURNS PTAB DECISION BASED ON “UNREASONABLE” CLAIM CONSTRUCTION**

*D’Agostino v. Mastercard International, Inc.*, Case Nos. 16-1592; -1593 (Fed. Cir., Dec. 22, 2016) (Taranto, J).

Finding that the Patent Trial and Appeal Board’s (PTAB’s) claim construction was “unreasonable,” the US Court of Appeals for the Federal Circuit vacated two PTAB *inter partes* review decisions. *D’Agostino v. Mastercard International, Inc.*, Case Nos. 16-1592; -1593 (Fed. Cir., Dec. 22, 2016) (Taranto, J).

This appeal concerns patents that describe processes for generating codes that customers provide to merchants when purchasing goods and services. The dispute centers on the PTAB’s interpretation of the “single merchant limitation” in the claims. The Federal Circuit found that this limitation requires that the authorizing entity, when asked for a transaction code, be told that the number of merchants to be covered by that code is one, and that the “particular merchant” be identified in a separate transaction. This interpretation is reinforced by the prosecution history and one of the embodiments in the written description. The Court found that the PTAB, despite properly applying the broadest reasonable interpretation standard to its claim construction, departed from the clear meaning of the claim term when it concluded that the claim limitation covers a situation in which the customer first seeks a transaction code for an identified “chain of stores” and later picks a specific store within that chain for the transaction. This scenario, the Court found, falls outside the single-merchant limitation as described by the claims and written description. Contrary to the PTAB’s construction, the “particular merchant” referred to in the claims is the particular “single merchant” and not a merchant that is later chosen from a potential group of merchants.

The Federal Circuit explained that in applying its erroneous claim construction, the PTAB found that the claimed scenario is disclosed by an earlier patent and, therefore, D’Agostino’s patent is anticipated and obvious. Because the PTAB’s claim interpretation was incorrect, the Court vacated and remanded the PTAB’s findings of anticipation and determinations of obvious for further proceedings.

**Patents / Inter-partes Review (IPR) / Obviousness****PTAB'S CONSIDERATION OF PRIOR ART NEEDS A TUNE UP**

*Shinn Fu Co. of America, Inc. v. The Tire Hanger Corp.*, Case No. 16-2250 (Fed. Cir., July 3, 2017) (Prost, CJ) (non-precedential).

The US Court of Appeals for the Federal Circuit remanded a case to the Patent Trial and Appeal Board (PTAB) where the PTAB had failed to consider a specific prior art combination and unpatentability argument advanced by the petitioner against the amended claims. *Shinn Fu Co. of America, Inc. v. The Tire Hanger Corp.*, Case No. 16-2250 (Fed. Cir., July 3, 2017) (Prost, CJ) (non-precedential).

Shinn Fu filed a petition for *inter partes* review (IPR), challenging all five claims of a patent owned by Tire Hanger that generally relates to methods and apparatus for handling and supporting vehicle wheels that have been temporarily removed from a vehicle positioned on a lift or hoist. The PTAB instituted review based on three asserted grounds of invalidity. In response, Tire Hanger filed a motion seeking to cancel claims one to five and replace them with substitute claims. Tire Hanger accompanied its amendments with arguments in support of patentability over the prior art cited for the instituted grounds of review as well as two newly cited prior art references. Shinn Fu opposed and presented arguments of unpatentability with regard to the references Tire Hanger identified in its motion and the two additional references.

After oral hearing, the PTAB concluded that the amended claims were patentable in light of the prior art of record and granted the patent owner's motion to amend. In its decision, the PTAB referred to only a subset of the prior art cited by the parties. Shinn Fu appealed, arguing that the PTAB failed to consider its position of unpatentability based on one of its cited combinations of prior art.

The Federal Circuit found that the PTAB erred by ignoring the manner in which Shinn Fu proposed its obviousness combinations in opposition to Tire Hanger's motion to amend. Despite Tire Hanger's arguments that Shinn Fu failed to thoroughly develop its unpatentability arguments during the trial, the Federal Circuit found that "Shinn Fu described various prior art references and, more importantly here, the particular *manner* in which to combine them." The Court further observed that aside from specifying the order in which to perform the recited steps, the claim amendments added human involvement to steps that an apparatus or other structure could have otherwise performed. The Federal Circuit explained that it could not review the PTAB's analysis with respect to Shinn Fu's described prior art combination because that analysis was completely missing from the PTAB's decision.

**Practice Note:** The Federal Circuit explained that the PTAB's error was failure to address the specific prior art combination cited by the petitioner, but that "the law does not require that the PTAB address every conceivable combination of prior art discussed throughout an IPR proceeding, no matter how duplicative the other references are."

**Patents / Inter-partes Review (IPR) / Claim Construction**

---

**BROADEST REASONABLE INTERPRETATION IS NOT BROADEST POSSIBLE INTERPRETATION**

---

*In re Smith Int'l, Inc.*, 871 F.3d 1375 (Fed. Cir. 2017) (Lourie, J)

Addressing an unpatentability decision of the Patent Trial and Appeal Board (PTAB or Board) that turned on claim construction, the US Court of Appeals for the Federal Circuit explained that the broadest reasonable interpretation (BRI) standard should not be treated as the broadest possible interpretation and instead must correspond to what is described in the specification. *In re Smith Int'l, Inc.*, 871 F.3d 1375 (Fed. Cir. 2017) (Lourie, J).

In 2012, Smith International sued Baker Hughes for infringement of four patents, including one directed to a tool for oil and gas drilling. Baker Hughes thereafter initiated ex parte re-examination proceedings against the drilling tool patent and later filed two petitions seeking *inter partes* review (IPR). The IPR petitions were denied for substantively overlapping the pending ex parte re-examination.

In the ex parte re-examination, the patent examiner found certain claims unpatentable by broadly interpreting the claim term “body” to encompass a collection of elements. Based on that interpretation, the examiner pointed to a combination of elements in the prior art, including the actual “body” member as well as its mandrel and cam sleeve, which collectively showed what was required for the claimed “body.”

Smith International appealed to the PTAB, which affirmed the examiner. The PTAB reasoned that the examiner’s construction was acceptable because the specification did not explicitly define the term “body” and did not explicitly prohibit the examiner’s broad view. Smith International then appealed to the Federal Circuit.

The Federal Circuit reversed. It first reiterated that the BRI—the claim interpretation standard applied in both ex parte re-examination and IPR—could not be so broad that the interpretation is unreasonable or legally incorrect. The Federal Circuit also explained that the BRI cannot simply be “not inconsistent” with the specification, or be the broadest possible interpretation, but instead must correspond to, and be interpreted in light of, the specification’s description of the invention. The Court pointed to the patent specification’s consistent description of its body as distinct from other elements, such as its mandrel, piston and drive ring, to conclude that the term “body” did not include those other elements.

**Patents / Inter-partes Review (IPR) / Cert Alert**

---

**SUPREME COURT TO REVIEW WHETHER PTAB MUST ADDRESS ALL ISSUES RAISED IN INTER PARTES REVIEW PETITION**

---

[SAS Institute Inc. v. Lee](#), Case No. 16-969 (Supr. Ct., May 22, 2017) (*cert* granted).

Echoing Judge Newman's dissent in the US Court of Appeals for the Federal Circuit's decision in *SAS Institute, Inc. v. ComplementSoft, LLC*, Case Nos. 15-1346; -1347 (Fed. Cir., Nov. 7, 2016) (*per curiam*) (Newman, J, dissenting), the Supreme Court of the United States granted *certiorari* to consider the issue of whether the Patent Trial and Appeal Board (PTAB) must address all patentability issues raised in a petition for *inter partes* review (IPR). [SAS Institute Inc. v. Lee](#), Case No. 16-969 (Supr. Ct., May 22, 2017) (*cert* granted).

Over the objections of the US Patent and Trademark Office, represented by the US Department of Justice (DOJ), the Supreme Court granted SAS Institute's cert petition. The DOJ argued that the statute (35 USC § 318(a)) only requires the PTAB, in its final written decision, to address the claims for which review was granted, a practice that follows the congressional intent of the America Invents Act.

The DOJ position follows that of the Federal Circuit in the underlying case ([IP Update, Vol. 19, No. 12](#)), where the Federal Circuit, citing its own decision in *Synopsis* ([IP Update, Vol. 19, No. 3](#)), concluded that the statute only requires the PTAB to address the claims "as to which review was granted." SAS filed a petition for rehearing and thereafter a petition for rehearing *en banc*, both of which were denied *per curiam*.

**Issue:** Whether 35 USC § 318(a), which provides that the PTAB in an IPR "shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner," requires the PTAB to issue a final written decision as to every claim challenged by the petitioner, or whether it allows the PTAB to issue a final written decision with respect to the patentability of only some of the patent claims challenged by the petitioner, as the Federal Circuit held.

## IPR REAL-PARTY-IN-INTEREST

***Patents / Inter-partes Review (IPR) / Real Party-in-Interest*****WITHOUT CONTROLLING INTEREST, CO-DEFENDANTS ARE NOT REAL PARTIES-IN-INTEREST IN INTER PARTES REVIEW**

*Panties Plus, Inc. v. Bragel International, Inc.*, Case No. IPR2017-00044 (PTAB, Apr. 12, 2017) (Weatherly, APJ).

Addressing issues of estoppel and the standard to be considered a real party-in-interest, the Patent Trial and Appeal Board (PTAB) granted institution of a petition for *inter partes* review (IPR), rejecting the patent owner's argument that the petition should be denied for failure to name the litigation co-defendants as real parties-in-interest. *Panties Plus, Inc. v. Bragel International, Inc.*, Case No. IPR2017-00044 (PTAB, Apr. 12, 2017) (Weatherly, APJ).

Bragel sued Panties Plus (PPI) as well as PPI's customers Charlotte Russe and Styles for Less for infringement of a breast form system. In response, PPI filed an IPR petition challenging the claims of the patent as being unpatentable under § 103. Bragel argued that PPI's petition should be denied for failure to identify all of the real parties-in-interest—specifically, PPI's co-defendants in the litigation. According to Bragel, because all of the co-defendants were represented by the same counsel, used the same expert and cooperated in the underlying litigations, PPI's failure to name its customers as real parties-in-interest would permit the customers to evade the estoppel provisions of 35 USC § 315(e)(2). Bragel further contended that PPI's failure to name its customers allowed it to unfairly extend the window during which the petition may be filed without running afoul of the time bar under 35 USC § 315(b).

The PTAB disagreed, concluding that Bragel failed to show that PPI's customers controlled its participation in the IPR proceeding. The PTAB explained that “[m]ere status as a co-defendant is insufficient to establish that the customer defendants had the required control over the filing of the Petition in this proceeding.” The PTAB rejected Bragel's estoppel argument, explaining that estoppel is not relevant when determining real party-in-interest status but is merely a pre-condition for justifying the application of estoppel. Rather, “control of a named party by an unnamed entity is the primary basis for determining whether the unnamed entity is a real party in interest.” Finding that PPI's cooperation with and status as co-defendant with its customers in the underlying litigation did not demonstrate that such customers had control or influence over PPI's conduct of the proceeding, the PTAB granted institution. As for Bragel's “extension” argument, the PTAB found it irrelevant, because Bragel presented no argument that the petition was barred, or would have been barred, as a result of the addition of PPI's customers.

IPR APPELLATE REVIEW

---

*IPR / Appeal*

---

**NOT ALL IPR PETITIONERS HAVE STANDING TO APPEAL**

---

*Phigenix, Inc. v. Immunogen, Inc.*, 845 F.3d 1168, 1176 (Fed. Cir. 2017) (Wallach, J)

The U.S. Court of Appeals for the Federal Circuit dismissed an appeal from the Patent Trial and Appeal Board (PTAB), finding the appellant did not demonstrate an injury in fact, and, thus, lacked Article III standing. *Phigenix, Inc. v. Immunogen, Inc.*, 845 F.3d 1168, 1176 (Fed. Cir. 2017) (Wallach, J).

Phigenix, Inc. and ImmunoGen, Inc. own patents purportedly related to the cancer treatment drug Kadcyła®™. ImmunoGen licensed its patent to Genentech, Inc. When Phigenix offered to license its patent to Genentech and Genentech refused, Phigenix alleged it “was forced” to bring litigation. Phigenix sought *inter partes* review of the claims of ImmunoGen’s patent. The PTAB found the claims nonobvious, and Phigenix appealed. ImmunoGen moved to dismiss the appeal, arguing Phigenix lacked standing to appeal the PTAB’s Final Written Decision in an *inter partes* review.

Before addressing the parties’ arguments, the Federal Circuit, for the first time, set forth the legal standard to demonstrate standing in an appeal from a final agency action. The Court established that (1) the “summary judgment burden of production” applies where an appellant seeks review of a final agency action and its standing is contested; (2) the burden of production is met by either identifying evidence in the record or submitting additional evidence to show standing; and (3) the appellant must produce such evidence “at the earliest possible opportunity.”

Having established the legal standard, the Federal Circuit held Phigenix lacked standing because it failed to show an injury in fact. Phigenix first argued it suffered an actual economic injury because ImmunoGen’s patent hampered its licensing efforts and increased competition between the two parties. The Court rejected Phigenix’s argument, finding its injury hypothetical and its supporting declaration conclusory. Phigenix’s evidence failed to satisfy Fed. R. Civ. P. 56(c)(4), which requires a declaration to set out facts admissible in evidence. Phigenix also asserted it suffered an injury in fact because 35 U.S.C. § 141(c) provides a statutory basis for appeal. The Court found this argument unpersuasive. It explained Phigenix’s exercise of its right to appeal does not necessarily establish it possesses Article III standing. Finally, the Court rejected Phigenix’s argument that its injury in fact is based on the estoppel effect of the PTAB’s final written decision under 35 U.S.C. § 315(e). Relying on *Consumer Watchdog* ([IP Update, Vol. 17, No. 7](#)), the Court stated the estoppel provision does not constitute an injury in fact when Phigenix is not engaged in any potentially infringing activity. Finding that Phigenix did not demonstrate standing, the Court dismissed the appeal.

**Patents / Inter-partes Review (IPR) / Appellate Review****SOMETIMES IT'S BETTER TO FORGO APPEAL**

*Wasica Finance GmbH v. Continental Automotive Systems Inc., et al.*, Case Nos. 15-2078; -2079; -2093; -2096 (Fed. Cir., Apr. 4, 2017) (Schall, J)

The US Court of Appeals for the Federal Circuit affirmed in part and reversed in part cross-appeals of two *inter partes* review (IPR) decisions (IPR2014-00295 and IPR2014-00476) based on various arguments relating to claim construction and prior art disclosure, and, in doing so, added to the list of challenged claims that the Patent Trial and Appeal Board (PTAB) had determined were unpatentable. *Wasica Finance GmbH v. Continental Automotive Systems Inc., et al.*, Case Nos. 15-2078; -2079; -2093; -2096 (Fed. Cir., Apr. 4, 2017) (Schall, J).

In the PTAB proceedings, some of the challenged claims were found to be unpatentable and others not. The patent owner appealed, and the petitioner cross-appealed.

The Federal Circuit affirmed the PTAB, finding that a subset of challenged claims were anticipated or obvious in light of the cited prior art in two IPR decisions. The Court also affirmed the PTAB's decision that another subset of challenged claims were not anticipated or obvious in light of the cited prior art. Finally, the Court reversed the PTAB's decision that another claim was not anticipated or obvious in light of the cited prior art, thus adding to the list of claims found to be invalid.

In the appeal, patent owner/appellant Wasica disputed the constructions of the terms "electrical pressure signal," "pressure transmitting signal" and "emittance." Petitioner/cross-appellant Continental disputed whether the prior art met the disclosed "constant frequency" limitation and the construction of the term "bit sequence." Wasica asserted that if the terms "electrical pressure signal" and "pressure transmitting signal" were properly construed to require the inclusion of numerical values, the prior art did not anticipate or render obvious the claims. The Federal Circuit confirmed the PTAB constructions, finding that there was no presentation disclaimer and that the patent specification disclosed both symbols and numerical values.

Wasica also argued that if the term "emittance" was properly construed to be limited to wireless communications, the prior art did not anticipate or render obvious other challenged claims. The Federal Circuit again confirmed the PTAB constructions, finding that the patent specification disclosed both wired and wireless systems.

Continental and cross-appellant Schrader asserted that the prior art anticipated another challenged claim because it met the "constant frequency" claim limitation. The Federal Circuit disagreed, finding that the prior art reference was ambiguous about the disclosure of a "constant frequency," and as such it did not anticipate the claim. In addition, the Court explained that Continental and Schrader could not shift their position on appeal to cure deficits that were not addressed in their petitions to the PTAB.

Finally, Continental and Schrader argued that the prior art did not anticipate or render obvious another challenge, if the term "bit sequence" was properly construed as a sequence of "one or more bits." On this issue, the Federal Circuit agreed, finding that the specification disclosed an embodiment that contained only a single bit. Accordingly, the Court reversed the PTAB and found that additional claim to be invalid.

## **PTO IMPLEMENTS ATTORNEY DISCIPLINE DIVERSION PROGRAM**

The US Patent and Trademark Office (PTO) initiated a two-year Diversion Pilot Program to align its attorney discipline program with the practices of more than 30 states. The program is designed to give patent and trademark practitioners who engage in minor misconduct the opportunity to avoid formal discipline by implementing remedial measures. The program is available to practitioners whose physical, mental or emotional health issues (including substance or alcohol abuse) or law practice management issues resulted in minor misconduct and little, if any, harm to a client. In certain circumstances, the practitioner will be offered the opportunity to enter into a diversion agreement with the PTO, but will be required to take affirmative steps to correct the issue that led to the minor misconduct.

The criteria for participation in the program initially will be based on criteria recommended by the American Bar Association. To participate in the program, practitioners must not have been publicly disciplined by the PTO or any other jurisdiction in the prior three years, and the conduct at issue must not involve fraud, deceit, misappropriation of funds or a serious crime. In addition, the conduct must not result in or be likely to result in substantial prejudice to the client or other persons. Finally, practitioners are not eligible to participate if the conduct at issue is part of a pattern of similar misconduct or is of the same nature as misconduct for which the practitioner has been disciplined within the past five years.

Once the PTO determines that a practitioner is eligible to participate in the program, other factors will determine whether the diversion program is appropriate in a particular case. Those factors include, for example, whether the sanction is likely to be less severe than reprimand or admonition, whether participation is likely to benefit the practitioner and accomplish the goals of the program, and whether diversion was already attempted.



**POST-GRANT REVIEW (PGR)**

---

***Patents / Post-Grant Review (PGR)***

---

**FINAL WRITTEN DECISION DEMONSTRATES BREATH OF POST-GRANT REVIEW**

---

*US Endodontics, LLC v. Gold Standard Instruments, LLC*, Case No. PGR2015-00019 (PTAB, Dec. 28, 2016) (Goodson, APJ)

In a Final Written Decision (FWD) in a post-grant review (PGR), the Patent Trial and Appeal Board (PTAB) addressed post-grant review eligibility, enablement, written description and anticipation. *US Endodontics, LLC v. Gold Standard Instruments, LLC*, Case No. PGR2015-00019 (PTAB, Dec. 28, 2016) (Goodson, APJ).

Only patents that are subject to the American Invents Act (AIA) first-inventor-to-file provisions, *i.e.*, maturing from an application that contains a claim having an effective filing date on or after March 16, 2013, are eligible for PGRs. Petitioners bear the burden of demonstrating that a patent is eligible and the challenged patent here claims priority to a series of continuations and divisionals dating back to June 7, 2005, as well as to a provisional application filed on June 8, 2004.

Petitioner argued that several of the challenged claims were not entitled to a filing date earlier than the actual filing date of the application that matured into the challenged patent, which was later than March 16, 2013. Petitioner argued that the challenged patent did not satisfy either the enablement or written description requirements for the challenged claims, notwithstanding that it shares the same specification as the priority applications. Thus, petitioner argued the claims were not entitled to claim priority to the earlier applications, and were therefore eligible for PGR. PTAB agreed.

As to enablement, Petitioner's arguments focused on the disclosed range of temperatures at which the claimed heat treatment of the claimed endodontic instruments occurs. Petitioner argued the method is inoperative because heat testing results did not exhibit the claimed permanent deformation that should have resulted from using the claimed heat treatment parameters. PTAB agreed, finding that "the guidance the Specification provides regarding how to achieve the deformation characteristic recited in the 'wherein' clause is quite limited compared to the broad scope of [the] claims ... ." Further, "the inclusion in a claim's scope of inoperative species is a relevant consideration in the enablement analysis" and "the inability to achieve what is recited in the 'wherein' clause using heat-treatments within the scope of the claims contributes to the enablement problem." PTAB also agreed that an artisan would require undue experimentation to practice the full scope of the challenged claims using the teachings of the specification as a guide.

As to written description, the Petitioner, citing the *en banc* Federal Circuit decision in *Ariad* (2010), argued that the challenged claims do not satisfy the § 112 written description requirement. The written description analysis looks at whether application reasonably conveys to those skilled in the art that the inventor had possession of the claimed subject matter as of the filing date. Petitioner argued that under *Ariad*, use of functional language (*i.e.*, the "wherein" clause) to define the boundaries of the claimed genus (*i.e.*, to claim the desired permanent deformation result) was insufficient because the functional language simply claims a desired result without describing how to achieve that result. PTAB agreed concluding that the specification did not demonstrate possession of heat-treatment in the claimed range in order to achieve the claimed result.

PTAB also agreed with Petitioner that the challenged claims were anticipated by a 2008 published patent application. The patent owner's only argument was that the published application post-dates the claimed priority date. However, due to its earlier determination regarding the effective filing date of the challenged claims, PTAB concluded the published application was prior art and anticipatory.

**AIA / Post-Grant Review (PGR) / Subject Matter Eligibility****EVIDENCE TO NEGATE POST-GRANT REVIEW ELIGIBILITY BASED ON FILING DATE MAY NOT BE SUFFICIENT TO ESTABLISH FILING DATE FOR PURPOSES OF ANTEDATING PRIOR ART**

*Inguran, LLC v. Premium Genetics (UK) Ltd.*, Case No. PGR2015-00017 (PTAB, Dec. 20, 2016) (Droesch, APJ)

Addressing for the first time the sufficiency of evidence needed to establish an earlier priority date for purposes of post-grant review (PGR) eligibility versus the evidence required to antedate a prior art reference, the Patent Trial and Appeal Board (PTAB) held that the patentee must show § 112 support for each claim limitation as of the earlier priority date in order to antedate a reference. *Inguran, LLC v. Premium Genetics (UK) Ltd.*, Case No. PGR2015-00017 (PTAB, Dec. 20, 2016) (Droesch, APJ).

Inguran sought PGR of 14 claims of Premium Genetics' patent. The PTAB instituted trial on all 14 claims. PGR is only available to patents that are subject to the first inventor to file provision of the America Invents Act (AIA), which applies to patents and applications that include a single claim having an effective filing date on or after March 16, 2013. The challenged patent issued from an application filed on January 31, 2014, and claimed priority to several provisional and non-provisional applications filed before March 16, 2013. Thus, Inguran could only establish standing by identifying at least one claim in the challenged patent that was *not* entitled to a pre-March 16, 2013 priority date.

In the initial petition, Inguran argued that claims 1 and 2 were not entitled to a pre-AIA priority date and pointed to specific limitations in each claim that Inguran alleged were not disclosed in any priority application. Premium Genetics argued that both claims were entitled to pre-AIA filing dates. The PTAB agreed with Premium Genetics as to claim 1 and Inguran as to claim 2.

Premium Genetics interpreted the PTAB's decision with respect to claim 1 as an affirmative finding that claim 1 was entitled to an earlier priority date. As such, Premium Genetics argued that the § 102(a) art cited by Inguran was no longer applicable. The PTAB disagreed. In deciding that Inguran *failed to establish* that claim 1 was not entitled to an earlier filing date, the PTAB had not decided whether claim 1 was in fact *actually* entitled to earlier priority date. Rather, the PTAB left that question open.

In order to affirmatively establish that a particular claim is entitled to an earlier filing date, Premium Genetics must show that the earlier application contains sufficient § 112 support for each claim limitation. Because Premium Genetics only rebutted Inguran's argument with respect to a single claim limitation, Premium Genetics' evidence in rebuttal was insufficient to show that claim 1 was entitled to an earlier filing date.

**Practice Note:** Each and every claim limitation need not be analyzed when establishing standing for purposes of PGR eligibility, but the patent owner must show § 112 support for each claim limitation in order to show that a particular claim is entitled to an earlier filing date.

## OTHER PTAB MATTERS

***Patents / Other PTAB MATTERS / Written Description / Interferences*****REMAND WHERE PTAB DECISION DOES NOT EXPLAIN REASONING,  
ACCOUNT FOR ALL EVIDENCE**

*Stanford University v. Chinese University of Hong Kong*, Case No. 15-2011 (Fed. Cir., June 27, 2017) (O'Malley, J).

In reviewing a decision from the Patent Trial and Appeal Board (PTAB) deciding three interferences involving competing claims directed to testing methods for fetal aneuploidies, the US Court of Appeals for the Federal Circuit reversed a priority award to the junior party, remanding the case back to the PTAB to reconsider its finding that the senior party's claims were unpatentable for failure of written description. *Stanford University v. Chinese University of Hong Kong*, Case No. 15-2011 (Fed. Cir., June 27, 2017) (O'Malley, J).

Aneuploidies are a condition in which a fetus has either an abnormally high number of chromosomes (e.g., Down's syndrome) or an abnormally low number (e.g., Turner's syndrome). Prior art techniques for diagnosing fetal aneuploidies involved invasive amniocentesis or chorionic villus sampling. Less invasive methods, such as ultrasonography and biochemical marker detection, were also used, but those techniques offered suboptimal accuracy. The interference was directed to an invention that used "second generation massively parallel sequencing (MPS) and PCR amplification of chromosome DNA."

In order to provoke the interference, senior party Stanford copied claims from the junior party's patent that were diverted to random sequencing. In its specification, senior party disclosed MPS with digital PCR "using the Illumina sequencing platform." In the interference proceedings between Stanford and junior party Chinese University of Hong Kong, the PTAB found that Stanford's claims were unpatentable for lack of written description as it related specifically to random sequencing, rejecting senior party's expert evidence that the Illumina platform could be useful for both random and targeted sequencing.

Stanford appealed directly to a district court under 35 USC § 146, but soon thereafter the Federal Circuit issued its decision in *Biogen v. Japanese Found. For Cancer Res.* ([JP Update, Vol. 18, No. 6](#)), holding that, for post-America Invents Act interferences, the Federal Circuit is the exclusive appellate tribunal from PTAB interference decisions. The appeal was then transferred to the Federal Circuit.

The Federal Circuit rejected Stanford's argument that *Biogen* was incorrectly decided and refused to consider discovery, including expert reports, taken while the case was pending before the district court. "Given that the district court did not have subject matter jurisdiction to review the Board's interference decisions, Stanford's attempt to include evidence elicited during proceedings there is inappropriate—the activities in the district court are a nullity."

Based only on the record before the US Patent and Trademark Office, and applying the substantial evidence standard of review, the Federal Circuit concluded that the PTAB erred in relying on certain testimony from the junior party's expert as to how a person of skill in the art would have understood Stanford's specifications and the implications of certain references disclosed in them. The Court agreed with Stanford that the junior party's expert testimony failed to cite support for its conclusions and to consider evidence presented by Stanford on those issues. The Federal Circuit explained that the PTAB should not have relied on the junior party expert testimony in question without at least accounting for the evidence presented by Stanford, as that left the Court "with no reviewable record to conclude that the disclosed methods or platforms would have been applicable to ... [the] priority date."

The Court further faulted the PTAB for adopting the junior party's expert's conclusion that a reference in Stanford's specification to the Illumina platform could only disclose either random or focused MPS when it could have disclosed both. "The Board frames its finding in terms of an erroneous premise: the Board's task was to determine whether the [...] patent's written description *discloses random* MPS sequencing, as recited in the later-added claims, not whether the description *does not preclude targeted* MPS sequencing" (emphasis in original).

The Federal Circuit therefore vacated the PTAB's decision, finding that the PTAB, in relying only on the junior party's expert evidence, had failed to cite substantial evidence to support its findings. The Court instructed the PTAB to consider, on remand, whether a person of ordinary skill would have understood that the patent's specification disclosed random MPS sequencing and would have known, as of the priority date, that the specification's reference to certain products indicated the inventors were in possession of random MPS sequencing based on the products/platforms cited in the specification.

**Patents / Other PTAB Matters / Re-Examinations****INCONSISTENT PTAB FINDINGS LEAD TO ERROR**

*Vicor Corp. v. SynQor, Inc.*, Case Nos. 16-2283; -2288 (Fed. Cir., Aug. 30, 2017) (Chen, J).

The US Court of Appeals for the Federal Circuit affirmed in part, vacated in part and remanded the decisions in two re-examinations after finding that they contained inconsistent holdings on identical issues on essentially the same record. While finding error in this case, the Court emphasized that error does not necessarily exist when an agency reaches inconsistent outcomes in similar and related cases. *Vicor Corp. v. SynQor, Inc.*, Case Nos. 16-2283; -2288 (Fed. Cir., Aug. 30, 2017) (Chen, J).

Vicor requested *inter partes* re-examinations of two SynQor patents: US Patent Nos. 8,023,290 ('290 patent) and 7,272,021 ('021 patent). Both patents are directed to a DC-DC power converter system that uses a two-stage architecture to separate the isolation and regulation functionality of DC-DC converters into two steps, and uses a single isolation stage to drive multiple regulation stages. According to SynQor, this two-stage architecture ultimately came to be known as Intermediate Bus Architecture.

Both requests for re-examination were granted. Ultimately, the PTAB found that all disputed claims in the '290 patent were patentable and all disputed claims in the '021 patent were unpatentable.

Regarding the '290 patent, *inter partes* re-examination was originally granted based on five separate obviousness grounds. During the proceeding, the Examiner found that rejections for two of the grounds urged were improper because the two cited references could not be combined because of frequency incompatibilities between the circuits disclosed in each of the references. The Examiner withdrew two other rejections based on secondary considerations of non-obviousness and found there was no motivation to combine the references cited in two other rejections. The PTAB affirmed the Examiner's findings.

With respect to the '021 patent re-examination, the PTAB reached opposite conclusions despite reliance on the same objective evidence and references. The PTAB found that the objective evidence was related to the claimed features that were known in the art, and therefore was insufficient to outweigh the obviousness finding. Regarding the obviousness rejections over the same references involved in the '290 patent re-examination, the PTAB held that the references could be combined despite statements on the record discouraging the combination.

Vicor appealed the PTAB's decision in the '290 re-examination, and SynQor appealed the PTAB's decision in the '021 re-examination.

On appeal, the Federal Circuit found the PTAB's treatment of proposed rejections in the '290 patent re-examination to be erroneous for two reasons. First, by relying solely on the objective evidence, the PTAB ignored three of the four *Graham* factors when conducting the obviousness analysis. According to the Federal Circuit, that legal error was underscored by the opinion issued on the same day in the '021 patent reexamination, where the PTAB considered all four *Graham* factors in analyzing the obviousness issues.

Second, the PTAB reached inconsistent conclusions with respect to the evidentiary weight of the same objective evidence presented in the two re-examinations, without providing any explanation to justify the inconsistency. The Court also found direct conflict between the PTAB's analyses in the two re-examinations as to whether the same two references can be combined. The Court faulted the PTAB for not providing any reasoned explanation for the inconsistent results.

Noting that it is not always erroneous when an agency reaches opposite findings in related cases, the Federal Circuit found that "under the circumstances here, where a panel simultaneously issues opinions on the technical issue between the same parties on the same record, and reaches opposite results without explanation, we think the best course is to vacate and remand these findings for further consideration."

**Patents / Other PTAB Matters / Standing in Appeal from PTAB**

---

**RESPONDENT HAS STANDING IN APPEAL FROM PTAB**

---

*Personal Audio, LLC v. Elec. Frontier Found.*, Case No. 16-1123 (Fed. Cir., Aug. 7, 2017) (Newman, J).

In an opinion addressing the standing of a respondent in an appeal from an *inter partes* review (IPR) before the Patent Trial and Appeal Board (PTAB or Board), the US Court of Appeals for the Federal Circuit concluded that the respondent, unlike the petitioner, is not constitutionally excluded from appearing in court to defend the PTAB's decision. *Personal Audio, LLC v. Elec. Frontier Found.*, Case No. 16-1123 (Fed. Cir., Aug. 7, 2017) (Newman, J).

Electronic Frontier Foundation (EFF) requested *inter partes* review (IPR) of a Personal Audio patent directed to a system and apparatus for storing and distributing episodic media files. During the IPR, the PTAB found the challenged claims anticipated and obvious. Personal Audio appealed.

The Federal Circuit addressed whether EFF has standing to participate in the appeal in view of the Court's earlier decision in *Consumer Watchdog v. Wisconsin Alumni Research Foundation* ([JP Update, Vol. 17, No. 7](#)). In that case, the Court held that a PTAB petitioner that does not meet the Article III case-or-controversy requirement does not have standing to invoke judicial power and thus does not have standing to appeal to the Federal Circuit from a PTAB decision in an IPR.

Here, the Federal Circuit noted that Personal Audio, not EFF, is the appellant, and Personal Audio has standing in view of the alteration of its tangible legal rights. Standing to appeal is measured for the party seeking entry to the federal courts for the first time in the lawsuit. With Article III satisfied as to Personal Audio, EFF is not constitutionally excluded from appearing in court to defend the PTAB's decision in its favor.

**Patents /Other PTAB Matters/ Interference / Enablement****FAILURE TO SATISFY ENABLEMENT REQUIREMENT RESULTS IN PRIORITY AWARD TO JUNIOR PARTY**

*Storer et al. v. Clark*, Case No. 15-1802 (Fed. Cir., June 21, 2017) (Newman, J)

The US Court of Appeals for the Federal Circuit affirmed a Patent Trial and Appeal Board (PTAB) decision, rendered in the context of a patent interference contest, resolving priority of invention to a hepatitis C treatment on the basis of the senior party's reliance on a priority document that was found to be non-enabling of the count. *Storer et al. v. Clark*, Case No. 15-1802 (Fed. Cir., June 21, 2017) (Newman, J).

Storer and his co-inventors were issued a patent, the effective filing date of which was based on a non-provisional patent application filed on June 27, 2003, but that also claimed priority to a provisional application filed June 28, 2002. Storer's patent was assigned to Idenix Pharmaceuticals. Another inventor, Clark, filed a patent application on September 12, 2007, with a claim of priority to a provisional application filed on May 30, 2003. Storer and Clark both claimed a treatment of hepatitis C using modified nucleoside compounds having a fluorine substituent in the 2' position. Because the application for Storer's patent and Clark's pending application were filed before the effective date of the America Invents Act, the first-to-invent rule applies, and the US Patent and Trademark Office declared an interference to determine which inventor was entitled to priority.

Storer was initially declared the senior party based on the June 28, 2002, provisional application filing date. Clark moved to deny Storer the priority date of the provisional application and to invalidate Storer's claims, arguing that the provisional application did not enable compounds having a 2'F (down) substituent. In response, Storer argued that these compounds were generically disclosed in his provisional application and were readily obtained based on the disclosure in the provisional application and the prior art.

The PTAB found that Storer was not entitled to the 2002 provisional application filing date and awarded priority to Clark. The PTAB determined that the claimed compounds having a 2'F (down) substituent were not enabled in Storer's provisional application because undue experimentation would be required to produce the claimed stereochemical structure. In reaching its conclusion, the PTAB analyzed the so-called *Wands* factors—*i.e.*, the factual considerations used to determine whether undue experimentation is required. The PTAB concluded that undue experimentation was required to produce the claimed compound because, among other things, (1) synthesis of the claimed compound required at least two years of high-priority experimentation by multiple experts; (2) the provisional application provided little guidance and no examples on synthesizing the claimed compound; (3) fluoridation of tertiary alcohols to produce a 2' down tertiary fluorine was not known in the prior art; (4) the level of skill in the art was highly sophisticated; and (5) the relevant art was highly unpredictable. Storer appealed.

On appeal, Storer argued that the 2002 provisional application disclosed "the precise chemical structure of the target compound" and that prior art known as Matsuda Compound 17 contains "a well-known precursor compound that is only one step away from the target compound." Based on these disclosures, Storer argued that the Matsuda 17 Compound is readily converted into the target compound by known methods to produce the claimed stereochemistry.

The Federal Circuit disagreed, finding that the Storer provisional application did not describe synthesis of the 2'F (down) target compounds. Instead, the Storer provisional application disclosed two general approaches to synthesizing, neither of which taught or suggested conversion of any precursor into the 2'F (down), and even assuming that a skilled artisan would have started with the Matsuda Compound 17, there was no evidence that the critical stereochemical result would have predictably ensued. Indeed, to the contrary, there was evidence that Storer and his team had difficulty and failures synthesizing the target compound, and the chemistry was unpredictable. Given the entire record, the Court found that the PTAB's decision to award priority to Clark was supported by substantial evidence.

## TRADE SECRETS

### DEFEND TRADE SECRETS ACT

---

#### *Trade Secrets / Economic Espionage Act / Trade Secrets Misappropriation*

---

## **CONVICTION FOR ECONOMIC ESPIONAGE, SALE OF TRADE SECRETS TO CHINA**

---

*United States v. Liew, et al.*, Case No. 14-10367 (9th Cir. May, 5, 2017) (Owens, J).

The US Court of Appeals for the Ninth Circuit upheld the first federal jury criminal conviction for economic espionage and theft of trade secrets under the Economic Espionage Act of 1996 (EEA), even though the owner of the trade secrets sold a facility allegedly embodying the trade secrets. *United States v. Liew, et al.*, Case No. 14-10367 (9th Cir. May, 5, 2017) (Owens, J).

This case involves the ability to build a titanium dioxide (TiO<sub>2</sub>) chloride facility. TiO<sub>2</sub> is a “commercially valuable” white pigment extracted from ore, and DuPont has been and continues to be the industry leader in the technology. In the 1990s, China wanted to develop TiO<sub>2</sub> production capabilities to replace its molten-salt process and elicited the help of Walter Liew, a US citizen.

Liew hired two retired DuPont employees, Robert Maegerle and Tim Spitler, as consultants for his company, Performance Group, and later, USA Performance Technology, Inc. (USAPTI). Both former DuPont employees had experience at DuPont’s TiO<sub>2</sub> facilities, and both had certified, upon their retirement from DuPont, that they had returned all “secret or confidential” materials and agreed “not to use or divulge” such information without DuPont’s permission. By 2005, Maegerle was serving as Liew’s “in-house expert” in multimillion-dollar contracts with Pangang, a Chinese company, to upgrade Chinese molten-salt plants into chloride process facilities.

In August 2010, DuPont received an anonymous letter stating that Liew and others had “embezzled DuPont technology and sold it to China.” DuPont and the Federal Bureau of Investigation began investigating. DuPont later sued for trade secret misappropriation, and federal prosecutors indicted and charged Liew and USAPTI with conspiracy, as well as economic espionage and trade secret theft under the EEA.

The EEA punishes economic espionage that involves (1) trade secret misappropriation intended to benefit any foreign government, and (2) theft of trade secrets where the trade secret “is related to a product or service used in or intended for use in interstate or foreign commerce” and knowingly converted to the economic benefit of anyone other than the owner.

In March 2014, a federal jury convicted Liew and USAPTI of violating the EEA. Defendants appealed, challenging the district court’s jury instruction, the court’s refusal to give jury instructions regarding the meaning of “trade secrets,” and the sufficiency of trade secret evidence.

On appeal, defendants argued for the first time that the compilation instruction was erroneous because it omitted a principle that “a compilation cannot constitute a trade secret if ‘one skilled in the art could view the nonsecret elements and replicate the combination without undue difficulty.’” However, the Ninth Circuit ruled that defendants failed to show that the given instruction was incorrect, misleading or inadequate.

The Ninth Circuit also found that the district court correctly rejected defendants’ proposed instructions on “public disclosure,” “reverse engineering” and “general knowledge.” The public disclosure instruction was superfluous because the given instructions informed the jury that generally known/readily ascertainable information could not qualify as trade secret material. The proposed instruction stating that disclosure to a single recipient who is not legally bound to maintain the secrecy destroys trade secret protection was also properly rejected because it was unsupported by the EEA’s then-definition of trade secrets. The Court concluded that defendants’ proposed instructions on reverse engineering and fair-use of “general knowledge” were



unnecessary since the jury had already been instructed that individuals can independently develop technology through proper means, and that former employees are free to use non-trade secret information and skills gained through employment.

Finally, the Ninth Circuit noted that the government was not required to prove that DuPont's technology had been disclosed when DuPont sold one of its TiO<sub>2</sub> facilities; it only had to show that DuPont took reasonable measures to guard it—which it had. As such, the sale of DuPont's Antioch/Ashtabula factory and DuPont's increased use of contractors had no bearing on whether that material remained protected because the technology used at that factory was different from the relevant trade secret material used at other plants, and the EEA's then-requirement was that trade secrets not be generally known to "the public," which is consistent with DuPont's employment of "secure eyes contractors." Thus, the Court found that ample evidence supported the conviction.

**CUTSA****Trade Secrets / CUTSA****INTERIM ADVERSE JUDGMENT RULE AVERTS MALICIOUS PROSECUTION CLAIM**

*Parrish v. Latham & Watkins*, Case No. S228277, Ct.App. 2/3 B244841 (Cal., 2017) (Kruger, J).

The California Supreme Court found that the denial of summary judgment in an underlying trade secrets misappropriation action established sufficient probable cause to bring an action under the California interim adverse judgment rule concerning the probable cause element of a malicious prosecution claim, even though the trade secrets action was later found to have been brought in bad faith. *Parrish v. Latham & Watkins*, Case No. S228277, Ct.App. 2/3 B244841 (Cal., 2017) (Kruger, J).

Plaintiffs Parrish and Fitzgibbons previously served as officers at FLIR, a microbolometer device manufacturing company (later acquired by Indigo) (the Company). They left the Company to pursue a new, competing venture and solicited venture capital by presenting a business plan allegedly developed while both were still employed by the Company. The Company sued Parrish and Fitzgibbons for trade secrets misappropriation under the California Uniform Trade Secrets Act (CUTSA).

Plaintiffs sought a summary judgment motion, arguing that the business plan was developed before they joined the Company and that no trade secrets would be misappropriated in the plan's implementation. The Company opposed, relying on expert declarations that the business plan could not be implemented without using the Company's trade secrets. The trial court denied the summary judgment motion. Given the "highly technical nature of the case," the trial court concluded that the Company produced sufficient evidence to raise a triable issue as to misappropriation, and that Parrish and Fitzgibbons did not sustain their burden of showing that the new business plan was not based on the Company's intellectual property.

After the bench trial, the judge denied the Company's request for relief, concluding that the Company had pursued the action in subjective and objective bad faith that was rooted in an "anticompetitive motive." The trial judge also stated that the Company relied on a legal theory of inevitable misappropriation that was not supported by California law, and that the Company knew or should have known that it did not have sufficient evidentiary basis to initiate and continue the lawsuit through trial. Parrish and Fitzgibbons were awarded more than \$1.6 million in fees and costs. Not only was the decision affirmed on appeal, but the appellate court also rejected the Company's argument that the trial court was estopped from finding bad faith because it had earlier denied Parrish and Fitzgibbons summary judgment motion. However, that denial was based on the experts who, at trial, "admitted there was no valid scientific methodology to predict trade secret misuse and agreed that no trade secrets were misappropriated."

Parrish and Fitzgibbons then brought the present malicious prosecution claim against the Company's counsel. In response, defendants filed an anti-SLAPP motion to strike the malicious prosecution claim, which the court granted because the action was untimely under the one-year statute of limitations (Cal. Civ. Proc. 340.6(a)). Plaintiffs appealed.

During that appeal, the Court of Appeal issued its 2014 ruling in *Roger Cleveland Golf*, which held that a two-year—not one-year—statute of limitation applied to a malicious prosecution case when filed against a former litigation adversary's lawyer. The appellate court nevertheless ruled that the interim adverse judgment rule applied, *i.e.*, the Company was not liable for malicious prosecution because it did not lack probable cause.

Plaintiffs petitioned the California Supreme Court for review. While the petition was pending, the California Supreme Court issued its 2015 ruling in *Lee v. Hanley*, which disapproved *Roger Cleveland* and held that the one-year statute of limitation applied. However, the California Supreme Court did not reach the statute of limitations issue on appeal, having agreed that the interim adverse judgment rule applied.

**Practice Note:** Had the adverse judgment been obtained by fraud or perjury, the interim adverse judgment rule would not apply. Here, however, the California Supreme Court concluded that the trial court judgment had not been obtained through fraud or perjury, and as such, the California trial court's post-trial finding that the trade secrets suit was brought in "bad faith" within the meaning of CUTSA did not "vitiating the [court's] earlier finding that [the Company's] suit had some arguable merit." In other words, the earlier denial of summary judgment in the underlying trade secrets action established probable cause to bring that action.

## ARBITRATION AGREEMENTS

---

### *Trade Secrets / Arbitration Agreements (Equitable Estoppel)*

---

## **MORE BUMPS IN THE ROAD FOR UBER ALONG THE TRADE SECRET HIGHWAY**

Waymo LLC v. Uber Technologies, Inc., Ottomotto LLC, Otto Trucking LLC, 870 F.3d 1342 (Fed. Cir. 2017) (Newman, J); Waymo LLC v. Uber Technologies, Inc., Ottomotto LLC, Otto Trucking LLC, 870 F.3d 1350 (Fed. Cir. 2017) (Wallach, J)

The US Court of Appeals for the Federal Circuit affirmed a California district court decision denying a trade secret defendant's motion to compel arbitration based on a prior employment agreement between the plaintiff and an employee of the defendant, and rejected the arguments of a former director of the defendant that a third-party confidential report is protected from discovery solely because it may incriminate him. *Waymo LLC v. Uber Technologies, Inc., Ottomotto LLC, Otto Trucking LLC*, 870 F.3d 1342 (Fed. Cir. 2017) (Newman, J); *Waymo LLC v. Uber Technologies, Inc., Ottomotto LLC, Otto Trucking LLC*, 870 F.3d 1350 (Fed. Cir. 2017) (Wallach, J).

Google spin-off Waymo sued Uber and Ottomotto for violations of federal and state trade secret laws and patent infringement. The case centers on former Google employee Anthony Levandowski, who left Google to form Ottomotto in 2016. Uber subsequently purchased Ottomotto. Waymo alleges Levandowski stole 14,000 computer files on Waymo's driverless vehicle technology prior to leaving the company and founding Ottomotto.

### **Arbitration**

Uber argued that Waymo should be compelled to arbitrate its dispute with Uber and Ottomotto because of an arbitration clause in an employment agreement between Waymo and Levandowski.

Although not a party to the agreement, Uber argued that the agreement should equitably apply since the complaint alleges that the misappropriation was conducted by virtue of Levandowski's job at Waymo. However, Waymo represented that it expressly forswore reliance on its employment agreements with Levandowski to prove its claims. The district court agreed with Waymo and denied Uber's motion to compel arbitration.

The Federal Circuit agreed, finding that under California contract law the arbitration clause does not apply to Uber. California law requires reliance on the contract bearing the arbitration clause as fundamental to compulsion by a non-party to arbitrate. Although courts have applied equitable estoppel to compel arbitration when necessary, that has been limited to narrow situations. Since Waymo expressly disclaimed any affirmative use of the employment contracts containing the clause, the Court determined that equitable estoppel does not apply.

### **The Secret Report**

During document discovery, the district court granted Waymo's motion to compel production of a report prepared by cybersecurity firm Stroz Friedberg LLC prior to Uber's acquisition of Ottomotto. The report investigated Ottomotto employees who previously worked at Waymo, including Levandowski. Uber and Ottomotto attempted to quash the production, but the district court denied the motions. Levandowski intervened in the lawsuit for the limited purpose of opposing disclosure of the report. He argued that disclosure of the report would be "particularly injurious or novel." Because the orders were not appealable final judgments, Levandowski presented his appeal as a writ of mandamus.

The Federal Circuit determined that Levandowski failed to articulate any persuasive reasons why disclosure of the report should be barred, noting that the possibility of admissions against his interest is a valid function of civil discovery. The Court specifically pointed out that it is inappropriate to withhold relevant material in the civil action. Rejecting his petition, the Court held that Levandowski failed to meet any of the three requirements necessary to establish entitlement to a writ of *mandamus*:

(1) that no other adequate means were available to achieve the desired relief; (2) that he had a clear and indisputable right to the writ; and (3) that, in the Court's discretion, a writ of mandamus was warranted.

## DAMAGES

---

### *Trade Secrets / Damages*

---

## **DAMAGES RECOVERY FOR TRADE SECRETS MISAPPROPRIATION: WHAT'S NEW YORK'S STATE OF MIND?**

---

*E.J. Brooks Co. v. Cambridge Security Seals*, Case Nos. 16-207-cv(L),-259-cv(XAP) (2nd Cir. 2017) (Lohier, J)

Addressing unresolved issues surrounding damages calculations for misappropriation of trade secrets under New York law, the US Court of Appeals for the Second Circuit certified two questions to the New York Court of Appeals: (1) does New York law recognize avoided costs as a permissible measure of damages for misappropriation of trade secrets, unfair competition and unjust enrichment, and (2) if so, is prejudgment interest mandatory where a plaintiff recovers the defendant's avoided costs? *E.J. Brooks Co. v. Cambridge Security Seals*, Case Nos. 16-207-cv(L),-259-cv(XAP) (2d Cir., June 5, 2017) (Lohier, J).

E.J. Brooks Co. d/b/a TydenBrooks, a large plastic security seal manufacturer, sued Cambridge Security Seals (CSS) and former TydenBrooks employees for misappropriation of trade secrets, civil conspiracy, unfair competition and unjust enrichment under New York law, alleging that CSS had copied TydenBrooks's manufacturing process. The district court jury found for TydenBrooks on three of the four claims (misappropriation of trade secrets, unfair competition and unjust enrichment).

TydenBrooks sought recovery of CSS's "avoided costs," which would be calculated based on the cost savings to CSS resulting from not having to develop its own manufacturing process. Under this theory, the district court ultimately awarded TydenBrooks \$3.9 million, but the next day TydenBrooks moved to amend the judgment to include prejudgment interest. The district court denied TydenBrooks's motion, claiming that the current award included the time period during which prejudgment interest would accrue, and therefore the addition of the prejudgment interest would be a windfall to the plaintiff.

On appeal, the Second Circuit concluded that neither the Second Circuit nor the appellate New York State court had explicitly recognized "avoided costs" as a measure of damages for this type of case. The issue, therefore, presented an "unresolved policy decision that the New York Court of Appeals is better situated [to handle]."

Similarly, with regards to the issue of mandatory prejudgment interest, the Court found that the issue was best left to the New York Court of Appeals. The district court's jury instructions were that the damages should be calculated from the date of misappropriation or unfair use through the verdict date. As the Second Circuit noted, "[u]nder an avoided costs theory of damages, in which the award to TydenBrooks is measured in terms of costs that CSS did not pay rather than in terms of money TydenBrooks lost, any prejudgment interest award could well constitute a windfall because TydenBrooks was not deprived of the use of those avoided costs." The issue results from the tension between § 5001(a) of the CPLR, which suggests that prejudgment interest is mandatory in this type of case, and New York case law that suggests mandatory prejudgment interest is not appropriate where it would result in a windfall to the plaintiff.

Ultimately, the Second Circuit affirmed the district court's decision on liability, reserved its decision on damages, and certified the issues of "avoided costs" recovery and mandatory prejudgment interest to the New York Court of Appeals.

**Practice Note:** It is expected that the New York Court of Appeals will bring long-awaited clarity regarding recovery of damages for cases involving misappropriation of trade secrets, unfair competition and unjust enrichment.

## DEFENSES

*Trade Secrets / Defenses***OUTSIDE CONSTITUTIONAL PROTECTION, WITHIN ANTI-SLAPP STATUTE**

*Elite Auto Body LLC v. Autocraft Bodywerks, Inc.*, Case No. 03-15-00064 (Tex. App., May 5, 2017) (Pemberton, J)

Addressing the issue of defending against claims seeking to remedy alleged misappropriation or misuse of a business's trade secrets or confidential information by invoking the Texas Citizens Participation Act (TCPA), the Texas Third Court of Appeals ruled that the TCPA as written can potentially be invoked successfully to defend against these claims and, more broadly, that "communications" protected by the TCPA, which in turn can serve as predicate for a motion to dismiss a "legal action" under the TCPA, are not solely confined to speech that enjoys constitutional protection, but instead are defined by the language of the TCPA as written. *Elite Auto Body LLC v. Autocraft Bodywerks, Inc.*, Case No. 03-15-00064 (Tex. App., May 5, 2017) (Pemberton, J).

The underlying litigation was initiated by appellee Autocraft Bodywerks, an auto-repair shop. The defendant (appellant here) Elite Auto Body was founded by a one-time employee of Autocraft. Additional Autocraft employees left that company to join Precision. Autocraft accused the former Autocraft employees of furnishing Precision with confidential, proprietary and trade secret information they had acquired through their former positions of trust and confidence with Autocraft to obtain an unfair competitive advantage in the marketplace. Based on these allegations, Autocraft sought injunctive relief to restrain appellant's alleged impending or ongoing use or disclosure of Autocraft's confidential and proprietary information and trade secrets, plus actual and exemplary damages.

Alongside more traditional litigation responses, appellant invoked the TCPA, seeking dismissal of Autocraft's suit on grounds that this legal action "is based on, relates to, or is in response to" appellant's "exercise of the right of . . . association" and the "exercise of the right of free speech" in its pursuit of Precision's business. After the district court denied appellant's motion, this appeal ensued.

The Third Court of Appeals explained that Autocraft's claims were predicated factually on conduct that falls within either the "exercise of the right of association" by the appellant or its "exercise of the right of free speech," as the TCPA defined those terms. The TCPA defined the former as "a communication between individuals who join together to collectively express, promote, pursue, or defend common interests," and the latter as "a communication made in connection with a matter of public concern."

Autocraft contended that the alleged theft and misuse of its trade secrets and confidential information was distinguishable from any "communications" or free expression. However, "communications" is itself a defined term under the TCPA, and the definition "includes the making or submitting of a statement or document in any form or medium, including oral, visual, written, audiovisual or electronic."

Autocraft attempted to limit "communications" under the TCPA by insisting that the larger statutory context and anti-SLAPP purpose of the TCPA precludes a reading of communications that would extend beyond communications that the First Amendment protects. Autocraft argued that certain "historic and traditional" categories of speech that are considered susceptible to regulation without implicating First Amendment concerns include "speech integral to criminal conduct," such as that "soliciting illegal transactions or other crimes," that "incident to bribery or extortion," or "that are uttered by a robber while ordering his victim to hand over the money."

The Court rejected Autocraft's attempt to limit TCPA communications solely to those the First Amendment protects, explaining that the TCPA defines communications with no such limitation. Rather it simply "includes the making or submitting of a

statement or document in any form or medium, including oral, visual, written, audiovisual, or electronic," with no reference to constitutional rights or concepts.



## TRADEMARKS

### USE IN COMMERCE

---

#### *Trademarks / Use in Commerce*

---

### **FEDERAL CIRCUIT INSTRUCTS TTAB TO REVISIT SOFTWARE SERVICES AS EVIDENCE OF USE**

---

*In re JobDiva, Inc.*, Case No. 15-1960 (Fed. Cir., Dec. 12, 2016) (Stoll, J).

On appeal from the Trademark Trial and Appeal Board (TTAB), the US Court of Appeals for the Federal Circuit reviewed the issue of trademark use in commerce and, more specifically, the extent to which certain services can be rendered through related computer software services. The court examined whether the trademark owner used its trademarks in commerce in connection with “personnel placement and recruitment services,” or whether (as the TTAB held) the trademark owner failed to use the marks in connection with services because its use was only in connection with software offerings. *In re JobDiva, Inc.*, Case No. 15-1960 (Fed. Cir., Dec. 12, 2016) (Stoll, J).

The appeal to the Federal Circuit followed the TTAB’s partial and full cancellation of two US trademark registrations for JOBDIVA owned by JobDiva, Inc., a company that provides employment application tracking and management solutions. After filing a cancellation action against a third-party’s trademark registrations for JOBVITE, which were registered for employment-related services, JobDiva found itself on the other end of Jobvite’s counterclaim for cancellation of the JOBDIVA trademarks. Jobvite alleged that JobDiva did not provide personnel “placement and recruitment services” and therefore had abandoned the use of its JOBDIVA marks in connection with those particular services.

Granting the counterclaim, the TTAB cancelled the JOBDIVA trademarks to the extent that the registrations covered personnel placement and recruiting services. The TTAB came to this conclusion after it examined JobDiva’s evidence of use of the JOBDIVA marks and found that the evidence made no reference to JobDiva’s performance of personnel placement or recruitment services other than providing software-as-a-service offerings, including employment application databases and resume analysis, to hiring managers and recruiters. The TTAB indicated that JobDiva would need to demonstrate that it was rendering “personnel placement and recruitment services *separate and apart* from” providing its software services and licensing. Thus, the TTAB cancelled the marks for “non-use,” since US trademark law provides for cancellation of a trademark when it has not been used for the goods or services listed in the US trademark registration for at least three years with no intent to resume use of the mark. JobDiva appealed.

On appeal, the Federal Circuit found that the TTAB erred in its understanding of the law when it required JobDiva to show that it was providing personnel placement and recruiting services *in addition* to its provision of software. The Court explained that “[e]ven though a service may be performed by a company’s software, the company may well be rendering a service,” citing a decision in which the court “at bottom . . . recognized that software may be used by companies to provide a service.”

The Federal Circuit further explained that the perception of the consumer is key to assessing whether a mark is used in connection with the services described in the registration. Here, the issue was whether the evidence demonstrated that a user would associate the JOBDIVA mark with placement and recruiting services, even though JobDiva’s software ultimately performs the necessary steps of the services.

The Federal Circuit vacated and remanded the TTAB’s decision to consider the factual question of whether purchasers would perceive JobDiva’s marks to identify “personnel placement and recruitment services.”

## TRADEMARKS / USE IN COMMERCE

**APPLICATION PARTIALLY VOIDED WHERE DEFENDANT LACKED BONA FIDE INTENT TO USE MARK**

*Kelly Servs., et al. v. Creative Harbor*, Case No. 16-1200 (6th Cir., Jan. 23, 2017) (Clay, J)

Addressing whether a trademark applicant must have a bona fide intent to use the mark in commerce with respect to all of the goods and/or services listed in the application, the US Court of Appeals for the Sixth Circuit affirmed the district court's finding that the applicant lacked a *bona fide* intent to use the mark for at least some of the listed goods and services, but reversed the district court's decision to void the applications at issue in their entirety. *Kelly Servs., et al. v. Creative Harbor*, Case No. 16-1200 (6th Cir., Jan. 23, 2017) (Clay, J).

Kelly Services and Creative Harbor adopted (around the same time) the identical mark "WorkWire" for their competing employment-based mobile software applications. Creative Harbor filed two intent-to-use (ITU) applications with the US Patent and Trademark Office. Upon learning of Kelly Services' use of the mark, Creative Harbor sent a cease and desist letter. Kelly Services responded by bringing a declaratory judgment suit challenging Creative Harbor's claim that it had priority to the WorkWire mark based on its ITU applications. Creative Harbor moved for partial summary judgment as to its priority claim, which Kelly Services opposed on the ground that Creative Harbor lacked a *bona fide* intent under § 1(b) of the Lanham Act to use the mark on some of the goods and services listed in its ITU applications. The district court denied Creative Harbor's summary judgment motion and construed Kelly Services' opposition as a cross-motion for summary judgment. The district court granted the cross motion, thereby voiding Creative Harbor's ITU applications in their entirety. Creative Harbor appealed.

The Sixth Circuit affirmed the district court as to the *bona fide* intent issue, finding that the deposition testimony of Creative Harbor's CEO sufficiently demonstrated a lack of a *bona fide* intent to use the WorkWire mark for at least some of the goods and services identified in Creative Harbor's ITU applications. Specifically, the CEO's testimony demonstrated that he wanted the ITU applications to cover goods and services not just for present use, but also for possible future exploration and expansion (in his own words: "in case the brand got bigger," "might be of future importance," "to keep the option open to at some point do that," etc.) According to the Court, these statements showed that Creative Harbor did not have a "firm" intention to use the WorkWire mark for all of the goods and services listed in its ITU applications, but rather included them in the applications merely to "reserve a right in the mark" in case it ever decided to expand commercial activities into certain areas.

The Sixth Circuit next addressed whether the district court correctly voided Creative Harbor's ITU applications in their entirety. Here, the Sixth Circuit reversed, explaining that when an ITU applicant lacks *bona fide* intent as to some, but not all, of the goods and services listed in the application, the application should not be voided in its entirety absent evidence of fraud or other egregious conduct. According to the Sixth Circuit, courts should identify the goods and services for which the applicant lacks *bona fide* intent and excise only the overbroad portions of the application. The Court remanded the case back to the district court to evaluate each of the 36 goods and services listed in Creative Harbor's ITU applications and to make individualized determinations on the issue of *bona fide* intent based on Creative Harbor's objective documentary evidence.

## DAMAGES

---

### *Trademarks / Damages / Good Faith Adoption*

---

## STONE-COLD CIRCUIT SPLIT ON AWARD OF TRADEMARK PROFITS

---

*Stone Creek, Inc. v. Omnia Italian Design, Inc.*, Case No. 15-17418 (9th Cir., July 11, 2017) (McKeown, J).

Addressing the issue of whether willfulness is required to award profits in trademark cases, and continuing a circuit split on the issue, the US Court of Appeals for the Ninth Circuit affirmed the district court's conclusion that willfulness is a necessary condition for the disgorgement of profits. *Stone Creek, Inc. v. Omnia Italian Design, Inc.*, Case No. 15-17418 (9th Cir., July 11, 2017) (McKeown, J).

In 2003, Stone Creek, a furniture manufacturer in the Arizona area, contracted with Omnia to buy Omnia's furniture branded with the STONE CREEK mark. In 2008, Omnia wanted to capture another large customer, Bon-Ton Stores, a retailer in the Midwest. Bon-Ton signed on for Omnia to supply it with leather furniture. However, Bon-Ton wanted an "American-sounding" label. Although it had many choices, Bon-Ton opted for STONE CREEK. Without permission, Omnia copied the STONE CREEK mark and applied it to a host of items, including binders, leather samples, in-store displays, warranty cards and the furniture. Stone Creek learned of Omnia's unauthorized use of the STONE CREEK mark and promptly filed suit, alleging trademark infringement and unfair competition. After the district court determined that Omnia did not infringe Stone Creek's trademark, Stone Creek appealed.

The Ninth Circuit analyzed the *Sleekcraft* likelihood of confusion factors and concluded that the district court committed legal error in framing many of the factors. In analyzing the market channels factor, the Ninth Circuit found that the district court was led astray by its "myopic focus on the considerable distance between Stone Creek's physical showrooms in Arizona and Bon-Ton's in the Midwest." Essentially, the district court's failure to properly analyze this factor rested on its faulty legal assumption that geographic separation automatically means no intersection in market channels. Such analysis fails to take into account the internet as a sales channel, the Court explained. Finding a powerful case for a likelihood of confusion, the Ninth Circuit reversed the district court on the issue of infringement.

Omnia asserted that its use of the Stone Creek mark was protected under the *Tea Rose-Rectanus* good faith adoption doctrine. But that doctrine requires the junior user to establish good faith use in a geographically remote area. Since Omnia serendipitously chose to use the Stone Creek mark, without authorization from the registered owner, the Ninth Circuit found that the junior user acted in bad faith and that therefore the doctrine was not available to it as a defense.

The Ninth Circuit then addressed the standard for disgorgement of profits as the proper measure of damages. Prior to a 1999 amendment to the Lanham Act's remedies provision, Ninth Circuit precedent held that an award of a defendant's profits required a showing of willful infringement. In this case, the Court examined the legislative history of the Lanham Act amendment and found that it was intended only to correct a mistaken omission under the trademark dilution statute, not to change the foundation of Ninth Circuit precedent on defendants' profits as a measure of damages. Addressing the question for the first time, the Ninth Circuit held that "willfulness remains a prerequisite for awarding a defendant's profits."

**Practice Note:** Several circuits have ruled the other way, viewing willfulness as one factor in the overall determination of whether an award of the infringer's profits is appropriate. The Third, Fourth, Fifth and Seventh circuits have adhered to the rule that willfulness is but one piece of the puzzle. Given this split, trademark owners should be aware of what they must plead to recover the defendant's profits in the various regional circuits.

## DISPARAGEMENT

---

### *Trademarks / Disparagement*

---

## **BAND TRADEMARK CAN ROCK ON: LANHAM ACT DISPARAGEMENT CLAUSE UNCONSTITUTIONAL**

---

*Matal v. Tam*, Docket No. 15-1293 (Supr. Ct., June 19, 2017) (Alito, Justice) (Kennedy, Justice, concurring) (Thomas, Justice, concurring)

In an 8–0 decision, the Supreme Court of the United States affirmed an *en banc* panel of the US Court of Appeals for the Federal Circuit and found the disparagement clause of the Lanham Act to be facially unconstitutional under the free speech guarantees of the First Amendment. *Matal v. Tam*, Docket No. 15-1293 (Supr. Ct., June 19, 2017) (Alito, Justice) (Kennedy, Justice, concurring) (Thomas, Justice, concurring).

The case affirmed the Federal Circuit holding that § 2(a) of the Lanham Act, which since 1946 has denied federal registration of trademarks that may “disparage . . . or bring . . . into contemp[t] or disrepute” any “persons, living or dead,” is facially unconstitutional under the First Amendment’s free speech clause ([IP Update, Vol. 19, No. 1](#)).

This has been a long-fought case for Simon Shiao Tam, the lead singer of the Asian-American dance-rock band The Slants—a band name that, according to Tam, was adopted to “reclaim” and “take ownership” of Asian stereotypes and slurs. In 2011, Tam filed an application for federal registration of the mark THE SLANTS in connection with entertainment services in the nature of live musical performances. When the US Patent and Trademark Office (PTO) and the Trademark Trial and Appeal Board (TTAB) refused registration of the mark under § 2(a) of the Lanham Act as disparaging and likely offensive to a “substantial composite” of people of Asian descent, Tam appealed to the Federal Circuit in 2015, where the *en banc* panel ultimately found the disparagement clause facially unconstitutional. In 2016, the Supreme Court granted the government’s petition for *certiorari* ([IP Update, Vol. 19, No. 10](#)).

Before tackling the three primary contentions set forth by the government, Justice Alito’s opinion dismissed a preliminary argument raised in Tam’s brief, which alleged that the disparagement clause does not reach trademarks that disparage racial or ethnic groups, since those non-juristic entities are not “persons” as contemplated by the language of the statute. Instead, the Supreme Court found that the “plain terms” of the disparagement clause do not target only marks that disparage a particular natural person, and that Congress did not intend such a confinement of the clause, despite prior “regrettable” and inconsistent decisions by the PTO granting registration of trademarks that clearly denigrate racial or ethnic groups, including African-Americans and Native Americans.

The Supreme Court then turned its attention to the government’s three primary arguments, which were aimed at eliminating any First Amendment protection or at least inviting only a rational-basis review of the disparagement clause.

### **Trademarks Are Private Speech**

The government argued that trademarks are government speech, not private speech, as the government’s own speech is exempt from First Amendment scrutiny. The Court vehemently disagreed, noting that the PTO has made it clear that federal trademark registration by the government does not constitute approval of a mark, that registration under the Lanham Act is largely mandatory if a trademark meets the Act’s viewpoint-neutral requirements, and that trademarks have not traditionally been used to convey a government message. Citing examples of registered trademarks, Alito opined that if trademarks were indeed government speech, then the “Federal Government is babbling prodigiously and incoherently” and “unashamedly” endorsing a wide array of commercial products, while sending messages such as “Just do it” or “Have it your way” (referring to popular registered trademarks owned by Nike and Burger King).

Holding that trademarks are private speech, the Supreme Court distinguished the case at hand from government speech cases cited by the government, including the *Walker* Texas license plate case, and outlined the dangers of expanding the government-speech doctrine to any system of government registration, including the copyright registration system.

### **Trademarks Are Not Government Subsidies**

The Supreme Court also dismissed the government's argument that trademarks are a form of government subsidy. As noted in Alito's opinion, all of the supporting cases cited by the government on this point pertained to cash subsidies or their equivalent, while the federal trademark registration system "is nothing like the programs at issue" in the cited cases, and instead requires that trademark applicants support the process through application, registration and maintenance fees.

### **No New "Government Program" Doctrine**

Finally, the Supreme Court wholly rejected the government's proposal to create a new "government program" doctrine under which to review disparaging trademarks and under which certain content- or speaker-based restrictions may be permitted. On this point, the Court opined that even if the government could analogize its proposal to cases in which the government creates a limited public forum for private speech, "viewpoint discrimination" is still forbidden in those instances. And, according to the Supreme Court, the disparagement clause discriminates on the basis of viewpoint since "[g]iving offense is a viewpoint." Justice Kennedy's concurring opinion also focused on "potent" viewpoint discrimination and argued that First Amendment protections under viewpoint discrimination render much of the Court's discussion on other issues "unnecessary."

### **Disparagement Clause Cannot Withstand Even Relaxed Scrutiny**

On the question of whether trademarks are commercial speech subject to relaxed scrutiny, the Supreme Court declined to resolve that debate between the parties and instead concluded that the disparagement clause cannot withstand even relaxed *Central Hudson* review. In short, the Supreme Court noted that the thrust of the disparagement clause is improperly intended to prevent the expression of ideas that offend, and is not a "narrowly drawn" anti-discrimination clause but a "happy-talk clause" that goes "much further than necessary to serve the interest asserted."

Justice Kennedy, along with the concurring opinion from Justice Thomas, made a point to note that even if trademarks are considered commercial speech, there is still no exception to the heightened scrutiny required whenever government regulation of speech is based on viewpoint.

**Practice Note:** As the disparagement clause has found itself in the center of other recent trademark disputes—most notably the 2014 cancellation of federal trademark registrations owned by the Washington Redskins—this affirmation of the Federal Circuit will undoubtedly affect other pending trademark litigation and may result in an influx of newly filed "offensive" trademark applications and re-filed applications that were previously refused registration. The PTO also will be working through a backlog of pending applications that were suspended pending the Supreme Court's decision in the *Slants* case.

**FIRST AMENDMENT**

---

***Trademarks / First Amendment***

---

**EMPIRE STRIKES BACK: FIRST AMENDMENT PROTECTS TV SERIES TITLE**

---

Twentieth Century Fox Television v. Empire Distribution, Inc., 875 F.3d 1192 (9th Cir. 2017) (Smith, J)

Addressing the issue of trademark infringement specific to the title of an expressive work, the US Court of Appeals for the Ninth Circuit affirmed the district court's conclusion that Twentieth Century Fox's use of the name "Empire" is protected by the First Amendment and is therefore outside the reach of the Lanham Act. *Twentieth Century Fox Television v. Empire Distribution, Inc.*, 875 F.3d 1192 (9th Cir. 2017) (Smith, J).

Twentieth Century Fox launched its musical television series Empire in 2015. The show portrays a fictional New York hip-hop music label named Empire Enterprises and features songs in every episode, including original music. Fox promotes the show and its associated music through live performances, radio play and merchandise bearing the "Empire" brand. Defendant Empire Distribution is a record label and publishing company that distributes urban, hip-hop and R&B music, including the work of artists such as Snoop Dogg. Empire Distribution sent Fox a letter demanding that Fox stop using "Empire," claiming that its use was infringing on Empire Distribution's rights in its EMPIRE registered trademark.

Fox filed a declaratory judgment action against Empire Distribution, seeking a declaration that the Empire show and its associated music releases did not violate Empire Distribution's trademark rights under either the Lanham Act or California law. Empire Distribution counterclaimed for trademark infringement, trademark dilution, unfair competition and false advertising. After Fox moved for summary judgment, the district court determined that Fox's use of "Empire" is protected by the First Amendment under the two-prong test laid out by the US Court of Appeals for the Second Circuit in *Rogers v. Grimaldi* (1989). Under the Rogers test, the title of an expressive work does not violate the Lanham Act unless the title "has no artistic relevance to the underlying work whatsoever, or, if it has some artistic relevance, unless it explicitly misleads consumers as to the source or content of the work." After the district court granted summary judgment on all claims and counterclaims, Empire Distribution appealed.

Empire Distribution argued that the district court erred substantively and procedurally in finding that Fox's use of the name "Empire" was protected by the First Amendment and was therefore outside the reach of the Lanham Act. The Ninth Circuit began its analysis by noting that general claims of trademark infringement under the Lanham Act are governed by the likelihood-of-confusion test laid out by the Ninth Circuit in *Mattel v. MCA Records* (2002). When the alleged infringing use is in the title of an expressive work, however, the proper test is the Rogers test.

Applying the Rogers test, the Ninth Circuit found that the first prong of the test was satisfied because Fox used the word "Empire" for artistically relevant reasons. The Court determined that the show is set in New York, the Empire State, and its subject matter relates to an entertainment conglomerate, which is a figurative empire. The Court further noted that the first prong of Rogers distinguishes cases in which the use of the mark has some artistic relation to the work from cases in which the use of the mark is arbitrary. The court found that the title of Empire has artistic relevance by supporting the themes and geographic setting of the work sufficient to pass the first prong.

To fail the second prong of the Rogers test, the creator must explicitly mislead consumers. The Court noted that use of a mark alone is not enough to satisfy the second prong. The Court found that Fox's Empire show made no overt claims or explicit references to Empire Distribution, and therefore concluded that it was not explicitly misleading.

The Ninth Circuit accordingly concluded that Fox's use of "Empire" in relation to its television series and related music satisfied the Rogers test, and therefore such use was protected by the First Amendment and was outside the scope of the Lanham Act. Empire Distribution has since filed petitions for rehearing and rehearing *en banc*.

**Trademarks / First Amendment****UNIVERSITY TRADEMARK LICENSING DENIAL GOES UP IN SMOKE**

*Gerlich et al. v. Leath et al.*, Case No. 16-1518 (8th Cir., Feb. 13, 2017) (Murphy, J)

The US Court of Appeals for the Eighth Circuit affirmed the district court's decision that a university licensing authority violated the First Amendment when refusing to approve use of the university's trademarks on t-shirts incorporating a marijuana leaf design. *Gerlich et al. v. Leath et al.*, Case No. 16-1518 (8th Cir., Feb. 13, 2017) (Murphy, J).

Iowa State University (ISU) has about 36,000 students and about 800 officially recognized student organizations. One of these student organizations, the National Organization for the Reform of Marijuana Laws (NORML ISU), produced t-shirts and other items to promote its cause. All student groups are required to get approval from the ISU trademark licensing office in order to use ISU's trademarks, and NORML ISU received such approval. NORML ISU's t-shirts incorporated the university's trademark and a marijuana leaf design.

In 2012, the *Des Moines Register* published an article about legalization of marijuana in Iowa, featuring a photo of the president of NORML ISU wearing the t-shirt with the university's trademark and the marijuana leaf design. After the article was published, ISU informed NORML ISU that approval to use ISU's trademarks had been rescinded because the design suggested that ISU itself supported the legalization of marijuana. Later, ISU revised its trademark guidelines to provide that no designs would be approved that suggested promotion of (1) dangerous, illegal or unhealthy products, actions or behaviors, or (2) illegal or unhealthful drugs and drug paraphernalia. Following the revisions to the guidelines, administrators at ISU rejected two t-shirt designs submitted by NORML ISU because of the incorporation of the marijuana leaf design. NORML ISU filed a complaint against four of the administrators at ISU, alleging violations of its First Amendment rights, among other things.

The district court concluded that ISU's trademark licensing practice discriminated against NORML ISU based on the organization's pro-marijuana views, holding that ISU "took action specifically directed" at NORML ISU. The ISU administrators appealed.

On appeal, the Eighth Circuit confirmed the district court's decision, concluding that "ISU created a limited public forum when it made its trademarks available for student organizations to use if they abided by certain conditions." ISU's "rejection of NORML ISU's designs discriminated against that group on the basis of the group's viewpoint." The Court further held that ISU's "discriminatory motive is evidenced by the unique scrutiny defendants imposed on NORML ISU after the *Des Moines Register* article was published." For example, NORML ISU was required to obtain approval of its designs from the administrators before submitting the designs to ISU's trademark licensing office. Moreover, NORML ISU is the only student organization that had its trademark application denied for fear that ISU would be seen as endorsing a political cause.

**Trademarks / First Amendment****HOLY FIRST AMENDMENT RIGHTS, BATMAN**

In Re: Dan Farr Productions; Bryan Brandenburg; Daniel Farr, 874 F.3d 590 (9th Cir. 2017) (per curiam)

In relation to a long-fought and contentious trademark dispute involving the COMIC CON mark, the US Court of Appeals for the Ninth Circuit issued a brief but definitive opinion, finding that certain district-court-ordered prior restraints on the defendant's speech pertaining to the ongoing trademark litigation violated the First Amendment. *In Re: Dan Farr Productions; Bryan Brandenburg; Daniel Farr*, 874 F.3d 590 (9th Cir. 2017) (per curiam).

This case, decided on petition for writ of mandamus, arose from an ongoing trademark infringement dispute filed in 2014 by San Diego Comic Convention (SDCC) against the producers of the Salt Lake Comic Con, Dan Farr Productions and affiliated individuals (together, Dan Farr) over Dan Farr's use of the trademarks COMIC-CON or COMIC CON. In addition to allegations that the COMIC CON trademark is generic, descriptive and otherwise abandoned by SDCC, Dan Farr had also taken to the court of public opinion by posting to websites and social media platforms its own thoughts on the merits of the case, third-party news articles discussing the dispute, and publicly available documents from the district court docket. Dan Farr claims it seeks "moral and material" support from other comic fans who also disagree with the premise of the trademark dispute and SDCC's claims of exclusivity over the COMIC CON mark—especially when "comic cons" have been held by third parties in hundreds of venues across the United States.

In response to the Dan Farr online campaign, SDCC petitioned the district court for a protective order, claiming that Dan Farr's objective was to taint the jury pool. After reviewing evidence consisting of various social media posts, the district court granted a suppression and disclaimer order on grounds that the Dan Farr posts threatened SDCC's right to a fair trial. The order was two-pronged in that it prohibited certain online statements pertaining to the case and dictated the form in which public court documents could be displayed online, while also requiring that Dan Farr post a disclaimer on websites, social media or other news outlets essentially describing the terms of the district court's order.

In taking up Dan Farr's petition for a writ of mandamus, the Ninth Circuit held that the court-ordered prior restraints on Dan Farr's speech violated the First Amendment. The panel concluded that the suppression and disclaimer orders prohibited speech that did not pose a clear and present danger to a fair trial. Moreover, the court explained that prior restraint is not the least restrictive means of ensuring a fair trial. On this point, the Court concluded that Dan Farr's posts would not irreparably taint the applicable jury pool, and noted that well-established doctrines on jury selection and the court's inherent management powers provide an alternative, less restrictive means of ensuring a fair trial. Thus, the Court granted the petition and ordered the district court to vacate the suppression and disclaimer order.



**Trademarks / First Amendment**

---

**THIRD TIME'S THE CHARM – OR NOT**

---

*Gerlich et al. v. Leath et al.*, Case No. 16-1518 (8th Cir., June 13, 2017) (Murphy, J) (Loken, J, dissenting in part)

The US Court of Appeals for the Eighth Circuit maintained its prior decision, holding that defendants violated the First Amendment when refusing to approve use of university trademarks on t-shirts incorporating a marijuana leaf design. *Gerlich et al. v. Leath et al.*, Case No. 16-1518 (8th Cir., June 13, 2017) (Murphy, J) (Loken, J, dissenting in part).

An Iowa State University (ISU) student organization calling itself the National Organization for the Reform of Marijuana Laws (NORML ISU) produced t-shirts, among other things, to promote the organization's cause. The t-shirts incorporated the university's trademark and a marijuana leaf design. ISU initially approved the use of its trademark, but after receiving backlash, revised its policies on use of its trademarks and later rejected two t-shirt designs submitted by NORML ISU because of the incorporation of the marijuana leaf design. NORML ISU filed a complaint against the administrators of ISU, alleging, among other things, violations of its First Amendment rights.

The district court concluded that ISU's trademark licensing practice discriminated against NORML ISU based on the organization's pro-marijuana views, finding that ISU "took action specifically directed" at NORML ISU. The administrators of ISU appealed.

In February 2017, the Eighth Circuit affirmed the district court's decision, concluding that "ISU created a limited public forum when it made its trademarks available for student organizations to use if they abided by certain conditions" (*IP Update*, Vol. 20, No. 3). The Court further held that ISU's "rejection of NORML ISU's designs discriminated against that group on the basis of the group's viewpoint."

The ISU administrators asked for a panel rehearing. In its current decision, the Eighth Circuit panel reaffirmed its original ruling, finding that ISU violated NORML ISU's First Amendment rights and that the district court did not err by denying qualified immunity to ISU and granting NORML ISU summary judgment on its First Amendment claims. The Court stated that ISU's "discriminatory motive is evidenced by the unique scrutiny defendants imposed on NORML ISU after the *Des Moines Register* published an article about marijuana legalization and quoted NORML ISU's president." As an example of such scrutiny, NORML ISU was required to obtain approval of its designs from the administrators before submitting the designs to ISU's trademark licensing office, the Court noted.

The Eighth Circuit was split, however, on the issue of qualified immunity, which excludes government officials acting in their official capacity (such as the ISU administrators) from civil lawsuits unless they violate a "clearly established" constitutional or statutory right. The dissent argued that the ISU administrators "were neither plainly incompetent nor knowing lawbreakers" when they rejected a string of proposed t-shirt designs. The dissent argued that ISU's "trademark licensing policy already prohibited products causing health risks such as tobacco." Therefore, "it was far from clear prior to this litigation that ISU's trademark licensing program was not a form of government speech."

**SURNAMES**

---

***Trademarks / Surnames***

---

**ONGOING FAMILY FEUD OVER EARNHARDT NAME**

---

*Teresa H. Earnhardt v. Kerry Earnhardt, Inc.*, Case No. 16-1939 (Fed. Cir., July 27, 2017) (Chen, J).

Addressing the Trademark Trial and Appeal Board (TTAB) finding that EARNHARDT was not primarily merely a surname, the US Court of Appeals for the Federal Circuit remanded the case to the TTAB to clarify its surname analysis. *Teresa H. Earnhardt v. Kerry Earnhardt, Inc.*, Case No. 16-1939 (Fed. Cir., July 27, 2017) (Chen, J).

Kerry Earnhardt, son of the late professional racecar driver Dale Earnhardt, is co-founder and CEO of Kerry Earnhardt, Inc. (KEI). KEI applied to register the mark EARNHARDT COLLECTION in Class 20 for “furniture” and in Class 37 for “custom construction of homes.” Kerry Earnhardt’s step-mother (and Dale Earnhardt’s widow), Teresa Earnhardt, opposed the application, arguing that the applied-for mark would result in a likelihood of confusion with her registered and common-law DALE EARNHARDT marks used in connection with a variety of goods and services. Teresa Earnhardt further argued that EARNHARDT COLLECTION was primarily merely a surname under § 2(e)(4) of the Lanham Act.

The TTAB dismissed the opposition, finding that Teresa Earnhardt failed to establish a likelihood of confusion and that EARNHARDT COLLECTION was not primarily merely a surname. Earnhardt appealed the TTAB’s surname finding.

Both parties agreed that EARNHARDT, standing alone, is primarily merely a surname. The dispute centered on whether considering the mark in its entirety—with the addition of COLLECTION—changed that conclusion. The Federal Circuit explained that the proper test according to *Hutchinson Technology* requires the US Patent and Trademark Office (PTO) to make two inquiries:

- It must determine whether the additional term (here, “collection”) is merely descriptive of the applied-for goods and services.
- It must determine whether the additional term alters the primary significance of the mark.

Earnhardt argued that the TTAB failed to fully and properly analyze “collection” in discussing only whether the term was generic and not assessing whether the mark was merely descriptive. KEI agreed that the TTAB should address the issue of whether “collection” is generic or descriptive, but, contrary to Teresa Earnhardt’s contentions, argued that the TTAB properly assessed both inquiries.

The Federal Circuit agreed with the parties that the TTAB must determine whether “collection” is merely descriptive of the applied-for goods and services. However, in remanding the case back to the TTAB, the Court explained that “upon review of the Board’s decision, it is unclear whether the Board engaged in a merely descriptive inquiry for the term ‘collection’ or if the Board improperly constricted its analysis to only a genericness inquiry.” Failure to “adequately explain” whether “collection” is merely descriptive of furniture and custom construction of homes rendered the TTAB’s entire surname analysis “deficient.”

## DILUTION

---

### *Trademarks / Dilution*

---

## **IT'S IN THE BAG: TRUE PARODY CANNOT DILUTE FAMOUS MARK**

---

*Louis Vuitton Malletier, S.A. v. My Other Bag, Inc.*, Case No. 16-241 (2d Cir., Dec. 22, 2016) (per curium)

The US Court of Appeals for the Second Circuit upheld a grant of summary judgment that a canvas tote bag with a drawing of an iconic handbag printed on its side did not infringe or dilute the trademark of the iconic high-end handbag maker. *Louis Vuitton Malletier, S.A. v. My Other Bag, Inc.*, Case No. 16-241 (2d Cir., Dec. 22, 2016) (per curium).

Louis Vuitton Malletier (LV), a manufacturer of luxury designer bags, brought suit against My Other Bag (MOB), a manufacturer of canvas-type tote bags, alleging trademark infringement and federal and state trademark dilution. The district court granted summary judgment to MOB as to all of the trademark causes of action on the grounds that MOB had properly made use of the parody defense. The accused MOB canvas tote bags have, on their sides, drawings of various luxury brand handbags, not just LV bags.

In a succinct decision, the Second Circuit agreed with the district court that there was no trademark infringement because of the district court's proper analysis of the *Polaroid* factors, namely, that there were obvious differences in MOB's "mimicking" of the LV mark (e.g., inserting the letters MOB in between the stylized flowers), the disparate channels of trade and lack of market proximity, and the unpersuasive and scant evidence of consumer confusion submitted by LV.

LV argued that the district court erred in holding that the MOB canvas totes met the requirements of a parody defense, based largely on a single section of testimony from MOB's founder regarding her totes and the drawing of an LV product on the side of the MOB bags. LV argued that MOB could not use the parody defense because the deposition evidence showed that MOB used the LV marks as a "designation of source." The Second Circuit, however, agreed with the district court that the comment only showed that MOB was referring to its founder's view that there was no likelihood of confusion.

To refute a claim of trademark dilution using a parody defense, MOB had to show that it was conveying two simultaneous and contradictory messages: 1) that it is the original, and 2) that it is not the original, but is instead a parody. The district court agreed that the MOB bags called to mind the original LV products by using similar imagery and minor changes such as exchanging the MOB initials for the LV ones, but that the MOB canvas totes also were "a conscious departure" from the luxury leather goods of LV. In fact, the ads for the MOB products touted the fact that unlike LV bags, the MOB canvas totes could be used to carry dirty gym clothes or groceries. Accordingly, the Second Circuit concluded that the juxtaposition of the famous LV mark with the irreverent representation on the canvas totes was a proper parody.

**Practice Note:** To successfully use the parody defense, it is not enough to invoke the famous mark or create a play on words; there should be a clear and well-documented intent to make fun of, criticize or comment on the famous mark. LV has requested *en banc* review of the decision by the Second Circuit, arguing that the panel's finding that MOB's products "were obviously a joke" is based on an improper subjective finding.

## LIKELIHOOD OF CONFUSION

---

### *Trademarks / Likelihood of Confusion*

---

## **SIXTH CIRCUIT DROPS THE BEAT: SOCIAL MEDIA RELEVANT IN DETERMINING LIKELIHOOD OF CONFUSION**

---

Lee Jason Kibler, dba DJ Logic v. Robert Bryson Hall, II, et al., Case No. 15-2516 (6th Cir., Dec. 13, 2016) (Cole, J).

The US Court of Appeals for the Sixth Circuit affirmed a grant of summary judgment, holding that the plaintiff provided insufficient evidence to find that relevant consumers were likely to confuse the sources of his and the defendant's products or that defendant diluted the plaintiff's mark. *Lee Jason Kibler, dba DJ Logic v. Robert Bryson Hall, II, et al.*, Case No. 15-2516 (6th Cir., Dec. 13, 2016) (Cole, J).

DJ Lee Jason Kibler performs under the stage name DJ LOGIC, on which he owns a trademark registration. Kibler uses turntables and other vocals to produce music containing jazz and funk elements and has released several albums. He has also performed since 1999. The defendant, Robert Bryson Hall, II, is a rapper who performs under the name Logic and has done so since 2009. In 2014, Kibler sued Hall for federal trademark infringement, federal trademark dilution, breach of the Michigan Consumer Protection Act and unfair competition, arguing that Hall's use of the name Logic infringed on Kibler's trademark. After settlement negotiations failed, Hall moved for summary judgment. Kibler appealed.

In assessing the likelihood of confusion, the Sixth Circuit examined the following eight factors that courts routinely use: "1) the strength of the plaintiff's mark; 2) relatedness of the products; 3) similarity of the marks; 4) evidence of actual confusion; 5) plaintiff's marketing channels; 6) likely degree of purchaser care; 7) defendant's intent in selecting the mark; and 8) the probability that the product lines will expand."

The Sixth Circuit found that while Kibler showed that DJ LOGIC is moderately strong conceptually, he did not provide enough evidence of the mark's commercial strength, such as survey evidence. The Court also found that Kibler did not provide enough evidence of marketing. The Court explained, however, that the district court erred in finding that Kibler had not provided *any* marketing: "promotion on platforms such as Twitter and Facebook not only constitutes marketing, but is among the most popular and effective advertising strategies today."

The Sixth Circuit further noted that the relatedness of the products factor was neutral and that the products—DJ services and rapping—were somewhat related but not directly competitive. The Court also agreed with the district court that the similarity of the marks factor weighed in favor of Hall, explaining that "the anti-dissection rule requires us not to dwell on the prominent features of a mark and instead consider it as a whole," meaning examining "DJ LOGIC" as a whole, including its appearance, sound, language and impression.

Moreover, Kibler's evidence of actual confusion included 10 instances of actual confusion, which the Sixth Circuit found only slightly favored him. "If 'LOGIC' really threatened to confuse consumers about the distinctions between Hall and Kibler, one would see much more than ten incidents throughout 170,000 album sales, 1.7 million album downloads, and 58 million YouTube views."

Finally, the Sixth Circuit found that the remaining factors were neutral and that the district court was correct in disregarding the likely degree of purchaser care factor, because the degree of care exercised by music consumers varies greatly by consumer and transaction. The Court agreed that Kibler's evidence fell short of proving fame and that therefore there was no trademark dilution.

## TRADEMARK INFRINGEMENT

---

### *Trademarks / Trademark Infringement*

---

## **FEDERALLY REGISTERED SERVICE MARKS GET COLLEGE CREDIT**

---

Savannah Coll. of Art & Design, Inc. v. Sportswear, Inc., 872 F.3d 1256 (11th Cir. 2017) (Jordan, J)

The US Court of Appeals for the 11th Circuit concluded that in the context of federally registered service marks (as opposed to common law trademarks), the trademark owner's first use of its marks on goods was not determinative. *Savannah Coll. of Art & Design, Inc. v. Sportswear, Inc.*, 872 F.3d 1256 (11th Cir. 2017) (Jordan, J).

Sportswear began using federally registered service marks owned by Savannah College of Art & Design in connection with apparel and other goods on its website, without permission from the college. Savannah College sued, arguing that Sportswear had infringed its service marks, among other things. The district court concluded that Savannah College had failed to establish that it had enforceable rights in its marks that extended to apparel because the college had only registered its service marks for use in connection with educational services, and had not shown that it had used its marks on apparel earlier than Sportswear. Savannah College appealed.

On appeal, the 11th Circuit reversed the district court, concluding that the case did not simply involve infringement of a common law trademark, and consequently the date of Savannah College's first use of its trademarks on goods was not determinative. According to the controlling case law, protection is extended for federally registered service marks to goods. The Court explained that the case law upon which the district court relied was inappropriate because in the cited precedent case, "neither party had a federally-registered trademark and as a result both sides could only assert common-law trademark rights. . . . That is why priority of use became a critical issue in that case." Here, Savannah College's claims revolved around federally registered marks.

The 11th Circuit instead relied on the 1975 US Court of Appeals for the Fifth Circuit decision in *Boston Prof'l Hockey Ass'n, Inc. v. Dallas Cap & Emblem Mfg., Inc.*, which extended protection for federally registered service marks to goods. The Court concluded that Boston Hockey, despite "lacking critical analysis, implicitly but necessarily supports the proposition that the holder of a federally-registered service mark need not register that mark for goods—or provide evidence of prior use of that mark on goods—in order to establish the unrestricted validity and scope of the service mark, or to protect against another's allegedly infringing use of that mark on goods."

Therefore, the 11th Circuit concluded that that the district court erred in finding that Savannah College had failed to establish that it used its mark first on goods, since first use on goods is not determinative in the case of federally registered service marks.

Sportswear has since filed a petition for rehearing *en banc*.

**Trademarks / Trademark Infringement**

---

**NO DAMAGES FOR PLAINTIFF SINCE DRY CLEANER AGREED TO HANG UP TRADEMARK USE**

Martinizing International LLC v. BC Cleaners, LLC, et al., Case No. 16-1069 (8th Cir., Apr. 28, 2017) (Loken, J)

The US Court of Appeals for the Eighth Circuit affirmed a permanent injunction enjoining a dry cleaner franchisee from using plaintiff's trademarks but explained that plaintiff was not entitled to punitive damages, costs or attorneys' fees since the franchisee had agreed to cease using plaintiff's trademarks. *Martinizing International LLC v. BC Cleaners, LLC, et al.*, Case No. 16-1069 (8th Cir., Apr. 28, 2017) (Loken, J).

In 2011, Martinizing International entered into franchise agreements with Markus Kanning authorizing use of Martinizing's trademarks in operating dry cleaning stores. The agreements prohibited Kanning from selling the franchise locations or assigning the franchise agreements without Martinizing's consent. In 2014, BC Cleaners and the individuals Lundell and Carver (defendants) entered into an asset purchase agreement with KM Cleaners without asking for Martinizing's consent. Defendants then continued to operate the dry cleaning stores using Martinizing's trademarks.

In 2015, Martinizing's counsel sent a cease-and-desist letter to defendants demanding that they either stop using Martinizing's trademarks or enter into a franchise agreement with Martinizing. Defendants agreed with the demands of the cease-and-desist letter but continued to use the trademarks. Martinizing filed a complaint against defendants, alleging infringement of its trademarks and that Lundell and Carver were member-managers who "aided, abetted, directed and controlled BC with respect to the wrongful conduct." Defendants failed to appear, and the district court granted a default judgment against BC Cleaners, holding that it willfully infringed Martinizing's trademarks. However, the district court denied Martinizing a default judgment against Lundell and Carver, concluding that they were not personally liable for trademark infringement or a deceptive trade practice. Martinizing appealed, arguing that the court erred when it denied a default judgment against Lundell and Carver and reduced the award of attorneys' fees for willful infringement.

The Eighth Circuit agreed with the district court's conclusion that because defendants had been using Martinizing's trademarks without approval notwithstanding their agreement to stop using the trademarks, the district court did not "abuse its discretion in not granting injunctive relief against the individual defendants, as BC Cleaners had agreed to stop using the trademarks."

However, the Eighth Circuit concluded that Martinizing had failed to prove that BC Cleaners' conduct entitled Martinizing to damages, an accounting of infringer profits or attorneys' fees, *i.e.*, in addition to the injunctive relief the Court upheld. For example, Martinizing made no showing that franchise fees were not paid by Kanning during the months when defendants were operating the stores under the unexpired agreements.

**Trademarks / Trademark Infringement / Reverse Confusion / Fair Use****SUMMARY JUDGMENT “DISFAVORED” FOR RESOLVING FAIR USE  
TRADEMARK DEFENSE**

Marketquest Group, Inc. v. BIC Corp.; BIC USA, Inc.; Norwood Promotional Products, LLC, Case No. 15-55755 (9th Cir., July 7, 2017) (Smith, J)

Examining the issue of trademark fair use, the US Court of Appeals for the Ninth Circuit reversed a district court grant of summary judgment in favor of a promotional products company and remanded the case for reconsideration of the lower court's finding that the company's use of a competitor's trademarks was wholly protected by the fair use defense. *Marketquest Group, Inc. v. BIC Corp.; BIC USA, Inc.; Norwood Promotional Products, LLC*, Case No. 15-55755 (9th Cir., July 7, 2017) (Smith, J).

In 2011, promotional products company Marketquest sued BIC and its promotion company, Norwood, for trademark infringement after Marketquest's registered ALL-IN-ONE mark appeared on Norwood's promotional products catalog, which combined the company's various categories of hard goods “in one” resource, and after Marketquest's THE WRITE CHOICE trademark appeared on BIC's 30th anniversary packaging for its pens. After the parties filed cross-motions for summary judgment, the district court determined that Norwood's use of the trademarks created “some likelihood of confusion and therefore the potential for trademark infringement liability.” However, the district court conducted no further analysis on the issue of confusion in finding that Norwood provided a “complete defense” to the claims of trademark infringement by alleging fair use of the marks. Marketquest appealed.

The Ninth Circuit first touched on the general disfavor toward summary judgment in trademark cases given the “intensely factual” nature of trademark infringement disputes. Turning to the merits of the case, the Court outlined the difference between forward and reverse confusion in the context of trademark infringement.

Forward confusion occurs when consumers believe that goods bearing a junior mark come from, or are affiliated with, a senior mark owner. Reverse confusion occurs when consumers that encounter the senior mark holder believe that they are actually doing business with the junior mark user, or that the parties are affiliated.

Marketquest argued that the dispute with BIC and Norwood qualified as reverse confusion, since customers began to associate Marketquest's registered trademarks with the defendants. The Ninth Circuit agreed and rejected Norwood's argument that Marketquest failed to specifically plead reverse confusion and thus was foreclosed from advancing such a claim. Instead, the Court explained that “when reverse confusion is compatible with the theory of infringement alleged in the complaint, a plaintiff need not specifically plead it.”

Also in regard to the theory of reverse confusion, the Ninth Circuit examined the applicability of the *Sleekcraft* likelihood of confusion factors, and in particular the intent factor, which focuses on the defendant's intent in selecting the mark at issue. Here, the parties advanced conflicting views on the type of evidence required to establish intent. The Court explained that even though the “tenor of the intent inquiry shifts when considering reverse confusion due to the shift in the theory of confusion,” there is no particular type of evidence necessary to establish intent, and the weight of the intent factor and the evidence presented will vary depending on the facts of a case.

On the fair use defense, the Ninth Circuit separately analyzed Norwood's and BIC's respective uses of the trademarks ALL-IN-ONE and THE WRITE CHOICE, noting that a defendant must show that its use of the mark at issue is (1) other than as a trademark, (2) descriptive of defendant's goods and (3) in good faith. The Court also looked to the degree of customer confusion in evaluating fair use.

Regarding the ALL-IN-ONE trademark, the Ninth Circuit concluded there was a “strong argument” that Norwood's use of the phrase on the 2011 consolidated “all-in-one” catalog was descriptive. However, since the company used the phrase not just on its consolidated catalog but also in certain promotional materials and an online advertisement, the Court found a genuine issue

of material fact as to whether Norwood only used “All-in-One” in its primary, descriptive sense “other than as a trademark,” or also as a trademark to indicate the source of goods.

As to the third element of fair use, the Ninth Circuit rejected the position advanced by Marketquest that Norwood’s mere knowledge of its ownership and use of the ALL-IN-ONE trademark established Norwood’s bad faith in using the phrase. Nevertheless, the Court determined that questions of fact remained as to whether Norwood’s use of the mark was actually done in good faith. Finally, noting that consumer confusion is a factor in the fair use analysis because “use that is likely to cause confusion or that has caused confusion, is less likely to be objectively fair,” the Court left it to the district court to determine on remand the relevance of the degree of consumer confusion in this case.

The Ninth Circuit also briefly addressed THE WRITE CHOICE trademark, finding the district court’s fair use analysis to be in error, since fair use is an affirmative defense that only comes into play once the party alleging infringement has shown by a preponderance of the evidence that confusion is likely. Because the district court did not find evidence of confusion and did not conduct a *Sleekcraft* analysis in the earlier proceeding, the Court explained that it was improper to conclude that Norwood even qualified to raise a fair use defense. Thus, the Court reversed and remanded the finding of fair use in the case of both trademarks.



**DESCRIPTIVENESS**

---

***Trademarks / Descriptiveness***

---

**DOES EXPLANATORY LANGUAGE ON YOUR SPECIMEN MAKE A MARK DESCRIPTIVE?**

---

*In re N.C. Lottery* (Fed. Cir., Aug. 10, 2017) (Prost, CJ).

The US Court of Appeals for the Federal Circuit affirmed a Trademark Trial and Appeal Board (TTAB) decision denying registration of the mark FIRST TUESDAY for use in connection with lottery services and games based on descriptiveness of the mark in the context of the accompanying explanatory text. *In re N.C. Lottery* (Fed. Cir., Aug. 10, 2017) (Prost, CJ).

North Carolina Lottery (NC Lottery) filed an application to register the mark FIRST TUESDAY for use in connection with lottery services and games to market the introduction of new scratch-off lottery games on the first Tuesday of every month. The promotional material for the FIRST TUESDAY mark included language indicating that “new scratch-off games are offered on the first Tuesday of every month.” The examining attorney refused registration of the mark, finding that the mark, when used in connection with promotional materials, merely described a feature of the goods and services, namely new versions of the goods and services that are offered the first Tuesday of every month.

NC Lottery appealed to the TTAB, arguing that the mark was not descriptive. The TTAB affirmed the examiner’s decision, concluding that the “promotional materials make clear that new scratch-off games are offered on the first Tuesday of every month” and it found that “such fact would be so understood by the relevant consumers who encounter the designation FIRST TUESDAY in the marketplace.” NC Lottery appealed.

The Federal Circuit agreed with the TTAB. It found that “the evidence shows that the mark is less an identifier of the source of goods or services and more a description of a feature or characteristic of those goods or services,” and that “no mental thought or multi-step reasoning is required to reach a conclusion as to the nature of the involved goods and services.”

NC Lottery argued that the TTAB erred in relying on the explanatory text that was included with the specimens to supplement the meaning of the mark itself and that the inquiry should be limited to what a consumer with only general knowledge of NC Lottery’s goods and services and without additional context from the explanatory text would immediately understand the mark to mean. The Federal Circuit disagreed, explaining that “the public’s understanding of a mark can be evidenced by any competent source” such as explanatory text. “The distinctiveness of a mark in the context of explanatory text remains a case-specific analysis,” and here, the “TTAB did not err by considering the explanatory text of the specimens in the descriptiveness inquiry.”

**Trademark / Descriptiveness / Acquired Distinctiveness****NO FAMILY!FAMILY! OF MARKS FOR LITTLE CAESARS**

*In re LC Trademarks, Inc.*, Serial No. 85890412 (TTAB, Dec. 29, 2016) (Heasley, ATJ)

The Trademark Trial and Appeal Board (TTAB) explained that an applicant's evidence of a family of marks can be used to help prove acquired distinctiveness for a new member of that family, but held that the applicant failed to provide sufficient evidence to do so. *In re LC Trademarks, Inc.*, Serial No. 85890412 (TTAB, Dec. 29, 2016) (Heasley, ATJ).

LC Trademarks, owner of Little Caesars' trademarks, sought to register DEEP!DEEP! DISH PIZZA (in standard characters with "DEEP DISH PIZZA" disclaimed) for pizza based on acquired distinctiveness pursuant to § 2(f) of the Trademark Act. The examining attorney refused registration on the ground that the mark is merely descriptive under § 2(e)(1) and has not acquired distinctiveness under § 2(f). LC Trademarks appealed to the TTAB.

The TTAB first stated that LC Trademarks bore a heavy burden to show that the DEEP!DEEP! DISH PIZZA mark had acquired distinctiveness because the mark was highly descriptive. The more descriptive the term seeking registration, the greater the applicant's burden to establish acquired distinctiveness. In this case, the TTAB stated that the "repetitive use of DEEP! does not reduce descriptiveness; it merely serves as an intensifier, underscoring the highly descriptive nature of the term."

LC Trademarks contended that the applied-for mark was a member of its family of "double word" marks and thus had acquired distinctiveness. A family of marks is a group of marks that all share a common characteristic that consumers recognize as an indication of source; one famous example is McDonald's family of "Mc" marks. LC Trademarks owns numerous registrations for marks with a repeated word followed by an exclamation point (e.g., PIZZA!PIZZA! and CHEESER!CHEESER!) The examining attorney argued that evidence of a family of marks is inappropriate for an *ex parte* proceeding or as evidence of acquired distinctiveness. The TTAB disagreed, explaining that "[i]f an applicant had a well-established family of marks characterized by a common characteristic, and applied to register a mark with the same family characteristic, it could credibly argue that its prior family of marks would expedite the public's recognition of [the] applied-for mark as a member of the family."

To prove ownership of a family of marks, the TTAB required that LC Trademarks show (1) that its family of marks has a recognizable common characteristic, (2) that the common characteristic is distinctive and (3) that the common characteristic has been marketed so that the public recognizes it as indicative of the source of the goods. The TTAB found that LC Trademarks failed to satisfy all three requirements.

Declining to completely "foreclose the theoretical possibility that a structure [as opposed to a prefix or suffix] may satisfy the first required element in proving the existence of a family marks," the TTAB found that, in this case, the structure of a descriptive word plus an exclamation point (followed by a repetition of the same) was "too abstract." The TTAB reasoned that, if allowed, it "would effectively grant Applicant an exclusive proprietary right to an unbounded variety of merely descriptive double word marks."

As for distinctiveness, the TTAB stated that, unlike "Mc," which is a common characteristic already recognized by consumers as indicating source, the repetition of descriptive words followed by exclamation points was more likely to be taken as emphasis than a source identifier.

LC Trademarks likewise failed on the third element. Despite evidence of 3,500 Little Caesars franchise locations with sales just shy of \$1.5 billion a year, as well as examples of advertising featuring the double word marks, the TTAB stated that the applicant's evidence "demonstrate[d] the popularity of its product, not necessarily consumers' recognition of its double word marks as source identifiers." Accordingly, the TTAB affirmed the decision to refuse registration.

**Trademarks / Descriptiveness / Acquired Distinctiveness / Color Marks****THE CHEERIOS CHALLENGE OF REGISTERING COLOR MARKS**

*In re General Mills IP Holdings II, LLC*, Serial No. 86757390 (TTAB, Aug. 22, 2017) (Masiello, ATJ)

The Trademark Trial and Appeal Board (TTAB) delivered a primer on demonstrating the acquired distinctiveness of product packaging or trade dress, including color marks, in refusing registration of a trademark application for the color yellow as applied to “toroidal-shaped, oat-based breakfast cereal.” *In re General Mills IP Holdings II, LLC*, Serial No. 86757390 (TTAB, Aug. 22, 2017) (Masiello, ATJ).

The US Trademark Act allows for the registration of a single color as applied to a product or its packaging. However, those marks are only registrable after having established secondary meaning or acquired distinctiveness, since precedent has established that a single color can never be inherently distinctive as a source indicator, and otherwise fails to function as a trademark.

The issue of color marks came before the TTAB after breakfast cereal company General Mills filed a US trademark application to protect the color yellow as the “predominant background color” on the product packaging for its famed “regular” Cheerios, or “toroidal-shaped, oat-based breakfast cereal,” as defined in the application. After General Mills presented evidence that the color yellow as applied to its Cheerios box had acquired distinctiveness and functioned as a trademark, the examining attorney was unpersuaded and maintained her refusal of the application on the ground that a single color mark is not inherently distinctive. General Mills appealed to the TTAB.

To establish acquired distinctiveness, an applicant must show that in the minds of the public, the primary significance of a product feature is to identify the source of the product rather than the product itself. First noting that “color marks carry a difficult burden in demonstrating distinctiveness,” the TTAB explained that its task was to find whether General Mills’ evidence demonstrated that consumers recognize the “color yellow on a package of toroidal-shaped, oat-based breakfast cereal as an indicator that the cereal within comes from the maker of Cheerios.”

The TTAB noted that General Mills has “worked assiduously to create an association between the color yellow and its ‘regular’ CHEERIOS brand cereal,” and discussed the significant amount of evidence presented by the company showing consistent use of the color yellow for the Cheerios box since the 1940s. General Mills was able to show advertising, jingles and tag lines referring to the color yellow; unsolicited public recognition referring to “the signature” or “iconic yellow box”; and even survey results with more than 48 percent of respondents associating the yellow box with Cheerios cereal.

Despite that evidence, however, the TTAB agreed with the examining attorney, who argued that the color yellow fails to function as a trademark in this case because consumers are likely to perceive the color only as a decorative feature of the packaging, especially because consumers are accustomed to cereal boxes that come in a variety of colors, including yellow. The examining attorney found that General Mills did not have the requisite exclusive use of the color yellow on cereal boxes to properly demonstrate acquired distinctiveness.

The TTAB explained that non-exclusive use of a mark presents a “serious problem” for the mark owner trying to establish that its trademark serves as an indicator of a single source. Here, the examining attorney identified 23 cereal products (including other toroidal-shaped oat-based cereals) that she believed shared a similar yellow packaging color, including competing cereals from Kellogg, Post and Quaker. The TTAB opined that in such a crowded market, word marks and graphic images are more important in conveying to a customer each unique cereal brand.

Finally, the TTAB rejected General Mills’ survey evidence, because the questions as designed did not clearly demonstrate results associating the color yellow with one particular source of goods. Thus the TTAB found that the number and nature of third-party cereal products in yellow packaging were sufficient to show that consumers do not perceive the color yellow as a source indicator.

The TTAB sympathetically noted that General Mills had made it clear that relevant customers are familiar with the yellow color of the Cheerios box. However, given that customers have been exposed to directly competing and closely related products that come in predominantly yellow packages, the TTAB ultimately decided that the color yellow alone does not indicate the source of the goods, and affirmed the refusal to register the mark.

**GENERICNESS*****Trademarks / Certification Marks / Genericness*****TTAB SERVES IT STRAIGHT UP: TEQUILA IS NOT GENERIC**

*Luxco, Inc. v. Consejo Regulador Tequila A.C.*, Opp. No. 91190827 (TTAB, Jan. 23, 2017) (Bergsman, ATJ).

Addressing whether the word “tequila” can be registered in the United States as a certification mark, the Trademark Trial and Appeal Board (TTAB) answered in the affirmative, dismissing an opposition alleging that “tequila” is a generic word for distilled spirits. *Luxco, Inc. v. Consejo Regulador Tequila A.C.*, Opp. No. 91190827 (TTAB, Jan. 23, 2017) (Bergsman, ATJ).

Consejo Regulador del Tequila (CRT) is a Mexican nonprofit civil association and the only entity accredited and approved by the Mexican government to ensure the authenticity, origin, quality and safety of tequila. As part of its accredited role, CRT sought to register TEQUILA as a certification mark for “distilled spirits, namely, spirits distilled from the blue tequilana weber variety of agave plant,” so that TEQUILA, as used by persons authorized by CRT, would certify that the spirits are manufactured in Mexico from a specific variety of the blue agave plant grown as defined by Mexican law and standards. A “certification mark” is defined in § 45 of the US Trademark Act as any “word, name, symbol, or device, or any combination thereof . . . to certify regional or other origin, material, mode of manufacture, quality, accuracy, or other characteristics of . . . goods or services or that the work or labor on the goods or services was performed by members of a union or other organization.”

Since 1958, Luxco has imported and bottled alcoholic beverages, including tequila, and distilled specialties containing tequila. CRT certified that all the tequila that Luxco imports is authentic in accordance with Mexican law. Despite this certification, Luxco opposed the registration of CRT’s certification mark, claiming that “tequila” is a generic term for distilled spirits.

Before reaching the merits, the TTAB examined whether Luxco had standing to bring the opposition against the certification mark. To oppose an allegedly generic term, the plaintiff must show that it is in a position to use the term in a descriptive or generic manner. Here, the TTAB found that Luxco met this burden, and also found that CRT’s registration of TEQUILA as a certification mark would add a new layer of protection to the term and might thereby create challenges for Luxco in the labeling and marketing of certain of its tequila products.

The TTAB then turned to the merits of Luxco’s claim that “tequila” is a generic term. Under US trademark law, the public’s perception is the primary consideration in determining whether a term is generic. However, a certification mark identifying geographic origin will not be deemed to be a generic term if it retains its ability to designate geographic source. In this case, the TTAB first determined that the relevant goods were “spirits distilled from the blue tequilana weber variety of agave plant.” Second, the TTAB examined whether the purchasing or consuming public primarily understands the word “tequila” to refer to that class of goods. In this regard, the TTAB noted that in 1973, the US Alcohol and Tobacco Tax and Trade Bureau recognized tequila as a distinctive product of Mexico, which established that the term “tequila” may not be used commercially in the United States to describe any product not manufactured in Mexico in compliance with applicable Mexican laws. According to the TTAB, the Bureau’s regulations are probative in determining whether a term is distinctive or generic. However, because public perception takes precedence in the genericness analysis, the TTAB also examined whether *end consumers* (not just tequila manufacturers) would perceive tequila to be a distilled spirit that comes from Mexico.

The TTAB looked at dictionary definitions, encyclopedia entries, internet search engine results, product labels and other information sources, and found that they tended to show that consumers would perceive that tequila is a Mexican alcoholic beverage. The TTAB also found that advertisements for tequila brands tended to have a “Mexican theme,” incorporate the word “Mexico” and/or use the Spanish language such that these advertisements “deliberately make a linkage to the country of Mexico.” Moreover, CRT introduced into evidence numerous news articles associating tequila with Mexico, and CRT’s survey evidence suggested that 55.4 percent of respondents believe that “tequila” indicates that the product is made in Mexico. Therefore, the TTAB found that Luxco failed to show that tequila is a generic term.

Luxco also argued that the government of Mexico, and not CRT, is the correct owner of the term “tequila.” The TTAB disagreed, explaining that because the Mexican government authorized CRT to apply to register the certification mark in the United States as the entity that verifies compliance with the Mexican standard for tequila, CRT has the right and authority to control the use of the term as a certification mark in the United States and was exercising legitimate control over use of the term.

**Trademarks / Certification Marks / Genericness****NO TRADEMARK GENERICIDE: GOOGLE IS NOT “A GOOGLE”**

*David Elliott v. Google, Inc.*, Case No. 15-15809 (9th Cir., May 16, 2017) (Tallman, J) (Watford, J, concurring).

The US Court of Appeals for the Ninth Circuit made a point to remind trademark litigants of the relevant laws and policies pertaining to trademark “genericide” when it sustained summary judgment in favor of ubiquitous search engine provider Google after a third party sought to cancel the registered GOOGLE trademark on grounds that the mark had become generic. *David Elliott v. Google, Inc.*, Case No. 15-15809 (9th Cir., May 16, 2017) (Tallman, J) (Watford, J, concurring).

After Chris Gillespie registered 763 domain names that included the word “GOOGLE” paired with other terms, brands or personal names, Google filed a complaint under the Uniform Domain Name Dispute Resolution Policy (UDRP) alleging that the domain names were registered in bad faith. The arbitration forum agreed that the numerous domains had been registered in violation of the UDRP and transferred the domains to Google. Following the UDRP decision, David Elliott, later joined by Gillespie (together, Elliott), filed an action petitioning the district court to cancel the registered GOOGLE trademark under the Lanham Act, which allows for cancellation of a registered trademark if the mark is primarily understood as a generic name for the goods or services for which it is registered. Elliott argued that the word “google” is now primarily understood as “a generic term universally used to describe the act[] of internet searching.”

Both parties filed motions for summary judgment on the issue of genericness. Elliott’s motion argued that the public’s use of the word “google” as a verb in familiar statements, such as “I googled it,” constitutes generic use of the trademark as a matter of law. In granting summary judgment in favor of Google, however, the district court agreed with Google’s framing of the issue, focusing on search engines rather than the act of searching, and determined that Elliott failed to present sufficient evidence that the word “google” is primarily understood as a generic name for search engines. Elliott appealed.

On appeal, Elliott alleged that the district court misapplied the genericide “primary significance” test under the Lanham Act and failed to recognize the importance of verb use of the GOOGLE trademark. Rejecting Elliott’s arguments, the Ninth Circuit outlined what it means for a trademark to be generic and the appropriate test for determining whether a trademark has taken the “fateful step” down the path to genericness.

As the Ninth Circuit explained, under US trademark law generic terms are not protectable as trademarks because they do not identify the source of a product or service. In this regard, a valid trademark may eventually be deemed “generic” when the public appropriates a trademark and uses it as a generic name for particular types of goods or services irrespective of its source, and when such use of a mark becomes its “primary significance” to the relevant public.

The court then elaborated on what it regarded as “fundamentally flawed” arguments set forth by Elliott on appeal, emphasizing that the plain language of the Lanham Act requires that a claim of genericide relate to a particular type of good or service (in this case, internet search engines), and confirming that verb use does not automatically constitute generic use.

In reviewing Elliott’s evidence, which included secondary dictionary definitions, expert testimony, a survey, and use of the term “google” by media and consumers (the lyrics to at least one rap song were referenced), the court explained that even if it is assumed that the public uses the verb “google” in a generic and indiscriminate sense, such evidence demonstrates nothing about how the public primarily understands the word “google” with regard to the product or service at issue, namely, internet search engines. In other words, verb use does not automatically constitute generic use, and use of the word “google” as a verb to refer to the act of searching on the internet does not mean that the public understands the word “google” to mean any and all search engines. Moreover, the court found that “not a single competitor calls its search engine ‘a google,’” and the consuming public recognizes and refers to different internet search engines.

Thus, because Elliott failed to present evidence sufficient to support a jury finding that the relevant public primarily understands “google” as a generic name for internet search engines and not as a trademark identifying the GOOGLE search engine in particular, the Ninth Circuit affirmed the district court’s grant of summary judgment in favor of Google.

In his concurrence, Judge Watford opined that the court need not decide whether evidence of “indiscriminate” verb use of a trademark could ever tell a jury whether the public primarily thinks of a mark as a generic name for a type of good or service, and declined to join the opinion to the extent it may be read to foreclose the consideration of such evidence of verb usage as a matter of law.



**OWNERSHIP*****Trademarks / Ownership*****PAWS OFF: REMAINING MEMBERS OF A GROUP OWN THEIR MARK**

Lyons v. The American College of Veterinary Sports Medicine and Rehabilitation, Case No. 16-2055 (Fed. Cir., June 8, 2017) (Lourie, J)

Addressing a dispute over ownership of a service mark between a departing member of a group and the remaining group members, the US Court of Appeals for the Federal Circuit upheld the Trademark Trial and Appeal Board's (TTAB's) cancellation of the departing member's registration after finding that the application underlying registration was void *ab initio*. *Lyons v. The American College of Veterinary Sports Medicine and Rehabilitation*, Case No. 16-2055 (Fed. Cir., June 8, 2017) (Lourie, J).

Between 1999 and 2004, Sheila Lyons was involved in the creation of a veterinary specialist organization (VSO) for the treatment of athletic animals. In 2004, Lyons was dismissed from the organization. Shortly thereafter, Lyons applied to register the mark at issue, THE AMERICAN COLLEGE OF VETERINARY SPORTS MEDICINE AND REHABILITATION, for "veterinary education services namely conducting classes, seminars, clinical seminars, conferences, workshops and internships and externships in veterinary sports medicine and veterinary rehabilitation." Claiming first use anywhere as of December 20, 1995, and first use in commerce at least as early as June 18, 1996, Lyons registered the mark on the Supplemental Register in May 2006.

Despite Lyons's departure, the VSO had continued to seek accreditation from the American Veterinary Medical Association (AVMA). In 2010, the AVMA granted "the American College of Veterinary Sports Medicine and Rehabilitation" provisional recognition. In 2011 the College petitioned to cancel Lyons's registration on the grounds of priority of use, likelihood of confusion, misrepresentation of source, and fraud. The cancellation proceeding was suspended for almost three years while district court litigation between the parties was resolved. The district court ultimately dismissed Lyons's trademark infringement claims and ordered the US Patent and Trademark Office to dismiss her application. The district court declined, however, to cancel Lyons's existing registration. The TTAB then resumed the cancellation proceeding, ultimately concluding that Lyons did not own the mark at issue and that therefore the underlying application for her registration was void *ab initio*. Lyons appealed.

The Federal Circuit agreed with the TTAB's legal framework for determining ownership of a mark in a situation where there has been a departure from or change in membership in a group (where there is no contract governing ownership of the mark) and both the departing member and the remaining group members claim ownership of that mark. The Court stated:

Although various sources delineate the relevant test using different language, they all substantively include three main factors to be considered in ownership disputes surrounding service marks as between a departing member and the remnant group: (1) the parties' objective intentions or expectations; (2) who the public associates with the mark; and (3) to whom the public looks to stand behind the quality of the goods or services offered under the mark.

The Federal Circuit found that substantial evidence supported the TTAB's findings for all three factors. Regarding the first factor, the Court stated that the parties' objective expectations were that Lyons, with the group, would form a VSO that would operate under the name "the American College of Veterinary Sports Medicine and Rehabilitation," despite what Lyons's subjective intentions might have been.

Second, the Court determined that the AVMA and veterinary community associated the mark with the College because Lyons's use, which, at least prior to 2003, was limited to a single written work discussing Lyons's future plans to form a VSO, never "created an association in the minds of the purchasing public between Lyons and the Mark."

Finally, the Court found that the relevant public looks to the College for quality control because of its AVMA accreditation, whereas Lyons produced no evidence that she had obtained an AVMA certification, enrolled students in educational services

or offered any certification programs. The Court surmised that “[a]lthough Lyons may have been the first to use the mark, the record shows that her use never rose to the level of use *in commerce*.”

*Trademarks / Ownership***SETTLING THE HAWKWIND TRADEMARK FLAP**

*Dave Brock v. Nik Turner*, Opp. No. 91214199 (TTAB, June 28, 2017) (Ritchie, J)

Addressing an opposition to the trademark registration of a band name, the Trademark Trial and Appeal Board (TTAB) found the opposer—the originator and continuous user of the name—to be the owner and prior user. *Dave Brock v. Nik Turner*, Opp. No. 91214199 (TTAB, June 28, 2017) (Ritchie, J).

Dave Brock founded the British band Hawkwind in 1969. The band began selling records in the United States in 1972 and embarked on its first stateside tour in 1974. Since Hawkwind's inception, Brock continuously produced music and performed under the name Hawkwind. Nik Turner joined the band shortly after its formation and participated in its first US tour, but left the band only a few years later. Subsequently, Turner played under different band names, some of which included the term "Hawkwind." In 2012, Turner applied for the trademark NIK TURNER'S HAWKWIND, and Brock opposed the registration. After Brock's application for HAWKWIND was suspended on the ground of likelihood of confusion with Turner's pending application, Brock brought this opposition.

Turner asserted that Brock had abandoned his common law right to the trademark HAWKWIND because he had not toured in the United States since 2007. Turner argued that he had priority over the mark by virtue of his performance with the band in 1974. The TTAB, however, determined that Brock had no intention of abandoning the mark. The TTAB reasoned that "because HAWKWIND has continued touring elsewhere and HAWKWIND was planning to tour in the United States at least as recently as 2013, taking substantial steps to do so, before the tour was cancelled for reasons related to Mr. Brock's health, Brock had not abandoned the mark." The TTAB also pointed out that the musical recordings of Hawkwind are still available in the United States to this day.

The TTAB concluded that, based on substantial evidence, Brock was the only continuous member of the band and "controlled the nature and quality of the HAWKWIND mark for musical recordings and for entertainment services in the nature of live musical performances in the United States" since the 1970s. The TTAB therefore held that Brock retained his established priority date of 1974 for common law rights to the mark, whereas Turner's earliest priority date for NIK TURNER'S HAWKWIND was 1994. Given Brock's earlier priority date, Brock's opposition was sustained.

**Practice Note:** Musical groups, including both solo performers and groups with multiple members, should register their name as a trademark with the US Patent and Trademark Office to help consumers identify them as the source of their unique sound.

**Trademarks / Ownership / Unregistered Trademark****WHOSE UNREGISTERED TRADEMARK IS IT ANYWAY?**

Covertch Fabricating, Inc. v. TVM Building Products, Inc., Case No. 15-3893 (3d Cir., Apr. 18, 2017) (Krause, J).

Expressly adopting for the first time a test to determine whether a manufacturer or distributor is the owner of an unregistered trademark in the absence of a contractual ownership clause, the US Court of Appeals for the Third Circuit held that the manufacturer is the presumptive owner unless the distributor is able to rebut that presumption using the factors laid out in the McCarthy Test. *Covertch Fabricating, Inc. v. TVM Building Products, Inc.*, Case No. 15-3893 (3d Cir., Apr. 18, 2017) (Krause, J).

Covertch is a Canadian corporation that manufactures protective packaging and reflective insulation. In 1998, Covertch entered into a verbal agreement with TVM, designating TVM as the exclusive distributor of Covertch's rFOIL brand insulation products in the United States. The rFOIL brand includes several different products, some of which are registered trademarks. As part of the agreement, TVM was required to refrain from selling competitor products in the United States. In 2007, Covertch terminated the distribution agreement for untimely payments and because Covertch learned that TVM was purchasing products from another manufacturer and passing them off as Covertch's. TVM assured Covertch that the sales were a mistake, and shortly thereafter the parties entered into a new verbal agreement. In late 2010 or early 2011, Covertch again terminated the agreement after learning that TVM was still purchasing products from Covertch's competitors. TVM nevertheless continued to market products under the rFOIL brand, requiring Covertch to repeatedly demand that TVM discontinue the unauthorized sales and use of its trademarks.

Covertch ultimately sued TVM, and the district court found for Covertch on all claims. As part of the dispute, the district court relied on the First Use Test to determine that Covertch was the owner of an unregistered mark falling under the rFOIL brand. TVM appealed.

On appeal, the Third Circuit acknowledged that the First Use Test, which adheres to the "first-in-time, first-in-right" principle, is typically the proper test to determine ownership of unregistered trademarks, but that it is an "imperfect fit" for the "exclusive and noncompetitive manufacturer-distributor relationship," where the distributor is often the one making the initial sale of goods at the manufacturer's direction. As the Court explained, the McCarthy Test (named after Prof. Thomas McCarthy), not the First Use Test, is the proper test to determine whether the manufacturer or the exclusive distributor is the owner of an unregistered mark where there is no contract dictating otherwise. Under the McCarthy Test, the manufacturer is the presumptive owner of the unregistered trademark unless the distributor can rebut the presumption relying on the following six factors:

4. Which party invented or created the mark?
5. Which party first affixed the mark to the goods sold?
6. Which party's name appeared on the packaging and promotional materials in conjunction with the mark?
7. Which party exercised control over the nature and quality of goods on which the mark appeared?
8. To which party did customers look as standing behind the goods (e.g., which party received complaints and which party issued replacements and/or refunds)?
9. Which party paid for the advertising and promotion of the products?

As the Third Circuit explained, "[t]he presumption and rebuttal factors of the McCarthy test place a thumb on the ownership scale in favor of the manufacturer, but invite courts to consider various *indicia* of ownership designed to elicit the roles and responsibilities of the parties and the expectations of consumers in order to gauge whether, in a given case, the distributor and not the manufacturer operated as the rightful owner of the contested mark."

Applying the McCarthy Test to the facts at hand, the Court found that four of the factors favored Covertch, factor three was inconclusive, and factor six weighed in TVM's favor. The Third Circuit concluded that Covertch was the proper owner of the mark. The Court also clarified that "[e]ven if the balance was in equilibrium, such a result would still be insufficient to overcome Covertch's presumptive ownership."

## COPYRIGHTS

### COPYRIGHTABLE SUBJECT MATTER

---

#### *Copyrights / Useful Articles / Aesthetic Features*

---

## **GIVE ME AN E: CHEERLEADING UNIFORM DESIGNS ELIGIBLE FOR COPYRIGHT PROTECTION**

---

*Star Athletica, L.L.C. v. Varsity Brands, Inc.*, Case No. 15-866 (Supr. Ct., Mar. 22, 2017) (Thomas, Justice) (Ginsburg, Justice, concurring) (Breyer, Justice, joined by Kennedy, Justice, dissenting)

In a 6–2 decision authored by Justice Thomas, the Supreme Court of the United States provided guidance as to whether aesthetic designs of a cheerleading uniform, such as stripes, chevrons, zigzags and color blocks, are eligible for copyright protection. In doing so, the Supreme Court affirmed the decision of the US Court of Appeals for the Sixth Circuit that aesthetic designs of a cheerleading uniform are “separable” from the purpose of the uniform. *Star Athletica, L.L.C. v. Varsity Brands, Inc.*, Case No. 15-866 (Supr. Ct., Mar. 22, 2017) (Thomas, Justice) (Ginsburg, Justice, concurring) (Breyer, Justice, joined by Kennedy, Justice, dissenting).

### **Background**

Under the Copyright Act of 1976, the design of “useful articles” (*i.e.*, articles having “an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information”) is copyrightable “only if, and only to the extent that, such design incorporates . . . graphic . . . features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.” 17 USC §§ 101, 102. Copyright protection for original works of art does not extend to industrial or utilitarian designs.

The case involved cheerleader uniforms designed by Varsity Brands and later copied by Star Athletica. After Varsity sued Star for infringing Varsity’s registered copyrights on its cheerleading uniform designs, the district court dismissed the case on summary judgment, concluding that the aesthetic features of the uniform had merged with the functional or utilitarian purpose of the uniform, which is to identify the wearer as a cheerleader. In other words, the aesthetic features could not be “physically or conceptually” separated under § 101.

The Sixth Circuit reversed, finding that while the uniforms did have an “intrinsic utilitarian function,” namely to “cover the body, wick away moisture, and withstand the rigors of athletic movements,” the aesthetic graphics (*e.g.*, zigzags and chevrons) did not enhance the functionality of the uniform since the wearer can still cheer, jump, kick and flip without those aesthetic features. Rather, the aesthetic features were “separately identifiable” and could exist independently since the graphics could be transferred onto other types of garments ([JP Update, Vol. 18, No. 9](#)).

The Sixth Circuit panel was split, however, with the dissent arguing that the case should turn on how “function” is defined (*i.e.*, in terms of the decorations in issue), which would determine whether the designs were copyrightable.

The Supreme Court granted certiorari to consider the question: What is the appropriate test to determine when a feature of a useful article is protectable under § 101 of the Copyright Act? ([JP Update, Vol. 19, No. 5](#))

### **The Supreme Court Decision**

As Justice Thomas explained, the Supreme Court was “task[ed] to determine whether the arrangements of lines, chevrons, and colorful shapes appearing on the surface of respondents’ cheerleading uniforms are eligible for copyright protection as separable features of the design of those cheerleading uniforms.”

As an initial matter, the Supreme Court rejected Varsity's argument that a "separability analysis" was even necessary in this case because the aesthetic features or "surface decorations" are "two dimensional graphic designs that appear on useful articles" but are not themselves designs of useful articles. Varsity argued that they are protected two-dimensional works of graphic art without regard to any separability analysis under § 101 because the two-dimensional features on the surface of the useful article (*i.e.*, clothing) are "inherently separable." The United States, in its amicus brief, also argued that a separability analysis was unnecessary in light of the fact that Varsity had valid copyrights in the features and "simply reproduced those copyright works on the surface" of the cheerleading uniform—which Varsity had the exclusive right to do under the Copyright Act. But the Supreme Court found this argument inconsistent with the Copyright Act, which requires "separability analysis for any 'pictorial, graphic, or sculptural features' incorporated into the 'design of a useful article.'"

In terms of separability, the Supreme Court made clear that the "controlling principle in this case" depends "solely on statutory interpretation." The Supreme Court considered § 101 in terms of "the provisions of the whole law" which informs its meaning. Section 101 provides a two-prong test to determine eligibility of a "pictorial, graphic, or sculptural featur[e]" incorporated into the "design of a useful article": whether the aesthetic feature "can be identified separately from" and is "capable of existing independently of the utilitarian aspects of the article." As explained by the Supreme Court, the first requirement (separate identification) is not onerous: a useful article meets the first prong if one is able to look at the useful article and spot some two- or three-dimensional elements that appear to have pictorial, graphic or sculptural qualities. The second requirement (independent-existence requirement) is more difficult. "The decision maker must determine that the separately identified feature has the capacity to exist apart from the utilitarian aspects of the article." If the feature is not capable of existing as a pictorial, graphic or sculptural work once separated from the useful article, then it was not an aesthetic feature but rather a utilitarian feature of the article.

The Supreme Court found support for its interpretation in its precedent (*Mazer*) as well as §§ 106(a) and 113(a) of the Copyright Act, as both provisions make clear that copyright protection extends to articles "regardless of whether they were created as free-standing art or as features of useful articles." The "ultimate separability question," the Court states, "is whether the feature for which copyright protection is claimed would have been eligible for copyright protection as a pictorial, graphic, or sculptural work had it originally been fixed in some tangible medium other than a useful article before being applied to a useful article."

Applying this test to cheerleading uniforms, the Court held that the stripes, chevrons, zigzags and color blocks are separable from the uniform and eligible for copyright protection because (1) they are features with pictorial, graphic or sculptural qualities, and (2) they would qualify as "two-dimensional" works of art under § 101 if they were separated from the uniform and applied to another medium. As the Court noted, removing the decorations to another medium would not "replicate the uniform itself."

### Concurrence and Dissent

Justice Ginsburg filed a concurrence, agreeing with the result but stating that engaging in a separability test was unwarranted because the designs are not designs of useful articles but are copyrightable stand-alone pictorial and graphic works that Varsity reproduced on useful articles (*i.e.*, on cheerleading uniforms). Moreover, having gained copyright protection on its designs, Varsity had the exclusive right to reproduce the designs on such useful articles.

Justice Breyer filed a dissent in which Justice Kennedy joined, challenging the second prong of the test. Justice Breyer's main argument was that even if the decorations from the uniform were removed from the uniform and placed on another medium (*e.g.*, a canvas), they would still "create 'pictures of cheerleader uniforms.'" Such designs "necessarily bring along the underlying utilitarian object" and thus "each design is not conceptually separable from the physical useful object." In other words, the design features that Varsity seeks to protect are not "capable of existing independently o[f] the utilitarian aspects of the article."

**Practice Note:** Although the Supreme Court's decision focuses on the ubiquitous and well-known designs on cheerleading uniforms, the impact of the Court's decision will be exciting to watch in terms of designer knock-off entities and 3D printing.

**COPYRIGHT OWNERSHIP**

---

***Copyrights / Ownership / Standing***

---

**STANDING TO SUE FOR COPYRIGHT INFRINGEMENT: NO BRIGHT LINE RULE FOR STOCK PHOTO AGENCIES**

---

*DRK Photo v. McGraw-Hill Global Education Holdings, LLC, et al.*, 870 F.3d 978, 981 (9th Cir. 2017) (Hawkins, J) (Berzon, J, concurring)

Affirming a grant of summary judgment in favor of copyright defendants, the US Court of Appeals for the Ninth Circuit took up the “often litigated issue” of whether a stock photography agency has standing under the Copyright Act to pursue infringement claims pertaining to photographs from its stock collection, and concluded that only the legal or beneficial owner of an exclusive right conferred by the Act has standing to sue. *DRK Photo v. McGraw-Hill Global Education Holdings, LLC, et al.*, 870 F.3d 978, 981 (9th Cir. 2017) (Hawkins, J) (Berzon, J, concurring).

DRK Photo is a stock photography agency that markets and licenses images created by others to publishing entities, including McGraw-Hill. With regard to its own licensing of the stock photographs, DRK enters into “representation agreements” with the photographers of the images that make up its collection.

The representation agreements at issue in this case appointed DRK as a non-exclusive agent to license and sell the covered photographs. In 2008, after learning of instances of infringement, DRK entered into additional “assignment agreements” with various photographers for a temporary assignment of the photographs and accrued infringement claims in order to allow DRK to register copyrights for the photographs and to place itself in a legal position to bring copyright infringement claims against infringing third parties.

DRK sued McGraw-Hill asserting copyright infringement based on claims that McGraw-Hill exceeded the scope of its licenses with DRK by printing and distributing more textbooks containing licensed images than originally authorized. The parties cross-moved for summary judgment, and the district court granted partial summary judgment to McGraw-Hill on grounds that DRK lacked standing to pursue infringement claims for photographs taken by photographers for whom DRK was acting as a non-exclusive agent, since DRK could not be deemed the legal owner of any exclusive right pertaining to the images. The district court further found that the assignment agreements in “substance and effect” assigned to DRK nothing more than the “bare right to sue.” DRK appealed.

The Ninth Circuit examined the preliminary issue of standing to sue under § 501(b) of the Act, which states that the “legal or beneficial owner of an exclusive right under a copyright is entitled . . . to institute an action for any infringement of that particular right committed while he or she is the owner of it.” DRK argued that it had standing as either a legal or beneficial owner of the copyrights.

DRK argued that the representation agreements granted a license to authorize use of the photographs, and that the assignment agreements transferred to DRK the legal title to the copyrights in the photographs along with accrued infringement claims. DRK also cited the Ninth Circuit’s 2015 decision in *Minden Pictures v. John Wiley & Sons* (*IP Update*, Vol. 18, No. 9), asserting that the Court created a bright line rule that stock photography agencies have standing to bring copyright infringement claims by virtue of their agency agreements with their contributing photographers.

The Ninth Circuit, however, explained that DRK interpreted its *Minden* holding too broadly. In *Minden*, the stock photography agent had standing to sue because it was the “sole and exclusive agent and representative with respect to the [!]licensing of any and all uses” of the photographs at issue. The court distinguished DRK’s position from *Minden*, noting that DRK’s representation agreements did not have such an exclusivity provision and thus did not render DRK a legal owner for standing purposes.

Turning to the assignment agreements, DRK claimed legal ownership through the assignments of the photographs, while McGraw-Hill argued that the assignment agreements were nothing more than invalid attempts to transfer the bare right to sue. Here, the Court referred to its 2005 decision in *Silvers v. Sony Pictures Entertainment* (*IP Update*, Vol. 8, No. 4), in which it held that because of the absence of a “right to sue” under the exclusive rights set forth in § 106 of the Act, “an assignee who holds an accrued claim for copyright infringement, but who has no legal or beneficial interest in the copyright itself,” may not sue for infringement. Examining the timing and language of the assignment agreements, their interplay with the representation agreements, and DRK’s course of dealing with the photographers, the Ninth Circuit determined that each party kept the rights it had under the representation agreements, with the photographers retaining exclusive rights to the photographs, and DRK having retained only a non-exclusive license to authorize use of the photographs.

Because DRK also based its claim of beneficial ownership on the representation and assignment agreements, the Ninth Circuit rejected this argument on similar grounds: “[t]o hold that DRK is a beneficial owner simply on the very bases that it cannot be deemed the legal owner would negate our holding in *Silvers* and render portions [of the Copyright Act] superfluous.” Citing procedural issues and delay, the Court also affirmed the district court’s denial of leave for DRK to amend its complaint to join three photographers as plaintiffs in the suit.

In a concurring opinion, Judge Berzon noted that she believed that *Silvers* was wrongly decided, opining that the plaintiff in the case had a sufficient interest in the infringement to confer standing. However, given that *Silvers* remains controlling precedent, Judge Berzon stated that she was “compelled to agree” with the majority.

DRK’s petition for rehearing *en banc* was denied.



**COPYRIGHT INFRINGEMENT**

---

***Copyrights / Infringement***

---

**USENET SERVER OWNERS, OPERATORS ARE NOT DIRECTLY OR SECONDARILY LIABLE FOR COPYRIGHT INFRINGEMENT**

---

*Perfect 10, Inc. v. Giganews, Inc., et al.*, Case Nos. 15-55500; -55523; -56026 (9th Cir., Jan. 23, 2017) (Nelson, J)

Addressing copyright infringement issues, the US Court of Appeals for the Ninth Circuit affirmed the district court's summary judgment in defendants' favor on direct, vicarious and contributory infringement claims. *Perfect 10, Inc. v. Giganews, Inc., et al.*, Case Nos. 15-55500; -55523; -56026 (9th Cir., Jan. 23, 2017) (Nelson, J).

Giganews owns and operates several Usenet servers. "Usenet" is a collection of people and organizations whose computers are connected to one another and can therefore exchange messages. Giganews provides its subscribers access to content that Giganews stores on its own servers, as well as content stored on other Usenet providers' servers. The content offered through the Giganews servers is almost entirely provided by Usenet users. Livewire Services (together with Giganews, the defendants) provides its subscribers with access to the Usenet content stored on Giganews' servers but does not own any Usenet servers.

Perfect 10 owns thousands of adult images, many of which have been illegally distributed over Giganews' servers. Perfect 10 sent Giganews numerous "takedown" notices in connection with these images. When Perfect 10's takedown notices included machine-readable Message-IDs (the identification number for each item), Giganews responded by taking down the infringing images. When Perfect 10's notices included illegible Message-IDs, Giganews asked Perfect 10 for the Message-IDs in a legible, machine-readable format, which Giganews claims Perfect 10 failed to provide.

Under the Copyright Act, the copyright owner exclusively owns the right to display, distribute and reproduce its work. Perfect 10 sued defendants for direct, contributory and vicarious copyright infringement of these rights. The defendants successfully moved to dismiss the right to display claim on the pleadings. As to other counts, the district court found in favor of the defendants. Perfect 10 appealed.

On appeal, the Ninth Circuit agreed with the district court that Perfect 10 failed to plead infringement of its display rights. According to the Court, the fact "that users may use Giganews' reader to display infringing images does not constitute volitional conduct by Giganews." Distinguishing its earlier panel decision in *Perfect 10 v. Amazon.com*, where the Court held that Google controlled the storage and communication of the thumbnails, the Court here found that Giganews had a passive role and did not control the images.

The Ninth Circuit further agreed with the district court that defendants did not directly infringe Perfect 10's distribution and reproduction rights because these acts occurred automatically when the users viewed the images. The Court found that Giganews did not contributorily infringe Perfect 10's copyrights because it did not "materially contribute to or induce infringement" of the copyrights. Finally, the Court found that Perfect 10's vicarious copyright infringement allegations were deficient because Perfect 10 failed to establish that defendants received a direct financial benefit from the infringing activity.

**Copyrights / Infringement****WITHOUT VOLITIONAL CONDUCT, ESTABLISHING DIRECT COPYRIGHT INFRINGEMENT GETS HAIRY**

BWP Media USA, Incorporated, et al. v. T & S Software Associates, Inc., Case No. 16-10510 (5th Cir., Mar. 27, 2017) (Southwick, J).

The US Court of Appeals for the Fifth Circuit affirmed the district court's grant of summary judgment, holding that "volitional conduct" is required to establish a claim for direct copyright infringement under the safe harbor provision of the Digital Millennium Copyright Act (DMCA). *BWP Media USA, Incorporated, et al. v. T & S Software Associates, Inc.*, Case No. 16-10510 (5th Cir., Mar. 27, 2017) (Southwick, J).

T & S Software, an internet service provider (ISP), hosted an internet forum called HairTalk on which third-party users posted various images, shared comments, asked questions and posted other content on topics that include hair, beauty and celebrities. BWP Media sued T & S claiming that a third-party HairTalk user posted images that infringed BWP's copyrights. BWP argued that during the relevant time period, T & S did not have an agent designated to receive notices of content that should be removed, as required to qualify for the DMCA statutory safe harbor.

The DMCA protects ISPs from liability when users upload copyrighted content while requiring such ISPs to remove the material if they receive notice or otherwise become aware of the infringement. To qualify for the safe harbor protection, an ISP must have "designated an agent to receive notifications of claimed infringement." 17 USC § 512.

After the district court granted summary judgment in favor of T & S as to both direct and secondary infringement, BWP appealed the direct infringement liability ruling.

The Fifth Circuit affirmed the district court's grant of summary judgment, determining that volitional conduct is required to prove a claim of direct infringement. The Court explained that although T & S hosted the forum on which infringing content was posted, T & S's "connection to the infringement ends there." The users of the HairTalk forum posted the infringing content, and T & S did not provide them access to the infringing content. T & S "and the infringing content are not linked by volitional conduct." The Court further noted that it couldn't be said that T & S's "conduct caused in some meaningful way an infringement."

BWP also argued that the DMCA safe harbor rules created an exclusive method of protecting an arguably innocent ISP. The Fifth Circuit disagreed, explaining that "even though the DMCA was designed to provide ISPs with a safe harbor from copyright liability, nothing in the language of § 512 indicates that the limitation on liability described therein is exclusive." The Court concluded that it is difficult to argue "that the statute in fact precludes ISPs from relying on an entire strain of case law holding that direct infringement must involve conduct having a volitional or causal aspect."

**Copyrights / Infringement / Intrinsic Test / Registration****WHO WORE IT BEST? VIRTUALLY IDENTICAL FABRIC DESIGN SUPPORTS INFERENCE OF COPYING**

*Unicolors, Inc. v. Urban Outfitters, Inc.*, Case No. 15-55507 (9th Cir., Apr. 3, 2017) (Orrick, J, sitting by designation)

The US Court of Appeals for the Ninth Circuit affirmed that it is permissible to infer copying, even absent evidence of access, where the accused design and the copyright are so overwhelmingly identical that the possibility of independent creation is precluded. *Unicolors, Inc. v. Urban Outfitters, Inc.*, Case No. 15-55507 (9th Cir., Apr. 3, 2017) (Orrick, J, sitting by designation).

Unicolors designs and sells fabrics in the apparel markets. In 2008, Unicolors purchased the rights to an artwork (source artwork), made minor alterations to the design so that it could be printed onto bolts of fabric, and renamed the derivative design as PE1130 (subject design). Later, Unicolors registered its “Flower 2008” collection, which included the subject design, with the US Copyright Office. Unicolors went on to sell approximately 14,000 yards of fabric bearing the subject design between 2008 and 2011.

In late 2010, Urban Outfitters developed a women’s dress with a fabric design similar to the subject design. Two years later, Unicolors sent Urban Outfitters a cease-and-desist letter, then filed a copyright infringement suit.

The district court granted Unicolors’ motion for summary judgment that Urban Outfitters infringed the copyrighted fabric designs, and, after a two-day jury trial, Urban Outfitters’ infringement was found to be willful. Urban Outfitters appealed, challenging the district court’s application of the subjective “intrinsic test,” its finding of a valid registered copyright and the jury’s verdict.

The intrinsic test is the second part of a two-part analysis (extrinsic test being the first inquiry) to determine whether particular works are substantially similar or strikingly similar. Unlike the extrinsic test, which requires an overlap of concrete elements in the designs based on objective criteria, the intrinsic test is subjective. It asks “whether the ordinary, reasonable person would find ‘the total concept and feel of the works’ to be substantially similar.”

At summary judgment, Unicolors conceded that its evidence regarding access was limited and that it could not link its design to Urban Outfitters other than appealing to the wide dissemination of its fabric design prior to Urban Outfitters’ release of the accused dress design. Finding this argument insufficient, the district court focused on Unicolors’ alternative argument that the designs were so strikingly similar that such similarity could only be attributed to copying. Urban Outfitters appealed.

On appeal, the Ninth Circuit agreed with the district court’s approach, rejecting Urban Outfitters’ assertion that even if a court finds striking similarity, it cannot find “copying” without some evidence of access.

The works were found to be virtually identical and, given their complexity and the striking similarity between them, the Court explained it was “unnecessary to consider the possibility [that the accused dress] was the product of independent creation, coincidence, a prior common source, or any source other than copying.” As the Court further explained, summary judgment for plaintiff was appropriate where the “works are so overwhelmingly identical that the possibility of independent creation is precluded.” Indeed, “[i]f courts were never permitted to grant summary judgment in favor of plaintiffs on the issue of copying, even for identical works, the effect of Rule 56 would be substantially diluted.”

The Ninth Circuit also disagreed with Urban Outfitters’ assertion that there were disputed facts as to whether the subject design was included in Unicolors’ Flowers 2008 collection registration. Even though Unicolors properly submitted a copy of PE1130 (the subject design), Urban Outfitters questioned whether the subject design was included, because the name PE1130 was not on the certificate and because the source artwork was listed as excluded material. However, under *Alaska Stock* ([IP Update, Vol. 17, No. 4](#)), the Court noted that omitting the title of a work in a registration collection does not bar

copyright protection as long as Unicolors had rights to the component works. Further, the fact that the source artwork was listed as excluded material was of no import because the infringement action was based on the derivative work, not the source artwork. Indeed, “good faith mistakes do not invalidate registration of a derivative work.”

Finally, the Ninth Circuit concluded that there was substantial evidence to support the jury’s verdict of willful copyright infringement.

**Copyrights / Infringement / Registration****CIRCUIT DIVIDE: IS REGISTRATION A PRECONDITION FOR COPYRIGHT INFRINGEMENT SUITS?**

*Fourth Estate Public Benefit Corp. v. Wall-Street.com, LLC*, Case No. 16-13726 (11th Cir., May 18, 2017) (Pryor, J).

Addressing the regional circuit split over whether copyright registration occurs when a copyright application is filed or when the Register of Copyrights registers the copyright, the US Court of Appeals for the 11th Circuit followed the latter approach, affirming the district court's dismissal of a copyright infringement suit where the plaintiff's application had been filed, but not yet approved or denied, prior to filing suit. *Fourth Estate Public Benefit Corp. v. Wall-Street.com, LLC*, Case No. 16-13726 (11th Cir., May 18, 2017) (Pryor, J).

Fourth Estate is a news organization that licenses online news articles. Wall-Street.com, one of Fourth Estate's customers, continued to display its licensed articles even after termination of its account with Fourth Estate. Fourth Estate sued Wall-Street.com for copyright infringement, alleging in the complaint that it had filed applications to register the relevant articles with the Register of Copyrights. Wall-Street.com moved to dismiss, arguing that the Copyright Act only allows for an infringement suit once the copyright application has been approved or denied.

The Copyright Act (§ 411(a)) requires that a copyright be registered before a copyright owner can assert a claim of infringement:

No civil action for infringement of the copyright in any United States work shall be instituted until . . . registration of the copyright claim has been made in accordance with this title. In any case, however, where the deposit, application, and fee required for registration have been delivered to the Copyright Office in proper form and registration has been refused, the applicant is entitled to institute a civil action for infringement.

The question presented on appeal was whether registration occurs when the application has been either denied or approved (registration approach), or when the copyright deposit, application and required fee for registration have been filed (application approach).

The 11th Circuit acknowledged that its sister courts are divided on the issue. The 10th Circuit follows the registration approach, whereas the Ninth and Fifth Circuits follow the application approach. The Eighth Circuit endorsed the application approach in dicta, while Seventh Circuit case law contains conflicting dicta. The First and Second Circuits, while acknowledging the split, have declined to follow either approach.

The 11th Circuit agreed with the district court, stating, "the text of the Copyright Act makes clear that the registration approach . . . is correct." In reaching this conclusion, the Court examined various sections of the Copyright Act, especially § 401(a), and concluded that "an application alone is insufficient for registration." The Court dismissed Fourth Estate's argument that the three-year statute of limitations for copyright infringement suits supported the application approach:

True, an owner who files an application late in the statute of limitations period risks losing the right to enforce his copyright in an infringement action because of the time needed to review an application. But this potential loss encourages an owner to register his copyright soon after he obtains the copyright and before infringement occurs.

The Court declined to assess the legislative history and policy arguments, finding it unnecessary where "the words of the statute are unambiguous."

**PUBLIC PERFORMANCE RIGHTS**

---

***Copyrights / Public Performance Rights***

---

**NO COMMON LAW “PUBLIC PERFORMANCE RIGHT” FOR BROADCAST OF PRE-1972 RECORDINGS**

---

*Flo & Eddie v. Sirius XM Radio, Inc. et al.*, Case No. 15-1164 (2d Cir., Feb. 16, 2017) (per curium)

The US Court of Appeals for the Second Circuit agreed with the New York Court of Appeals that there is no New York State common law “right of public performance” for pre-1972 recordings that is equivalent to federal copyright protection. *Flo & Eddie v. Sirius XM Radio, Inc. et al.*, Case No. 15-1164 (2d Cir., Feb. 16, 2017) (per curium).

Former recording artists Flo & Eddie (F&E) maintain rights to songs by the 1960s group The Turtles (e.g., “Happy Together,” “She’d Rather Be With Me”). F&E brought a class action suit in the Southern District of New York alleging that Sirius XM Radio infringed its common law copyright protection for sound recordings through the digital transmission of pre-1972 songs. F&E sought millions of dollars in past and future royalties for songs recorded prior to February 15, 1972, the date legislation was amended to confer federal copyright protection.

Throughout the litigation, F&E argued that despite the lack of federal copyright protection for pre-1972 sound recordings, New York common law provides an equivalent “right of public performance,” and the common law protections should require payment of royalties on digital transmission (i.e., a “public performance”) for songs recorded before the federal copyright protections became available.

The district court found no clear answer under New York law as to whether the exclusive rights of sound recording owners include a right of public performance. The question was therefore certified for interlocutory appeal to the Second Circuit, which in turn certified the question to the New York Court of Appeals, asking the state’s highest court to answer whether the state had “a right of public performance for creators of sound recordings under New York law and, if so, what was the nature and scope of that right.”

Following review of the history of common law copyright protection in sound recordings, the New York Court of Appeals concluded that common law does not protect public performance of songs recorded prior to 1972. In other words, the right F&E sought to enforce did not exist under the limited common law protections available in New York, as New York law only conferred protection against unauthorized reproduction of a work until it was published (thereby triggering the federal copyright statute). In view of the respective roles of the judiciary and the legislature, the New York Court of Appeals declined to create a common law right of public performance for pre-1972 sound recordings.

**Practice Note:** The Second Circuit decision settles the issue presented in Sirius’s favor. The practical effect of the Second Circuit’s judgment is that radio broadcast companies are not required to pay new royalties in order to play songs recorded before 1972. Courts in other jurisdictions (such as California and Florida) are currently considering whether the laws of those states give rise to any right of public performance for pre-1972 sound recordings.

**ANTI-SLAPP****Copyright / Anti-SLAPP / Breach of Contract****NINTH CIRCUIT PURGES ANTI-SLAPP MOTION FOR CONTRACT CLAIMS**

*Douglas Jordan-Benel v. Universal City Studios, Inc., et al*, Case No. 15-56045 (9th Cir., June 20, 2017) (Pregerson, J).

In an action involving the popular film series *The Purge*, the US Court of Appeals for the Ninth Circuit affirmed a district court denial of the defendants' anti-SLAPP motion, holding that the plaintiff's breach of implied-in-fact contract claim under state law did not arise from protected free speech activity. *Douglas Jordan-Benel v. Universal City Studios, Inc., et al*, Case No. 15-56045 (9th Cir., June 20, 2017) (Pregerson, J).

In 2011, Douglas Jordan-Benel penned a screenplay entitled *Settler's Day* about "a family's attempt to survive an annual, state-sanctioned, 24-hour period in which citizens are allowed to commit any crime without legal consequences." In attempts to sell the screenplay for further production, Jordan-Benel's agent submitted it to the managing director of United Talent Agency (UTA). Given custom and practice in the entertainment industry, and based on prior dealings between UTA and Jordan-Benel's agent, UTA understood that the submission of the screenplay was for the purpose of selling it to a UTA client, and not merely gratuitous. Although UTA informed Jordan-Benel's agent that it would "pass" on the screenplay, the screenplay was provided to two UTA clients, who then wrote the script for *The Purge*, which was eventually released as films in 2013 and 2014 (along with a third film that was released in 2016).

Jordan-Benel alleged that *The Purge* script copied ideas from *Settler's Day*. In 2015, he filed a claim in state court for breach of implied-in-fact contract against UTA and other parties involved in the production of *The Purge* films (collectively, the defendants). In response to Jordan-Benel's lawsuit, the defendants filed an anti-SLAPP motion to strike the state law claims on grounds that they arose from exercise of the defendants' right of free speech. California's anti-SLAPP law provides for early dismissal of meritless First Amendment cases aimed at chilling expression. The district court denied the motion, ruling that Jordan-Benel's breach of contract claims arose from the failure to pay for the use of Jordan-Benel's ideas, and not from an act in furtherance of free speech rights, such as the creation and production of *The Purge* films. Defendants appealed.

On appeal, the Ninth Circuit worked through an exercise of identifying the claim at issue in the lawsuit in order to properly examine the merits of defendants' anti-SLAPP motion. Defendants contended that Jordan-Benel's claims arose from the creation, production, distribution and content of *The Purge* films. The Ninth Circuit, however, agreed with Jordan-Benel and the district court that the claim at issue was simply a breach of implied-in-fact contract for defendants' failure to compensate Jordan-Benel as a writer/creator for use of his screenplay idea.

Having identified the claim at issue, the Court conducted its review of the anti-SLAPP motion under the following two-part test:

- From what conduct does the claim arise?
- Is that conduct in furtherance of the rights of petition or free speech?

To answer the first question, the Ninth Circuit turned to guidance from the California Court of Appeal, which focuses its anti-SLAPP analysis on the specific conduct that the claim challenges. While common law generally does not recognize a claim of "idea theft" or treat ideas as property, the California Supreme Court has held that contract law may provide protection to a person who submits an idea to others with the understanding that the submission is made in consideration of a promise of payment for its use. According to California courts, California law recognizes an "idea theft" cause of action based on the "implied promise to pay the reasonable value of the material disclosed." The Ninth Circuit determined that the "conduct" from which Jordan-Benel's breach of implied-in-fact contract claim arose was defendants' failure to pay for the use of the screenplay idea, not the making of the films. In other words, the alleged free speech activity of creating and distributing *The Purge* films was not the specific wrongful act that gave rise to Jordan-Benel's claim.

Turning to the free speech question, the Ninth Circuit concluded that defendants' conduct (*i.e.*, failure to pay Jordan-Bene) was not in furtherance of the right of free speech. Thus, the Court agreed with the district court and concluded that application of anti-SLAPP was not a defense to the breach of contract claim.



**RIGHT OF PUBLICITY**

---

***Copyrights / Right of Publicity / Preemption***

---

**ABSENT COMMERCIAL USE, COPYRIGHT LAW LIKELY PREEMPTS RIGHT OF PUBLICITY CLAIMS**

---

*Maloney v. T3Media, Inc.*, Case No. 15-5563 (9th Cir., Apr. 5, 2017) (Smith, J)

In a right of publicity case, the US Court of Appeals for the Ninth Circuit upheld a district court decision granting a motion to strike under California's anti-SLAPP statute on the basis of copyright preemption. *Maloney v. T3Media, Inc.*, Case No. 15-5563 (9th Cir., Apr. 5, 2017) (Smith, J).

Patrick Maloney and Tim Judge, both former student athletes, brought a class-action suit against T3Media for violation of their rights of publicity (ROP) under California state law and common law, and brought unfair competition claims based on T3Media's use of plaintiffs' images on its website, which sells licensed photographs from the National Collegiate Athletic Association Photo Library chronicling newsworthy sporting events using thumbnail images and brief descriptions regarding the people and events contained therein. The district court granted T3Media's motion to strike the ROP claims on the basis of federal copyright law preemption, and declined to reach the other defenses. Maloney appealed.

In a lengthy decision, the Ninth Circuit agreed with the district court that preemption applied under the appropriate test, explaining that the subject matter of the ROP state claim fell within "the subject matter of copyright as described in 17 USC §§ 102 and 103," and that the ROP rights asserted by plaintiffs were "equivalent to the rights contained in 17 USC § 106, which articulates the exclusive rights of copyright holders." Specifically, the photographs at issue were "original works of authorship fixed in a tangible medium" as required under § 102. The Court also concluded that plaintiffs waived their opportunity to argue that the rights they asserted against T3Media were not equivalent to the exclusive rights of copyright holders to "display, perform, reproduce, or distribute" copies of a copyrighted work, because that issue was raised only by *amicus curiae*, not by the plaintiffs at the district court level.

Plaintiffs argued that prior precedent created a distinction between a person's likeness used in a photograph and a person's likeness used in other ways, such as in a moving picture or musical recording. The Ninth Circuit, however, agreed with the district court's dismissal of that argument, stating that such precedent "did not mint a categorical rule that publicity right claims relating to a likeness in a photograph are not subject to preemption" and drawing numerous distinctions in the cases cited by plaintiffs. The Court emphasized that such cases looked at how the likeness was used (commercial versus non-commercial) and whether the purpose of a plaintiff's ROP claim is to "vindicate misuse of an individual's likeness" rather than attempting to stop the distribution, display or performance of a copyrighted work.

The Ninth Circuit pointed out that T3Media offered the photographs of historic/newsworthy sporting events under a non-exclusive license that permitted only a single copy of the image for non-commercial art use. There was no advertising or merchandise sold by T3Media that would imply an endorsement of its website by plaintiffs, and T3Media did not use the likenesses apart from describing the content of the thumbnail images.

Accordingly, the Ninth Circuit held that the district court did not err in its dismissal of plaintiffs' claims with prejudice based on copyright preemption.

**Practice Note:** To make an end-run around preemption, a plaintiff must show in its ROP claim that the use of the plaintiff's likeness is used in a commercial sense, rather than simply being captured in an artistic work for personal use.

**DMCA SAFE HARBOR**

---

***Copyrights / DMCA Safe Harbor / Music Royalty Rates***

---

**DMCA GRANDFATHER CLAUSE DOES NOT EXTEND TO ACQUIRED BUSINESS**

---

*SoundExchange, Inc. v. Muzak LLC*, Case No. 16-7041 (DC Cir., Apr. 25, 2017) (Silberman, J) (Rogers, J, concurring)

Addressing the Digital Millennium Copyright Act (DMCA) grandfather clause that allows “pre-existing subscription services” to pay the pre-1998 reduced royalty rate for digital music licensing, the US Court of Appeals for the District of Columbia Circuit reversed the district court’s dismissal, holding that the defendant was not entitled to the lower royalty rate for service transmissions in connection with its newly acquired business. *SoundExchange, Inc. v. Muzak LLC*, Case No. 16-7041 (DC Cir., Apr. 25, 2017) (Silberman, J) (Rogers, J, concurring).

In 1995, the Digital Performance Right in Sound Recordings Act for the first time granted copyright owners the right to collect royalties from digital music services. The DMCA increased those royalty rates in 1998, but provided a grandfather clause that allowed “pre-existing subscription services” to pay the lower, pre-1998 rates. The change was intended to provide a fairer “market rate” for the copyright holders, and the grandfather clause was intended to benefit three businesses that had invested during the lower rate period.

At the time the DMCA was passed, Muzak, one of the three businesses protected by the grandfather clause, provided licensed music through its DishCD service to Dish Network customers. In 2011, Mood Media Corporation acquired Muzak, as well as one of Muzak’s competitors that was not covered by the grandfather clause. Mood Media arranged for Muzak to acquire the competitor’s customers so that Muzak could pay the grandfathered rate for all of its transmissions, including those resulting from its acquisition of the competitor company. As a result, SoundExchange, a nonprofit responsible for collecting royalties on behalf of performing artists and copyright owners, sued Muzak for underpaying royalties.

The district court dismissed SoundExchange’s complaint, likening Muzak’s acquisition of the competitor to Muzak simply acquiring more customers. SoundExchange appealed.

The DC Circuit reversed, explaining that it did not agree with the district court’s analysis. The Court explained that “Mood-Muzak’s acquisition [], if allowed to expand Muzak’s grandfather eligibility to ‘services’ other than DishCD, threatens the very purpose of the Act.” The Court reasoned that allowing such an interpretation might result in the “complete elimination of the market-rate regime by Mood-Muzak’s acquisition strategy.”

In reaching its decision, the DC Circuit analyzed the definition of “pre-existing subscription service,” which reads, “[a service] that performs sound recordings by means of noninteractive audio-only subscription digital audio transmissions, which was in existence and was making such transmissions to the public for a fee on or before July 31, 1998.” Concluding that the statute and the legislative history were unclear as to whether “service” refers to the business entity or the original program offerings, the Court interpreted the grandfather clause narrowly and concluded that “the better interpretation of the statute is that the term ‘service’ contemplates a double limitation; both the business and the program offering must qualify before the transmissions are eligible for the favorable rate.” Accordingly, the Court reasoned that Muzak’s expansion and provision of additional transmissions did not qualify as pre-existing subscription services and were not eligible for the reduced grandfathered rate.

**Copyrights / DMCA Safe Harbor / Preliminary Injunction****NO FAIRYTALE ENDING FOR UNAUTHORIZED MOVIE STREAMING**

*Disney Enterprises, Inc., et al. v. VidAngel, Inc.*, Case No. 16-56843 (9th Cir., Aug. 24, 2017) (Hurwitz, J).

The US Court of Appeals for the Ninth Circuit affirmed a preliminary injunction against an online video streaming service, finding that the movie studio plaintiffs were likely to succeed on the merits for violations under the Digital Millennium Copyright Act (DMCA) and the Copyright Act. *Disney Enterprises, Inc., et al. v. VidAngel, Inc.*, Case No. 16-56843 (9th Cir., Aug. 24, 2017) (Hurwitz, J).

VidAngel is a film and television filtering service that essentially cracks encryption on discs, makes full unauthorized copies of the copyrighted materials from those decrypted discs, edits objectionable content from the shows, stores copies on its servers and streams the shows to its customers. VidAngel was shut down by a preliminary injunction issued by the district court, which found that VidAngel likely violated the DMCA by circumventing the encryption on DVD and Blu-ray discs, and the Copyright Act by copying movies onto its servers and streaming the movies to consumers. VidAngel appealed.

VidAngel argued two issues of first impression on appeal. First, it claimed that its copying was protected under the Family Movie Act of 2005. Second, it argued that the DMCA's anti-circumvention provisions do not cover the studios' technical protection measures, commonly known as TPMs. To control access to their movies, the studios use encryption-based protection, Content Scramble System and Advanced Access Content System.

The Family Movie Act was designed to allow consumers to skip objectionable audio and video content in videos without committing copyright infringement. The Act authorizes a member of a household to make limited portions of audio or video content of a motion picture imperceptible during performances in, or transmissions to, that household. To support the development of filtering functionality, the Act also allows for the creation and distribution of any filtering technology. However, that technology is restricted to use by a member of a private household, and no fixed copy of the movie may be created.

VidAngel failed to convince the Ninth Circuit that because it started with a lawful copy of the movie (*i.e.*, the disc it purchased), any subsequent stream was "from" that authorized copy. The Court found no support for VidAngel's interpretation of the Act and noted that VidAngel's interpretation would allow for unlawful decryption and copying prior to filtering, a result that would negatively affect the integrity of intellectual property rights, creating a giant loophole in copyright law.

The Ninth Circuit also made quick work of VidAngel's argument that it was authorized to decrypt the discs under the language of the Act. The Court explained that the studios allow lawful purchasers permission only to view their discs with a DVD or Blu-ray player licensed to decrypt, not to access the work itself.

Finally, VidAngel argued (for the first time on appeal) that because the studios only object to decryption for the purpose of copying (*i.e.*, a "use" of the videos), but permit those who buy the discs to decrypt them in order to view the videos (*i.e.*, an "access"), the encryption controls should be treated as "use" governed by § 1201(b) of the DMCA. The Ninth Circuit found no support in the statute for this argument, noting that when a defendant decrypts the protection measures and also reproduces that work, it is liable both for circumvention in violation of the DMCA and copyright infringement.

The Ninth Circuit also affirmed the district court's finding that VidAngel was not likely to succeed on its fair use defense, because, among other things, the defendant's service was an effective substitute for the studio's unfiltered works. After balancing the equities in favor of the studios, the Court found that the district court did not abuse its discretion in finding that a preliminary injunction was in the public interest.

**Copyrights / DMCA Safe Harbor****TIME TO ZOOM IN ON APPLICATION OF DMCA SAFE HARBOR DEFENSE**

*Mavrix Photographs, LLC v. LiveJournal, Inc.*, Case No. 14-56596 (9th Cir., Apr. 7, 2017) (Paez, J)

In reversing a district court grant of summary judgment in favor of a social media platform, the US Court of Appeals for the Ninth Circuit ordered a deeper look at the degree to which the common law of agency affects a safe harbor defense to copyright infringement under § 512(c) of the Digital Millennium Copyright Act (DMCA). *Mavrix Photographs, LLC v. LiveJournal, Inc.*, Case No. 14-56596 (9th Cir., Apr. 7, 2017) (Paez, J).

Mavrix, a photography agency specializing in celebrity vacation photos, sued LiveJournal for copyright infringement when 20 of its photographs were posted to a popular LiveJournal celebrity news community called “Oh No They Didn’t!” (ONTD). Mavrix did not utilize LiveJournal’s available notice and takedown procedures to notify LiveJournal of the infringements. When the lawsuit was filed, however, LiveJournal removed the posts containing the allegedly infringing photographs. At the district court, LiveJournal moved for summary judgment, citing the § 512(c) safe harbor provision under the DMCA, which protects service providers from liability for unintentional copyright infringement due to the service providers’ storage and hosting of copyrighted material posted “at the direction of” a third-party user so long as the service providers follow certain notice and takedown requirements under the DMCA. Finding that the § 512(c) safe harbor shielded LiveJournal from liability for copyright infringement arising from the Mavrix photos posted to its ONTD community, the district court granted summary judgment in favor of LiveJournal. Mavrix appealed.

On appeal, the Ninth Circuit examined whether Mavrix’s photos were truly “posted at the direction of the user” so as to trigger the § 512(c) safe harbor, or whether instead the posting of photographs that were first reviewed and approved by LiveJournal’s community moderators could be attributed to LiveJournal directly. The Court explained that the posting of the photos, rather than the submission, was the critical inquiry, and indicated that the case would turn on whether the acts of the LiveJournal community moderators could be attributed to LiveJournal. On this point, the Court determined that the district court erred in rejecting Mavrix’s argument that the moderators were LiveJournal’s agents, thereby making LiveJournal liable for their acts.

Considering the summary judgment record with regard to the organizational structure of the LiveJournal community moderators, and more specifically the moderators involved with the ONTD community, the Ninth Circuit found that there existed genuine issues of material fact as to whether the moderators were LiveJournal’s agents under the common law of agency. In particular, the Court found that the evidence presented issues of material fact regarding whether the moderators had actual and/or apparent authority to act for LiveJournal, including evidence suggesting that LiveJournal’s policies provided explicit roles and authority to its moderators, that LiveJournal “relies on moderators as an integral part of its screening and posting business model,” and that LiveJournal maintained “significant control” over ONTD and its moderators. However, the Court also noted that other evidence may call into question the level of control that LiveJournal asserts over the conduct of its moderators, who are “free to leave and go volunteer their time in any way they see fit.” Moreover, the Court noted that any fact finder must also resolve whether LiveJournal’s moderators provide only accessibility-enhancing activities with regard to posted content (which does not incur liability for infringing posts), or whether their activities extend beyond the “automatic and limited manual activities”—such as reformatting posts or even screening for infringement—that courts have previously found to be merely accessibility enhancing.

Finding remand to be warranted, the Ninth Circuit noted that a fact finder must resolve the dispute regarding the status of the LiveJournal moderators as agents, and whether the Mavrix photos were posted at the direction of the users. In addition, the Court explained that under the DMCA, a fact finder must also determine whether LiveJournal had actual or “red flag” knowledge of the infringements, and whether LiveJournal financially benefitted from infringements that it had the “right and ability to control,” beyond just the capacity to remove or block access to posted content.

Thus, the Ninth Circuit reversed the grant of summary judgment in favor of LiveJournal and remanded for trial to address the factual questions relating to the application of the § 512(c) safe harbor with regard to LiveJournal's business model.

---

**LICENSES**

---

***Copyrights / License / Remedies***

---

**TREBLED DAMAGES MEANS NO INJUNCTION FOR KNOCK-OFF SOFTWARE**

---

*SAS Institute, Inc. v. World Programming Ltd.*, 874 F.3d 370 (4th Cir. 2017) (Wilkinson, J).

The US Court of Appeals for the Fourth Circuit affirmed in part, reversed in part and remanded a district court finding that a defendant was liable for breach of a software license agreement and therefore infringed the plaintiff's copyright in the subject software. *SAS Institute, Inc. v. World Programming Ltd.*, 874 F.3d 370 (4th Cir. 2017) (Wilkinson, J).

SAS sells an integrated system of business software known as the "SAS System," which users operate by writing instructions in a computer programming language known as SAS. Essentially, the SAS System is required to make an SAS program function. WPL, a UK company and competitor of SAS, develops statistical reporting software. WPL purchased several copies of the SAS Learning Edition, a low-cost version of the SAS System marketed as an educational tool to enable students to learn the SAS System, and used the SAS Learning Edition to develop a competing product called World Programming System. The license terms on the SAS Learning Edition included a prohibition on "reverse engineering," as well as a restriction limiting use to "non-production purposes." SAS sued WPL, first in the United Kingdom, asserting claims for copyright infringement and breach of the Learning Edition license agreement, and subsequently in federal district court in North Carolina, asserting copyright infringement and breach of the license agreement, along with other state law claims.

The UK court determined that under the EU Directive on software copyright, SAS's software copyright did not cover aspects of the program that were reproduced and the parties could not contract around the Directive. The UK court entered a final judgment for WPL on all claims except for copyright infringement of the SAS manuals. In the United States, the district court determined that the input and output formats WPL copied were not protected under copyright, but that WPL had breached the license restriction against reverse engineering. WPL appealed the district court's ruling that the UK litigation did not preclude the US suit, and the grant of summary judgment on the breach of contract claim, damages, attorneys' fees and evidentiary rulings. SAS appealed the court's denial of injunctive relief and the court's copyright ruling.

On the issue of res judicata (based on the UK case), the Fourth Circuit reasoned that many of the legal and factual differences between the UK and US cases meant that applying the doctrine would deprive SAS from having its claims heard in an adequate forum and would undermine US and North Carolina public policies in favor of the UK and EU policies. WPL was unable to establish that the violations of US copyright could have been litigated in the UK court.

With respect to the breach of license agreement, the Fourth Circuit rejected WPL's argument that summary judgment against it was inappropriate because the terms "reverse engineering" and "non-production" were ambiguous. The Court found that SAS's definition of the terms, supported by dictionary definitions, favored a broad definition giving effect to every word in the contract and was consistent with North Carolina law on contract interpretation. The Court affirmed summary judgment on the breach of the Learning Edition agreements, finding that WPL violated the unambiguous reverse engineering prohibition.

The Fourth Circuit disagreed with SAS on the issue of denial of injunction relief based on the breach of contract and fraud claims it had prevailed on below. The Court found that SAS failed to demonstrate an irreparable injury from WPL's actions. First, the Court noted that SAS did not leave the court penniless; it received a trebled damages award of more than \$79 million, which included not only SAS's lost profits, but also future damages after trial. The Court also determined that an injunction was not warranted on the grounds that WPL could not pay damages or that enforcement of the monetary award would be difficult. The Court reasoned that an injunction would have "a significant negative impact on WPL's sales" and would frustrate, rather than facilitate, WPL's ability to pay damages.

On the copyright claim, the only relief SAS sought that it had not already received was the requested injunction. Since the Fourth Circuit determined that SAS was not entitled to injunctive relief even if it were to prevail on the copyright claim, the Court dismissed the copyright claim as moot.

WPL's petition for rehearing and rehearing *en banc* was denied.

**Copyrights / Licenses / Compulsory Retransmissions License (Internet Streaming)****NO COMPULSORY LICENSE FOR INTERNET RETRANSMISSIONS OF BROADCAST TV**

*Fox Television Stations, Inc. v. AereoKiller, LLC*, Case No. 15-56420 (9th Cir., Mar. 21, 2017) (O’Scannlain, J).

Reversing the district court’s partial grant of summary judgment in favor of an internet streaming service, the US Court of Appeals for the Ninth Circuit relied on the US Copyright Office’s interpretation of § 111 of the Copyright Act in finding that an internet streaming service does not qualify as a “cable system” under the statute and therefore is not eligible for a compulsory license to stream copyrighted content from broadcast television signals. *Fox Television Stations, Inc. v. AereoKiller, LLC*, Case No. 15-56420 (9th Cir., Mar. 21, 2017) (O’Scannlain, J).

FilmOn uses antennas to provide over-the-air broadcast programming to subscription customers via internet streaming. After the Supreme Court of the United States’ 2014 decision in *American Broad. Cos. v. Aereo* ([IP Update, Vol. 17, No. 7](#)) held that use of antenna technology to rebroadcast TV to the internet was a “public performance” in violation of US copyright law, FilmOn made an attempt to legally navigate its business within the Copyright Act and applied to the US Copyright Office for a compulsory license to stream its broadcast television content under § 111 of the Act.

Section 111 provides that cable systems are eligible for a compulsory license to retransmit content originally broadcast by someone else. The statute defines a “cable system” as a “facility . . . that receives signals transmitted or programs broadcast by one or more television broadcast stations . . . and makes secondary transmission of such signals or programs by wires, cables, microwave, or other communications channels to subscribing members . . . .”

The US Copyright Office denied FilmOn’s § 111 application on the ground that internet-based retransmission services are not cable systems and thus are not covered under the statute. In the meantime, FilmOn was sued by a significant number of broadcast stations and copyright owners, including the Fox networks, NBC, ABC and Disney, among others (collectively, Fox) for copyright infringement.

Finding that FilmOn *did* qualify as a “cable system” and may be entitled to a compulsory license for retransmitted broadcast content, the district court granted partial summary judgment to FilmOn. In its decision, however, the district court also authorized the immediate appeal on this “controlling question of law,” noting a difference of opinion among the courts on the issue of whether internet-based retransmission services count as “cable systems” under § 111. In fact, the district court in this dispute was the only court to conclude that internet retransmissions services so qualify.

On appeal, the Ninth Circuit rejected the arguments put forth by both parties with regard to their respective interpretations of the “plain meaning” of § 111 and whether internet streaming services qualify as “cable systems.”

Fox focused on the word “facility” in the § 111 language and argued that FilmOn is not a cable system because it does not control the full retransmission process, since the internet transmission path is outside of FilmOn’s control, or otherwise beyond its “facility.” The Ninth Circuit disagreed, finding that nothing in the statute compels the conclusion that “cable systems” must have control over the full process or retransmission medium.

Relying on the Supreme Court’s decision in *Aereo*, FilmOn argued that § 111 “should be interpreted in a technology agnostic manner,” making compulsory licenses available to any facility that retransmits broadcast signals or programming, regardless of the medium. However, the Ninth Circuit was quick to explain that *Aereo* did not deal with § 111, but instead examined the Copyright Act’s Transmit Clause under § 101 to determine the types of retransmissions that qualify as public performances of copyrighted content.

FilmOn also argued that internet retransmissions should count as one of the “other communications channels” covered by the definition of “cable system” under § 111. On this point, the Court examined particular language of the statute coupled with the



legislative history of § 111, which was intended to provide broadcasts to “geographically distant and isolated communities,” and determined that internet services have no similar geographic boundaries. Further, the Court opined that internet-based retransmissions actually lend themselves to piracy and pose a “more serious threat to the value and integrity of copyrighted works.”

Given the ambiguity of the statute with regard to the specific question at issue, the Ninth Circuit turned to the Copyright Office’s long-held interpretation of § 111, unequivocally stating that internet streaming services may not use the same statutory compulsory copyright license granted to cable companies. In reversing the district court, the Ninth Circuit found that the Copyright Office’s consistent position on § 111 strikes a balance between the public’s interest in “improved access to broadcast television and the property rights of copyright holders,” and is based on the statute’s text, structure and legislative history. The court further noted that Congress has “effectively acquiesced” to the Copyright Office’s position, since Congress has repeatedly amended the statute in other respects, but has left this interpretation of § 111 intact.

**Practice Note:** FilmOn has petitioned for *en banc* review by the Ninth Circuit. Citing a separation of powers concern and arguing that the court erroneously deferred to the position of the US Copyright Office on the issue of internet streaming services as cable systems, FilmOn argues that the current decision threatens internet-based broadcast television retransmissions as an “important emerging technology.”

**FEDERAL PREEMPTION**

---

***Copyrights / Federal Preemption / Patents***

---

***TWO FEDERAL PREEMPTION CASES, ONE CONSISTENT OUTCOME***

---

OpenRisk, LLC v. MicroStrategy Services Corporation, 876 F.3d 518 (4th Cir. 2017) (Harris, J); Motion Medical Technologies, L.L.C., et al. v. ThermoTek, Incorporated, et al., 875 F.3d 765 (5th Cir. 2017) (Higginson, J)

Two recent decisions from the Fourth and Fifth Circuits—with similar outcomes—have contributed further guidance and consistency on the issue of federal preemption with respect to state law claims pertaining to conversion and computer fraud, as well as unfair competition.

Both circuits explained that federal preemption, as it applies to federal intellectual property laws, is intended to maintain balance by preventing states from offering intellectual property protections that the federal Copyright or Patent Acts do not provide. Citing § 301 of the Copyright Act, both courts examined the facts of their respective cases under the Act's two-pronged inquiry to determine when a state law claim is preempted. First, the work at issue must be within the scope of the subject matter of copyright. If it is, then a state-law claim is preempted if the rights granted thereunder are equivalent to those protected by federal copyright.

**OpenRisk v. MicroStrategy Services**

The US Court of Appeals for the Fourth Circuit addressed the issue of whether the federal Copyright Act preempted a plaintiff's state law claims arising from the copying and transfer of certain computer data. In finding such claims preempted, the Court affirmed the district court's grant of summary judgment in favor of the defendant. *OpenRisk, LLC v. MicroStrategy Services Corporation*, 876 F.3d 518 (4th Cir. 2017) (Harris, J).

OpenRisk, a startup company, contracted with MicroStrategy for cloud computing and hosting services in relation to OpenRisk's data and programming. Shortly thereafter, OpenRisk faced insolvency, and three of OpenRisk's principal officers resigned and started their own company, Spectant Group LLC. The next year, OpenRisk sued MicroStrategy in district court in Virginia, claiming conversion and computer fraud under state law based on allegations that MicroStrategy had copied and transferred OpenRisk's data from the MicroStrategy cloud to a new cloud environment created for Spectant. After close of discovery, the district court granted MicroStrategy's motion for summary judgment arguing that the federal Copyright Act preempted OpenRisk's state law claims. OpenRisk appealed.

Starting with the two-prong preemption inquiry of § 301 of the Copyright Act, the court noted that there was no dispute as to the first prong since the materials in question (a computer program and associated data) fall within the subject matter of copyright. Thus, the case hinged on the second prong of the inquiry, i.e., whether the rights that OpenRisk wanted to protect under state law are "equivalent to the exclusive rights reserved to the owner of a copyright." Finding that the unauthorized copying of a computer program falls squarely within the Copyright Act's grant of exclusive rights to "reproduce" and "distribute" copies of a copyrighted work, the Court held that OpenRisk's conversion and computer fraud claims were preempted.

The Court rejected OpenRisk's arguments that the Virginia Computer Crimes Act upon which it based certain state law claims contains "extra elements" that save its case from preemption. The court explained that preemption may be avoided only when an extra element of a state law claim "changes the nature of the action so that it is qualitatively different from a copyright infringement claim." Here, the Court found that the core of OpenRisk's claim remains the unauthorized copying and transfer of its data, which is "equivalent to" a copyright infringement action and thus preempted.

OpenRisk's petition for panel rehearing or rehearing en banc was denied.

Motion Medical v. ThermoTek

Just one day after the Fourth Circuit's OpenRisk decision, the US Court of Appeals for the Fifth Circuit granted judgment as a matter of law in favor of a defendant, finding the plaintiff's unfair competition claim under Texas state law to be preempted by the federal Copyright and Patent Acts. *Motion Medical Technologies, L.L.C., et al. v. ThermoTek, Incorporated, et al.*, 875 F.3d 765 (5th Cir. 2017) (Higginson, J).

ThermoTek, a medical device company, filed suit against its distributor, Mike Wilford, and his related companies in Texas state court for unfair competition after Wilford developed and sold a competing product for thermal and compression therapies that ThermoTek alleged was created with its proprietary information obtained by Wilford. Wilford removed the case to the Northern District of Texas, where a jury decided in favor of ThermoTek. Wilford then renewed a motion for judgment as a matter of law, arguing that federal copyright and patent law preempted ThermoTek's state unfair-competition-by-misappropriation claim. The district court agreed and dismissed all claims in the matter.

On appeal, the Fifth Circuit examined whether Wilford waived the preemption argument by failing to plead the affirmative defense. The panel agreed with the district court findings (1) that Wilford raised the affirmative defense at a "pragmatically sufficient time" since the issue first arose at the summary judgment stage before discovery closed, which was nearly two years before trial, and (2) that ThermoTek was not prejudiced in its ability to respond.

Turning to the issue of whether federal copyright law preempted ThermoTek's unfair-competition-by-misappropriation claim under Texas state law, the Fifth Circuit referred to the § 301 two-prong test. Regarding prong one, the Court quickly concluded that the misappropriated information, which included manuals, reports, billing information and other written documents, was "within the subject matter of copyright." Moving on to prong two, the Court noted that it has "twice held that Texas's unfair-competition-by-misappropriation tort does not afford protection qualitatively different from federal copyright law," and thus affirmed the district court's finding of copyright preemption.

On the question of patent preemption, the Fifth Circuit relied on the Supreme Court of the United States' decision in *Bonito Boats*, since the issue of patent preemption with respect to the Texas unfair competition law was a novel question in the Fifth Circuit. Under *Bonito Boats*, the panel also affirmed the district court's patent preemption ruling, explaining that to the extent a state law unfair competition claim seeks to protect functional aspects of ThermoTek's products, that state law thereby offers patent-like protection that might otherwise be unavailable under federal law, and would likely "obstruct Congress's goals."

ThermoTek has since filed a petition for rehearing.

**FIRST AMENDMENT**

---

***Copyrights / First Amendment***

---

***PRESUMPTION IN FAVOR OF UNMASKING COPYRIGHT INFRINGERS***

---

*Signature Management Team v. Doe*, 876 F.3d 831 (6th Cir. 2017) (White, J) (Suhrheinrich, J, dissenting)

The US Court of Appeals for the Sixth Circuit recognized “a presumption in favor of unmasking anonymous defendants when judgment has been entered for a plaintiff.” *Signature Management Team v. Doe*, 876 F.3d 831 (6th Cir. 2017) (White, J) (Suhrheinrich, J, dissenting). The split panel declined to adopt a per se rule in favor of unmasking, however, preserving a district court’s power to maintain a defendant’s anonymity where unmasking would chill the defendant’s “significant . . . non-infringing anonymous speech.”

This case involved a dispute between a multi-level marketing company, Signature Management Team (SMT), and an anonymous blogger and critic of the industry (Doe). Doe posted a link on his blog to a downloadable copy of one of SMT’s full textbooks. SMT sent Doe a take-down notice. Doe quickly removed the hyperlink. Nevertheless, SMT sued Doe, alleging one count of copyright infringement. Doe asserted defenses of fair use and copyright misuse.

During discovery, SMT sought to compel disclosure of Doe’s identity. The district court denied the request, applying the balancing test set forth by the Northern District of California in the 2011 case *Art of Living Foundation v. Does 1–10*. Under that test, a plaintiff seeking to unmask a defendant during discovery must first produce competent evidence supporting a finding of each fact essential to a given cause of action. Once the plaintiff satisfies this burden, the court must weigh the harm that unmasking would work upon the defendant’s First Amendment right to anonymous speech against the plaintiff’s need to pursue its claims. In denying SMT’s request, the district court concluded that because there was a chance that Doe could prevail on his fair-use defense, he faced significant and irreversible harm if unmasked. However, the district court did compel Doe to reveal his identity to the court and to SMT’s lawyer, subject to a protective order barring them from sharing this information with SMT.

Ultimately, the district court granted summary judgment for SMT, but only limited injunctive relief. The injunction required Doe to destroy all copies of the infringing work in his possession. However, the court declined to enter a permanent injunction or to unmask Doe. In declining to unmask Doe, the district court again applied the balancing test in *Art of Living*. SMT appealed.

Addressing what it called an “issue of first impression,” the Sixth Circuit noted that “very different considerations” apply at the judgment stage than at the discovery stage. The Court explained that an adverse judgment diminishes, but does not necessarily obviate, an anonymous infringer’s First Amendment interest in continued anonymity. The Sixth Circuit ordered a remand and instructed the district court to also consider the public’s general interest in open court proceedings and the plaintiff’s specific interest in unmasking the defendant.

The Sixth Circuit panel declined, however, to adopt a per se rule in favor of automatically unmasking a liable defendant. It concluded that although the First Amendment does not protect infringing speech, unmasking might hinder a defendant’s ability to engage in protected anonymous speech in the future. It further concluded that SMT had “no practical need” to monitor Doe’s future activities because Doe had already complied with the terms of the district court’s injunction and the district court had not entered any ongoing injunctive relief.

In dissent, Judge Suhrheinrich likened the majority to “an overprotective parent” and dismissed the issue of whether unmasking would chill future speech as “collateral” to the issue before the court and thus not properly considered. He noted that the *Art of Living* test applied during discovery to prevent irreparable harm should the court later determine that the defendant did not infringe—a concern that was no longer present following judgment. In addition, the dissent concluded that “ordering injunctive relief against Doe without identifying him minimizes the effect of the court’s order, downplays the significance to Doe, encourages future misconduct, and hinders SMT’s ability to monitor compliance.” Judge Suhrheinrich would have remanded with instructions to unmask Doe. SMT has since filed a petition for rehearing *en banc*.

**COMMUNICATIONS DECENCY ACT (CDA)**

---

***Copyrights / Communications Decency Act (CDA) / Click-Through License***

---

**POSTING SERVICE ENTITLED TO BROAD IMMUNITY UNDER CDA**

---

*Small Justice LLC v. Xcentric Ventures LLC*, 873 F.3d 313 (1st Cir. 2017) (Barron, J)

The US Court of Appeals for the First Circuit agreed with the district court that posting service immunity under the Communications Decency Act (CDA) should be “broadly construed,” and that the act of posting complaints was in itself sufficient consideration for grant of an irrevocable nonexclusive license. *Small Justice LLC v. Xcentric Ventures LLC*, 873 F.3d 313 (1st Cir. 2017) (Barron, J).

Massachusetts lawyer Richard Goren and his company, Small Justice (collectively, Goren), sued Xcentric Ventures, the owner of RipoffReport.com, for copyright infringement, libel, interference with a contract and violation of Massachusetts’ unfair competition statute. The Ripoff Report permits customers to “post free complaints, called ‘reports,’ about companies and individuals whom [sic] they feel have wronged them in some manner.”

Goren’s claims all pertained to a dispute arising from two reports that Christian DuPont authored and posted on the Ripoff Report that were highly critical of Goren, who had provided legal representation on an unrelated matter adverse to DuPont, the defendant in that matter. In the two postings, DuPont leveled a number of criticisms at Goren’s character and conduct. In response, Goren filed suit in Massachusetts state court, under Massachusetts state law, for libel and intentional interference with prospective contractual relations. DuPont did not defend the lawsuit, and Goren, after first voluntarily dismissing those counts of the state court complaint that sought money damages, successfully obtained a default judgment. The state court also transferred to Goren “all rights in and to ownership of the copyright” for each of the two reports that DuPont had posted, which Goren assigned to himself and then to Small Justice.

Goren next filed the present lawsuit in federal court in Massachusetts against Xcentric, the owner of the Ripoff Report. Goren claimed that Small Justice had ownership of copyright to a declaration and to the two DuPont reports, and asserted copyright infringement. Xcentric moved to dismiss the complaint, which the district court granted in part. Specifically, the district court found that the CDA at 47 USC § 230 shielded Xcentric, an interactive computer service provider, from liability for information provided by another content provider. The district court rejected Goren’s argument that, by holding itself out as the copyright holder and by having “directed” internet search engines to list the postings, Ripoff Report itself became the information provider.

At the conclusion of discovery, the district court granted Xcentric summary judgment on the copyright infringement claim, finding that Goren’s claim failed because DuPont had “transferred copyright ownership to Xcentric by means of an enforceable browsewrap agreement. Specifically, the district court concluded that DuPont made that transfer pursuant to the Ripoff Report’s terms and conditions, which provided (in part) that a user of the site agreed to “grant to Xcentric an irrevocable, perpetual, fully-paid, worldwide exclusive license to use, copy, perform, display and distribute” the user’s posting. Even though DuPont may not have seen the full terms and conditions prior to submitting his postings (given the configuration of the website), the district court concluded that DuPont was on inquiry notice of those terms and conditions “because of the vertical scroll bar to the right of the text box, which was captioned ‘Terms and Conditions’, and because of the ‘conspicuously visible’ hyperlinks at the bottom of each page in the submission process to the website’s ‘terms of service.’” The district court subsequently modified the judgment to find that the browsewrap license failed to meet the requirements for the transfer of an exclusive copyright license but did grant an irrevocable non-exclusive license. This distinction did not, however, change the outcome. Goren appealed.

The First Circuit reviewed the dismissal of the libel and tortious interference claims de novo and affirmed. The Court explained that the CDA’s § 230 immunity is to be liberally construed, noting that Congress has expressed a “policy choice not to deter harmful online speech through the route of imposing tort liability on companies that serve as intermediaries for other parties’ potentially injurious messages.” Applying de novo review again, the First Circuit also affirmed the copyright decision, rejecting

Goren's argument that the license "contract" failed because no consideration was given to DuPont. The Court noted that while consideration is necessary to support an irrevocable license grant, the "performance can itself constitute consideration sufficient to establish a binding contract." Thus the act of actually posting the complaints was sufficient consideration under these circumstances.

Finally, the Court determined that it need not address whether a browsewrap agreement may satisfy the exclusive license writing requirement of 17 USC § 204. This remains an open issue in the First Circuit.

## CYBERSECURITY

*Data Privacy / Cybersecurity***FOREIGN-STATE-SPONSORED ESPIONAGE NOT ACTIONABLE UNDER FISA WHERE INTENT TO SPY OCCURS ABROAD**

*John Doe aka Kidane v. Ethiopia*, Case No. 16-7081 (DC Cir., Mar. 14, 2017) (Henderson, J)

In concluding that the Foreign Sovereign Immunities Act (FISA) exception for non-commercial torts does not abrogate sovereign immunity where the claimed espionage did not occur entirely in the United States, the US Court of Appeals for the District of Columbia Circuit affirmed the dismissal of a US citizen's Wiretap Act and state-law claims against Ethiopia's alleged digital espionage. *John Doe aka Kidane v. Ethiopia*, Case No. 16-7081 (DC Cir., Mar. 14, 2017) (Henderson, J).

Plaintiff John Doe—proceeding pseudonymously as “Kidane”—obtained asylum from Ethiopia in the early 1990s. He is now a US citizen living in Maryland and has remained active in the Ethiopian community to raise awareness of corruption and human rights issues in Ethiopia. In late 2012 or early 2013, Kidane received an email originally sent by or on behalf of Ethiopia from an individual allegedly located in London. The email included an attachment that, once opened, allegedly infected Kidane's computer with a “clandestine . . . program[] known as FinSpy.” According to the complaint, FinSpy is “a system for monitoring and gathering information from electronic devices, including computers and mobile phones, without the knowledge of the device's user” and is “sold exclusively to government agencies.” FinSpy “began . . . recording some, if not all, of the activities undertaken by users of the computer,” whether by Kidane or his family members, then allegedly communicated with a server in Ethiopia.

Kidane filed suit under the Wiretap Act, 18 USC §§ 2510 *et seq.*, which prohibits “any person [from] intentionally intercept[ing] . . . any wire, oral, or electronic communication[,]” as well as under Maryland's common law tort of intrusion upon seclusion. The district court dismissed the lawsuit, concluding that the Wiretap Act could not be enforced via private lawsuit against a foreign government, and that there was no subject matter jurisdiction for the state-law claim. Kidane appealed.

FISA's non-commercial tort exception abrogates immunity from actions involving “personal injury or death, or damage to or loss of property, *occurring in the United States* and caused by the tortious act or omission of [a] foreign state or of any official or employee of that foreign state while acting within the scope of his office or employment[.]” According to DC Circuit precedent (*Jerez*), the “*entire tort*—including not only the injury but also the act precipitating that injury—must occur in the United States.”

The DC Circuit distinguished *Liu* (assassination in California at a Taiwanese admiral's direction) and *Letelier* (Chilean agents detonated a car bomb in Washington, DC), which, unlike the present case, involved tortious actions occurring in the United States without reference to any action undertaken abroad. Distinguishing the facts in *Liu* and *Letelier*, the Court found that Ethiopia's digital espionage could not have violated Maryland law or the Wiretap Act without “an intent to spy.” In other words, since both laws require the *intentional* intrusion and interception of wire, oral or electronic communications, the intent must also occur in the United States. As the Court noted, the intent to spy—an integral aspect of the final tort—lay solely abroad. Even though completed in the United States when Kidane opened the infected email attachment, “the tortious intent aimed at Kidane plainly lay abroad and the tortious acts of computer programming likewise occurred abroad,” precluding a finding that the entirety of the tort occurred in the United States.

*Practice Note:* The DC Circuit's strict assessment of FISA and its exceptions may leave citizens without recourse against foreign state-sponsored digital espionage in certain situations. Indeed, the Court seems to suggest that as long as the foreign government formed its tortious intent abroad, it may be immune from suit even though the wiretap occurred in the United States against a US citizen.



\*Strategic alliance with MWE China Law Offices