Trends Seen in 2016's Federal Circuit Patent Rulings; More Supreme Court Slapdowns in *Lexmark, Heartland* and *SCA*?

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Supreme Court Slapping the Circuit Down

***Halo v. Pulse* and *Stryker v. Zimmer*, 136 S. Ct. 1923 (2016)** - The case relaxes the standard for willful infringement and enhanced damages. The Federal Circuit's *Seagate* object recklessness is out as it is not consistent with §284 (courts "may increase the damages up to three times the amount found or assessed.") No longer pertinent is whether the defendant can come up with a reasonable defense at trial – the focus must be measured against the actor's knowledge at the time of the challenged conduct. So are we going back to advising clients to get written opinions?

Seagate's requirement that recklessness be proved by clear and convincing evidence is also inconsistent with §284. *Highmark Inc. v. Allcare* confirmed that for attorney fees — its abuse of discretion review. Because §284 "commits the determination" whether enhanced damages are appropriate to the district court's discretion, "that decision is to be reviewed on appeal for abuse of discretion."

***Samsung Electronics Co., Ltd. v. Apple, Inc.*, U.S. Supreme Court Case No. 15-777 (December 6, 2016).** The Federal Circuit's narrower reading of "article of manufacture" cannot be squared with the text of §289. The Federal Circuit found that components of the infringing smartphones could not be the relevant article of manufacture because consumers could not purchase those components separately from the smartphones. see also *Nordock, Inc. v. Systems Inc.*, 803 F. 3d 1344, 1355 (Fed. Cir. 2015) (declining to limit a §289 award to a design for a "'lip and hinge plate'" because it was "welded together" with a leveler and "there was no evidence" it was sold "separate[ly] from the leveler as a complete unit").

But the term "article of manufacture" is broad enough to embrace both a product sold to a consumer and a component of that product, whether sold separately or not. Thus, reading "article of manufacture" in §289 to cover only an end product sold to a consumer gives too narrow a meaning to the phrase.

***Life Technologies Corp v. Promega Corp.*, 580 U.S. ___ (2017) –** *Life Technologies* reverses the Circuit's ruling that shipping a single component of a claimed invention to be combined with other components outside of the country can constitute infringement.

Promega sublicensed a patent to a toolkit for genetic testing to Life Technologies. One of the kit's five components, an enzyme known as the Taq polymerase, was manufactured by Life Technologies in the U.S. and then shipped to the UK, where the four other components were made, for combination there. When Life Technologies began selling the kits outside the licensed fields of use, Promega sued, claiming that patent infringement liability was triggered under §271(f)(1), which prohibits the supply from the U.S. of "all or a substantial portion of the components of a patented invention" for combination abroad. The jury returned a verdict for Promega, but the District Court

granted Life Technologies' motion for JMOL, holding that §271(f)(1)'s phrase "all or a substantial portion" did not encompass the supply of a single component of a multicomponent invention. The Federal Circuit reversed. It determined that a single important component could constitute a "substantial portion" of the components of an invention under §271(f)(1) and found the Taq polymerase to be such a component. The Supreme Court disagreed.

Is the Same About to happen on Exhaustion, Venue and Laches?

***Lexmark v Impression*, 816 F3d 721 (Fed. Cir. 2016)(en banc)(accepted for cert Dec 2)**

Do overseas sales exhaust a patent owner's right to sue in the U.S.? The Circuit says no but is the Supreme Court going to say what it usually does; that is, no special rule for patent cases?

An en banc Federal Circuit ruled 10-2 that overseas sales do not exhaust a patent owner's right to sue in the U.S. That is, a buyer cannot ignore a patentee's restrictions on resale of a patented product, and sales into the U.S. constitute infringement of the U.S. patent if there is no license from the patentee. The Circuit took 129 pages to say that its view of the law is not changing despite the fact that the U.S. Supreme Court came to the opposite conclusion in a 2013 copyright case, *Kirtsaeng v. John Wiley*. The decision means that Lexmark can proceed in its litigation against Impression Products, which purchases and remanufactures Lexmark cartridges in the U.S.

The opinion cites to the language in 35 U.S.C. § 271(a), which states that "whoever without authority … imports into the United States any patented invention during the term of the patent therefor, infringes the patent." According to the majority, the patentee has a bundle of rights, and "without authority" means that the patentee can condition a sale to transfer fewer than all of those rights. Copyright protection is more international in nature, given the Berne Convention, and this justifies the difference in treatment.

***In re TC Heartland,* 821 Fed 1338 (Fed. Cir. 2016) (accepted for cert Dec 14)**

Will the Supreme Court say defendant "resides" only where the defendant is incorporated or where the defendant has committed acts of infringement and has a regular and established place of business?

The Circuit denied a petition for writ of mandamus that would have required patent owners to sue where the defendant has a place of business instead of wherever personal jurisdiction can be obtained. The general venue statute, 28 U.S.C. § 1391, provides that corporate defendants may be sued wherever a defendant is subject to

the court's personal jurisdiction. Heartland argued that Congress's 2011 amendments to § 1391 changed the law in a manner that effectively overruled *VE Holding.* In that case, the Circuit held that the definition of "corporate residence" in the general venue statute applied to the patent venue statute, 28 U.S.C. § 1400. Heartland's argument was rejected by the panel, which found Heartland's arguments to be "utterly without merit or logic."

Specifically, the 2011 amendment to § 1391 added "except as otherwise provided by law." Heartland argued that this amendment meant that the patent venue statute, which provides that patent actions can 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, was intended to control the definition of "corporate residence" in patent actions, instead of the general venue statute.

***SCA v. First Quality Baby Products*, 807 F. 3d 1311 (Fed. Cir. 2015)(en banc)(argued)**

Will laches remain a defense in patent cases or will the Court follow *Petrella* and rule that laches is not available as a defense in patent cases?

An en banc Circuit reaffirmed the panel decision that laches is available as a defense in patent cases. The Supreme Court held in *Petrella v. Metro-Goldwyn-Mayer* that laches is not available as a defense in copyright cases because the statute of limitations itself takes account of delay. Here the Circuit considers en banc the extent to which *Petrella* is applicable to patent cases. The majority holds that section 286 is not a statute of limitations, as in *Petrella*, but is instead a limitation on damages, and that section 282 codifies laches as a defense to patent infringement. Accordingly, the Circuit holds 6-5 that laches is still available as a defense as to legal remedies such as damages in patent cases.

The Supreme Court rarely accepts cert to affirm a Federal Circuit case, but it only takes four votes to accept cert, and a 4-4 tie in the Supreme Court will end up as an affirmance of the Circuit decision. Nonetheless, because only three of the justices (not including Justice Scalia) disagreed with the *Petrella* ruling tossing out the laches defense in copyright cases, it would not be at all surprising to see a 5-3 decision reversing the Circuit in *SCA*, ruling that laches is not a permitted defense in patent cases.

Decisions in the Past Year, in Areas Where the Circuit Has Been Particularly Active

Induced infringement

We have three cases going each way – finding that induced infringement may have occurred and finding that induced infringement could not have occurred, but the cases all show that both the Supreme Court and the Circuit are hyper-sensitive to the appropriate intent existing at the critical time.

***Commil USA, LLC v. Cisco Sys.,* 135 S. Ct. 1920 (2015)** – Commil, the holder of a patent for a method of implementing short-range wireless networks, filed suit, claiming that Cisco, a maker and seller of wireless networking equipment, had directly infringed Commil's patent in its networking equipment and had induced others to infringe the patent by selling the infringing equipment for them to use. After two trials, Cisco was found liable for both direct and induced infringement. With regard to inducement, Cisco had raised the defense that it had a good-faith belief that Commil's patent was invalid, but the District Court found Cisco's supporting evidence inadmissible. The Federal Circuit affirmed the District Court's judgment in part, vacated in part, and remanded, holding, as relevant here, that the trial court erred in excluding Cisco's evidence of its good-faith belief that Commil's patent was invalid.

Held: A defendant's belief regarding patent validity is not a defense to an induced infringement claim.

In *Global-Tech*, this Court held that "induced infringement requires knowledge that the induced acts constitute patent infringement." Contrary to the claim of Commil and the Government, it was not only knowledge of the existence of respondent's patent that led the Court to affirm the liability finding in *Global-Tech*, but also the fact that petitioner's actions demonstrated that it knew it would be causing customers to infringe respondent's patent.

Because induced infringement and validity are separate issues and have separate defenses under the Act, belief regarding validity cannot negate §271(b)'s scienter requirement of "actively induce[d] infringement," i.e., the intent to "bring about the desired result" of infringement. When infringement is the issue, the patent's validity is not the question to be confronted. Otherwise, the long held presumption that a patent is valid, §282(a), would be undermined, permitting circumvention of the high bar—the clear and convincing standard—that defendants must surmount to rebut the presumption.

Comment: This decision is not a big surprise, as the Supreme Court doesn't often grant cert in patent cases to affirm the Federal Circuit. This seems like to be the most practical result, as it is obviously difficult to tell, from the objective evidence, whether a party has or does not really have a good faith belief in invalidity.

***Medgraph, Inc. v. Medtronic, Inc.*, Case No. 2015-2019 (December 13, 2016) -** The panel affirms the dismissal of Medgraph's case alleging infringement of two patents directed to methods of uploading patient data, such as the blood sugar levels of

a diabetic patient, into a computer, which is accessed by medical staff treating the patient. The accused Medtronic product, called the CareLink System, allows diabetes patients to upload their blood glucose readings so that they can keep an online record of their data and can share the information remotely with a healthcare provider. The appeal arises from the fact that the district court's rulings coincided with the Circuit and Supreme Court decisions in the *Akamai* cases dealing with divided and induced infringement.

Medgraph argued in the present appeal that it did not have an opportunity to present to the district court the type of evidence needed under *Akamai V*. While acknowledging that a change in the law normally requires remand, the panel rules that Medgraph has not pointed to any evidence that would permit attribution of patient- and doctor-performed steps to Medtronic as required by *Akamai V*. A finding of direct infringement requires that "all steps of the claim [be] performed by or attributable to a single entity." That rule was unaffected by *Akamai V*. Medtronic does not condition participation on receipt of a benefit upon performance of all of the claimed method steps. In fact, Medtronic permits using CareLink in a manner that clearly skips some of the claimed steps. There is similarly no liability for indirect (induced) infringement because indirect infringement is predicated on direct infringement, which was unchanged by *Akamai V*.

***Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*, Case No. 2015-1329, -1388 (December 12, 2016) -** The parties are competitors in the power supply controller chip market. Power supplies are used with cell phones, computers, televisions, and the like.

As to induced infringement, the panel concludes that the jury instruction misstated the law in a way that prejudiced Fairchild, which is primarily involved in selling chips to overseas distributors. Induced infringement is defined in 35 U.S.C. § 271(b): "Whoever actively induces infringement of a patent shall be liable as an infringer." In order to establish active inducement of infringement, it is not sufficient that others directly infringe the claim. Nor is it sufficient that the party accused of infringement was aware of the acts by others that directly infringe. Rather, in order to find inducement, you must find that the party accused of infringement intended others to use its products in at least some ways that would infringe the asserted claims of the patent. However, that 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. Intent to encourage or assist the acts that constitute direct infringement must be proven by evidence of active steps taken to encourage direct infringement, such as providing products, advertising any infringing use, or instructing how to engage in any use that is infringing.

This instruction left the jury with the incorrect understanding that a party may be liable for induced infringement even where it does not successfully communicate with and induce a third-party direct infringer. The Supreme Court explained in *Global-Tech* that

the term “induce” as it is used in § 271(b) “means to lean on; to influence; to prevail on; to move by persuasion. Each definition requires successful communication between the alleged inducer and the third-party direct infringer.”

***Warsaw Orthopedic, Inc. v. NuVasive, Inc.*, 824 F.3d 1344 (Fed. Cir. 2016)** – This case returns to the Circuit on vacatur and remand from the Supreme Court, for further consideration in light of *Commil v. Cisco*. The issue to be decided here was whether there was substantial evidence to support the jury verdict that Warsaw and a related Medtronic company (collectively “MSD”) induced infringement of NuVasive's '236 patent directed to a method for detecting the presence of a nerve during surgery. MSD's knowledge of the '236 patent is undisputed. The panel concludes that MSD's infringement position was objectively unreasonable and that the jury, based on this evidence, could reasonably have concluded that MSD had knowledge (or was willfully blind to the fact) that its device meets the limitations of the claims of the '236 patent. A reasonable jury could therefore have inferred that MSD must have known, or was willfully blind to the fact, that doctors using the device infringe those claims.

In its analysis, the panel first notes the holdings of *Commil* and *GlobalTech* that proof of induced infringement requires not only knowledge of the patent but also proof the defendant knew the induced acts were infringing. *Commil* reaffirmed the statement in *Global-Tech* that willful blindness can satisfy the knowledge requirement for active inducement, even in the absence of actual knowledge.

Takeda Pharms. U.S.A., Inc. v. West-Ward Pharm. Corp., 785 F.3d 625 (Fed. Cir. 2015) – A divided panel affirms the denial of a preliminary injunction attempting to halt the introduction of Hikma’s Mitigare product for the treatment of gout. Hikma did not seek FDA approval to market Mitigare for treatment of acute gout flares, so Mitigare's label stated that Mitigare is "indicated for prophylaxis" and that "if you have a gout flare while taking Mitigare, tell your healthcare provider." The majority rejects Takeda’s argument that this latter statement induced infringement even though the physician would likely tell the patient to use the Mitigare product in a manner that infringed the Takeda patents.

***Unwired Planet, LLC v. Apple, Inc.*, 829 F.3d 1353 (Fed. Cir. 2016)** - The '092 patent discloses an improved technology for identifying the location of a wireless station, such as a cell phone or pager. The district court denied Apple's motion for summary judgment of no direct infringement, based on Apple's argument that the iOS devices only use a single "location input." However, the court granted Apple's motion for summary judgment of no induced or contributory infringement, reasoning that Apple's noninfringement argument was strong enough that no reasonable juror could conclude that Apple acted with actual knowledge or was willfully blind that it was inducing or contributing to infringement.

The panel vacates the summary judgment of no induced or contributory infringement based on a conclusion that the district court's reliance on the objective strength of

Apple's non-infringement arguments is not an appropriate basis on which to grant a motion for summary judgment of non-infringement.

Divided Infringement

The Supreme Court's *Akamai IV* decision reversed the Circuit and ruled that infringement liability requires a proof of direct infringement attributed to a single actor. The Circuit's *Akamai V* en banc remand decision held that, in addition to an agency or contractual relationship, induced infringement may be found where an alleged infringer "conditions participation in an activity on receipt of a benefit upon performance of a step or steps of a patented method and establishes the manner and timing of that performance." The *Eli Lilly* case is an interesting application of the *Akamai* cases because no single actor performed all of the steps.

***Eli Lilly and Company v. Teva Parenteral Medicines, Inc.*, Fed. Cir. Case 2015-2067 (January 12, 2017)** The Circuit finds that Teva, Barr and other generic drug manufacturers would infringe, either directly or by inducement, Eli Lilly's patent covering its Alimta® chemotherapy drug designed to treat lung cancer and mesothelioma, when used in combination with folic acid and vitamin B12. This case provides an interesting application of *Akamai* because no single actor would perform all of the steps of the method claims: physicians administer B12 and pemetrexed, while patients self-administer folic acid under the guidance of physicians. There were two bench trials in the present case. In the second trial, the district court applied the rulings in the *Akamai V* en banc decision, which held that, in addition to an agency or contractual relationship, induced infringement may be found where an alleged infringer "conditions participation in an activity on receipt of a benefit upon performance of a step or steps of a patented method and establishes the manner and timing of that performance."

The panel cites *Akamai V* for the proposition that where, as here, no single actor performs all steps of a method claim, direct infringement only occurs if "the acts of one are attributable to the other such that a single entity is responsible for the infringement." The performance of method steps is attributable to a single entity in two types of circumstances: when that entity "directs or controls" others' performance, or when the actors "form a joint enterprise," which is not alleged here. Therefore, the issue here is whether physicians direct or control their patients' administration of folic acid.

In *Akamai V*, the Circuit held that directing or controlling others' performance includes circumstances in which an actor: (1) "conditions participation in an activity or receipt of a benefit" upon others' performance of one or more steps of a patented method, and (2) "establishes the manner or timing of that performance." The district court's finding here that physicians "condition" pemetrexed treatment on the administration of folic acid is supported by the evidence. Defendants argue that mere guidance or instruction is insufficient to show "conditioning" under *Akamai V*, but the evidence regarding the critical nature of folic acid pretreatment and physicians' practices supports a finding that

physicians cross the line from merely guiding or instructing patients to take folic acid to conditioning pemetrexed treatment on their administration of folic acid. The panel also rejects defendants' argument that an actor can only condition the performance of a step by imposing a legal obligation to do so, by interposing that step as an unavoidable technological prerequisite to participation, or, as in *Akamai V*, both. With respect to the second prong—establishing the manner or timing of performance—the panel rejects defendants' argument that the product labeling "gives patients wide berth to select the dose, the dosage form, and the timing of folic acid self-administration." The product labeling demonstrates that physicians prescribe a dose of folic acid, specify that patients must ingest the folic acid daily during a particular span of days, and withhold pemetrexed if patients do
not follow orders.

JURISDICTION

The Circuit seems to be upholding both personal and subject matter jurisdiction in close cases.

Personal Jurisdiction

***Polar Electro Oy v. Suunto Oy*, 829 F.3d 1343 (Fed. Cir. 2016)** – The Circuit vacates and remands a decision dismissing Suunto, a Finnish company, based upon lack of personal jurisdiction. The panel holds that Suunto purposefully availed itself of the Delaware market. The case is somewhat unusual in that ASWO, Suunto's U.S. distributor, took title to the goods in Finland and not in the U.S. The panel found it significant that under its distribution agreement with ASWO, Suunto provided outbound logistic services, including preparing export documents, packing the ordered goods and coordinating the freight to the destination specified by ASWO. Suunto shipped at least ninety-four accused products to Delaware retailers via that standard ordering process.

In addition to purposeful minimum contacts, due process requires that the assertion of personal jurisdiction be reasonable and fair. The district court did not decide the reasonableness prong because it dismissed the case against Suunto for lack of minimum contacts. Therefore, the Circuit remands for the district court to determine whether exercising jurisdiction over Suunto would be reasonable and fair.

The panel then looks to whether the district court correctly determined that exercising jurisdiction over Suunto would be proper under the Delaware long arm statute. The district court determined that personal jurisdiction exists over Suunto under a so-called dual jurisdiction theory expressed in a Delaware appellate court opinion in which two alternative sections of the Delaware long arm statute are at least partially satisfied. Because Suunto's activities demonstrate an intent to serve the U.S. market generally and the Delaware market specifically, the panel determines that the district court correctly determined that personal jurisdiction over Suunto is proper under the Delaware long arm statute.

Acorda Therapeutics Inc. v. Mylan Pharm., Inc., 817 F.3d 755 (Fed. Cir. 2016); AstraZeneca v. Mylan Pharm., Inc., 817 F.3d 755 (Fed. Cir. 2016) – The Circuit affirms that personal jurisdiction exists as to actions filed against generic drug manufacturer Mylan because it planned to sell its drugs in Delaware, the forum state. What the panel found to be of "particular importance" was that Mylan intended to direct sales of its drugs into Delaware once it has the requested FDA approval. A majority of the panel did not reach the issue of general jurisdiction, but the entire panel agreed that specific jurisdiction exists. The majority holds that specific jurisdiction exists because Mylan's ANDA conduct is "suit-related" that has a "substantial connection" with Delaware because the ANDA filings are tightly tied to the deliberate making of sales in Delaware, and that the suit is about whether that in-state activity will infringe valid patents.

The majority notes that if a defendant has minimum suit-related contacts with a state, the defendant may still defeat specific personal jurisdiction by demonstrating that other considerations render personal jurisdiction unreasonable, such as the burden on the defendant, the forum state's interest in adjudicating the dispute, the plaintiff's interest in obtaining convenient and effective relief, and the interstate judicial system's interest in obtaining the most efficient resolution of controversies. But the majority holds that Mylan cannot show that those due-process factors weigh against litigating the present cases in Delaware.

***Celgard, LLC v. SK Innovation Co.,* 792 F.3d 1373 (Fed. Cir. 2015) –** The Circuit affirms the district court's dismissal for lack of personal jurisdiction, rejecting Celgard's purposeful direction and stream of commerce theories. Celgard's purposeful-direction theory was based on its contention that SKI purposefully directed its activities to North Carolina residents through a joint venture, allegedly with Kia, to develop batteries for the 2015 Kia Soul EV. The panel rejects Celgard's argument that unilateral advertisements of two Kia dealers that the Soul EV would be coming soon to dealerships in North Carolina supports the exercise of jurisdiction. Second, Celgard's inability to show that SKI could foresee that its separators would make their way to North Carolina also fails to provide a basis for the exercise of jurisdiction necessary to support a stream of commerce theory.

Subject Matter Jurisdiction in Declaratory Judgment Actions

Asia Vital Components Co. v. Asetek Danmark A/S, 837 F.3d 1249 (Fed. Cir. 2016)) **–** The Circuit reverses the dismissal of a declaratory judgment action even though the accused product had not yet been sold by the plaintiff AVC. According to the decision, although the Supreme Court's 2007 *MedImmune* decision relaxed the test for jurisdiction, it did not change the rule that a case or controversy must be based on a real and immediate injury or threat of future injury that is caused by the defendants. In several post-*MedImmune* decisions, the Circuit held that jurisdiction generally will not arise merely on the basis that a party learns of the existence of a patent owned by another or even perceives such a patent to pose a risk of infringement, without some

affirmative act by the patentee. Instead, the Circuit requires conduct that can be reasonably inferred as demonstrating intent to enforce a patent.

In an initial letter, Asetek incorrectly accused AVC of manufacturing the Liqmax 120s. However, it was a demand letter that referenced a product that is similar to Asetek's K7 and K9 products. AVC then contacted Asetek, saying that it did not manufacture the Liqmax 120s. Instead of simply responding that it had made a mistake with respect to the Liqmax 120s, Asetek responded with a number of statements that indicate that an actual controversy between the parties existed. For example, Asetek (1) rehashed the volatile relationship between the parties; (2) stated that it would not license the patents to AVC due to the previous conflicts between the parties; (3) accused AVC of likely selling other infringing products; and (4) warned AVC that it enforced its IP and noted its pending litigations against other infringers that sell products similar to the K7 and K9. According to the panel, such a response demonstrates intent to enforce a patent, and is thus sufficient to find a substantial controversy between the parties.

The panel holds that further interactions between the parties confirm its conclusion. For example, Asetek made threats to its customers regarding AVC's infringement of the asserted patents, telling customers that AVC has infringed Asetek's patents, and that if these customers used AVC's products, a lawsuit would follow.

Asetek relies heavily on the fact that it never referenced AVC's particular products as potentially infringing, and, in fact, did not even know of AVC's products at the time of the complaint. But the panel notes that the question of jurisdiction does not turn on Asetek's knowledge of the specific AVC products or whether Asetek specifically alleged that those products infringed; instead, the question is whether Asetek's actions can be inferred as demonstrating intent to enforce a patent. The panel concludes that Asetek's conduct demonstrates just that even though AVC had not yet introduced the accused product.

***Microsoft Corp. v. Geotag, Inc.*, 817 F.3d 1305 (Fed. Cir. 2016)** – The Circuit determines that subject matter jurisdiction exists as to a declaratory judgment action in which the defendant /patentee GeoTag counterclaimed for infringement of its patent directed to systems for searching online information within a geographically and topically organized database. GeoTag had previously sued 300 entities in the E.D. of Texas that use Google and Microsoft mapping services, including Starbucks, Yelp, Burger King and CVS. Microsoft and Google then filed a declaratory judgment action in Delaware, alleging invalidity and noninfringement. GeoTag counterclaimed for infringement.

The Delaware district court found that the declaratory judgment complaint established that there was a substantial controversy of sufficient immediacy to warrant declaratory relief and, thus, that it possessed subject matter jurisdiction over the action. The district court also held that, even if the complaint did not establish sufficient grounds for declaratory relief, the counterclaims provided an independent basis for subject matter jurisdiction. The panel affirms but notes that there is no reason to decide if the

declaratory judgment complaint itself established a sufficient case or controversy since the counterclaims clearly did so. GeoTag's counterclaims arose under an Act of Congress relating to patents, 28 U.S.C. § 1338(a), and so the district court retained jurisdiction over those claims, irrespective of any dismissal or defect in Google's declaratory judgment complaint.

Disclaimer in Claim Construction Cases

Many cases in 2014 and 2015 provided that in order for there to be a disclaimer of subject matter for claim construction purposes, the disclaimer must be "both clear and unmistakable," yet the Circuit repeatedly found such disclaimers in cases decided in the past year.

***Poly-America, L.P. v. API Industries, Inc.,* 839 F.3d 1131 (Fed. Cir. 2016)) –** The panel holds that the specification and prosecution history of Poly-America's patent contain clear and unequivocal statements that the inventor intended to limit the claimed invention to a trash bag with "short seals" at its upper corners that extend inwardly to narrow the bag's upper opening. In light of the inventor's disavowal, the panel affirms the district court's construction.

Specifically, the specification states: "In looking at both FIG. 1 and FIG 2, it is important to note that one of the characteristics *of the present invention* is a reduction in upper width . . . resulting from the extended short seals." According to the opinion, directing the reader to Figures 1 and 2 does not limit the import of this clear statement that describes a characteristic feature of the invention. The panel also holds that the inventor disavowed a broad construction because the specification disparages prior art based on the absence of that feature.

Poly-America's reply to the examiner's second rejection of all claims also contains a clear and unmistakable disavowal of short seals that do not extend inwardly: The argument was that the relaxed upper opening width of Schneider is the exact same as the bag proper width, not less than the bag proper width *as required by Applicant's independent claims*. According to the opinion: "It is irrelevant that the terms "bag proper width" and "relaxed upper opening width" are not present in claim 10 [an independent claim], which was being argued at the time, because when considered in light of the specification, it is clear that all of the claimed trash bags have a "relaxed upper opening width" and a "bag proper width." Finally, as the Circuit has done in several recent cases, it rejects Poly-America's argument based on claim differentiation, holding that claim differentiation cannot override clear statements of claim scope found in the specification and prosecution history.

David Netzer Consulting Engineer LLC v. Shell Oil Company,* 824 F.3d 989 (Fed. Cir. 2016*) The panel affirms the grant of summary judgment of noninfringement as to a patent directed to a process for coproduction of ethylene and purified benzene in a process designed to be less expensive than conventional processes. The panel rules

that the specification clearly shows that the inventor contemplated the claimed invention to be different from conventional extraction, such as that practiced by Shell, which produces highly pure, nitration-grade 99.9% benzene. Therefore, there can be no infringement, either literally or under the doctrine of equivalents.

The panel first affirms the district court's claim construction ruling, finding that the intrinsic record supports the narrower construction advocated by Shell in which the claim term "fractionating" was construed to mean separating compounds based on differences in boiling points, *i.e.*, distillation, which excludes extraction, such as in the Sulfolane process. The specification repeatedly and consistently uses "fractionating" or "fractionation" to describe separating petrochemicals based on boiling point differentials. Moreover, the specification includes clear and unmistakable statements distinguishing the claimed invention from and disclaiming conventional extraction methods that produce 99.9% pure benzene.

The panel rejects Netzer's argument of claim differentiation and the argument he makes that the specification supports his position quotes a sentence that is taken out of context.

***Trustees of Columbia University v. Symantec Corp.*, 811 F.3d 1359 (Fed. Cir. 2016)** –What is most interesting about the opinion is the language noting that the patent specification is often the best guide to the meaning of a disputed claim term, instead of using the plain meaning of the terms in the claims. In so holding, the panel rejects Columbia's argument that the plain meaning of the term must be used unless the patentee expressly redefined the term or expressly disavowed some aspect of its scope. Instead, the panel holds that district courts need only look for any implication of redefinition or disavowal.

Comment: In this case the specification clearly supported the disclaimed construction. Therefore, court might best have not included this "implicit disavowal" language as it appears to be not only arguably inconsistent with *Thorner v. Sony Computer Entertainment America LLC*, 669 F.3d 1362 (Fed. Cir. 2012), cited in the opinion, but also is difficult to reconcile with other cases in which the Circuit has reversed findings of disavowal either in the specification or in the prosecution history. See *Avid Technology, Inc. v. Harmonic, Inc.*, 2016 U.S. App. LEXIS 1439 (Fed. Cir. Jan. 29, 2016) (prosecution history); *Tom Tom, Inc. v. Adolph*, 790 F.3d 1315 (Fed. Cir. 2015) (prosecution history); *Shire Dev., LLC v. Watson Pharms., Inc.*, 787 F.3d 1359 (Fed. Cir. 2015) (prosecution history);*Vederi, LLC v. Google, Inc.*, 744 F.3d 1376 (Fed. Cir. 2014) (prosecution history); *Hill-Rom Servs. v. Stryker Corp.*, 755 F.3d 1367 (Fed. Cir. 2014) (specification); and *Pacing Techs., LLC v. Garmin Int'l, Inc.*, 778 F.3d 1021 (Fed. Cir. 2015) (specification), all of which held that the disavowal must be "both clear and unmistakable." This opinion may be particularly relevant where a term or phrase, which does not have an ordinary meaning in the art, is used. Repeated use of such a term in a particular way in a specification, disclosure of a single embodiment or a consistent theme in the embodiments in the specification may all be held to limit a claim term "by implication."

***Massachusetts Inst. of Tech. v. Shire Pharm., Inc.,* 839 F.3d 1111 (Fed. Cir. 2016)** – Here the Circuit held that there was no clear disavowal but the portions of the prosecution history cited by Shire were in the course of MIT's arguments that it was entitled to coverage for "non-skin" cells. When MIT presented that argument to the Examiner, the claims did not include the term "vascularized organ tissue," so there was no clear and unmistakable disavowal.

***TriVascular, Inc. v. Shaun L.W. Samuels*, 812 F.3d 1056 (Fed. Cir. 2016)–** Similarly here, the panel rules that there is no clear disavowal, and the plain meaning, specification and a general purpose dictionary all support the Board's construction.

Patentable Subject Matter

In the past year the Circuit has finally provided some guidance on how claims can be drafted to survive patentable subject matter challenges. *McRO, Enfish* and *Bascom Global* all provide examples of computer-related claims that survive such attacks, and *Rapid Litigation Management* provides an example in the life sciences area. Until *Enfish* and *Bascom*, there was little guidance in claim drafting in the computer area other than *DDR*, which was decided in 2014.

***McRO, Inc. v. Bandai Namco Games America,* 837 F.3d 1299 (Fed. Cir. 2016)**– This appeal is from a grant of judgment on the pleadings that the asserted claims of two patents directed to lip synching in video games are invalid under § 101. The panel reverses, holding that the ordered combination of claimed steps, using unconventional rules that relate subsequences of phonemes, timings, and morph weight sets, is not directed to an abstract idea and is therefore patent-eligible under § 101. The patents at issue automate the process of animating the face of a character who is speaking, replacing a tedious and time consuming process previously used by animators. The panel reaches this decision under the first step of *Alice* and in doing so compares the case to the recent *Enfish v. Microsoft* and *Rapid v. CellzDirect* cases in which it reached the same result.

In its ruling, the opinion cites the Circuit's 2015 *Ariosa v. Sequenon* case and asks if the claims at issue would preempt anyone from practicing the invention whether or not their system followed the same "rules" set forth in the claims. According to the opinion, the limitations in claim 1 prevent preemption of all processes for achieving automated lip synchronization of 3-D characters. McRO has demonstrated that motion capture animation provides an alternative process for automatically animating lip synchronization and facial expressions. The specific structure of the claimed rules would prevent broad preemption of all rules-based means of automating lip synchronization, unless the limits of the rules themselves are broad enough to cover all possible approaches. According to the opinion, there has been no showing that any rules-based lip synchronization process must use rules with the specifically claimed

characteristics. Concluding that the claims are not directed to an abstract idea, the panel rules that there is no reason to proceed to step two of the *Alice* analysis.

The use of this technology by Sega, Disney, Sony, LucasArts and Warner Bros., involved in cases that were consolidated, makes this a commercially important case. This is the fourth such decision by the Circuit in the past four months, along with *Enfish v. Microsoft, Bascom Global v. AT&T,* and *Rapid v. CellzDirect,* all of which reversed district court invalidations based on unpatentable subject matter. Prior to these decisions, the only post-*Alice* precedential Circuit decision upholding claims under a section 101 challenge was *DDR Holdings v. Hotels.com*, decided in late 2014. These decisions provide us with several different examples of how to claim a wide variety of inventions to overcome section 101 attacks.

Representative claim:

A method for automatically animating lip synchronization and facial expression of three-dimensional characters comprising:

> obtaining a first set of rules that define output morph weight set stream as a function of phoneme sequence and time of said phoneme sequence;
>
> obtaining a timed data file of phonemes having a plurality of sub-sequences;
>
> generating an intermediate stream of output morph weight sets and a plurality of transition
> parameters between two adjacent morph weight sets by evaluating said plurality of subsequences
> against said first set of rules;
>
> generating a final stream of output morph weight sets at a desired frame rate from said intermediate stream of output morph weight sets and said plurality of transition parameters; and
>
> applying said final stream of output morph weight sets to a sequence of animated characters to produce lip synchronization and facial expression control of said animated characters.

***Rapid Litig. Mgmt. v. CellzDirect, Inc.,* 827 F.3d 1042 (Fed. Cir. 2016)** – This decision provides hope that life science methods are patent eligible. The Circuit finds that the district court erred in its finding that the claimed methods in a patent for producing pure cultures of mature hepatocytes to be used for testing, diagnostic, and treating purposes were invalid under section 101. According to the opinion, the claims were not directed to a law of nature because the claims are simply not directed to the ability of hepatocytes to survive multiple freeze-thaw cycles; rather, the claims are directed to a new and useful laboratory technique for preserving hepatocytes. A claim that is interpreted as being a "constructive process" directed to achieving a new and useful end, the panel

states, "is precisely the type of claim that is eligible for patenting." The panel recognizes that the inventors' discovery of the capacity for hepatocytes to undergo multiple cycles of freezing and thawing was just the beginning of their finding and was not where they stopped or what they patented, distinguishing this case from the recent decisions in *Genetic Techs., Ltd. v. Merial L.L.C.*; *Ariosa Diagnostics, Inc. v. Sequenom, Inc.* (cert. denied); and *In re BRCA1- & BRCA2.*

Comment – *Rapid* is the third Federal Circuit decision in as many weeks reversing decisions finding patents invalid as not being directed to patentable subject matter. *Enfish* and *Bascom Global* both involved computer-related claims, while *Rapid* related to life sciences. Until *Enfish* and *Bascom*, we have had little guidance in claim drafting other than *DDR*, which was decided in late 2014. *Rapid* is encouraging as to the protection of technology in the life sciences and provides needed guidance since the Supreme Court denied cert in *Ariosa v. Diagnostics*. *Rapid* shows that claims that are drafted to methods for producing a tangible thing have a much better chance of being found patent eligible than methods of producing diagnostic information.

Representative claim:

A method of producing a desired preparation of multi-cryopreserved hepatocytes, said hepatocytes being capable of being frozen and thawed at least two times, and in which greater than 70% of the hepatocytes of said preparation are viable after the final thaw, said method comprising:

> (A) subjecting hepatocytes that have been frozen and thawed to density gradient fractionation to separate viable hepatocytes from nonviable hepatocytes,
>
> (B) recovering the separated viable hepatocytes, and
>
> (C) cryopreserving the recovered viable hepatocytes to thereby form said desired preparation of hepatocytes without requiring a density gradient step after thawing [**6] the hepatocytes for the second time, wherein the hepatocytes are not plated between the first and second cryopreservations, and wherein greater than 70% of the hepatocytes of said preparation are viable after the final thaw.

***BASCOM Glob. Internet Servs. v. AT&T Mobility LLC,* 827 F.3d 1341 (Fed. Cir. 2016)** -- The Circuit reverses and remands the grant of a motion to dismiss under Rule 12(b)(6), in which the Northern District of Texas held that Bascom failed to state a claim upon which relief can be granted because the claims of its patent are invalid as a matter of law under § 101. The Federal Circuit agrees that the invention covered an abstract idea. However, it found an inventive concept because the "particular arrangement of elements is a technical improvement over prior art ways of filtering such content."

The panel looks first to *Alice* and *Mayo* to set forth the tests for subject matter eligibility. (The court must first determine whether the claims at issue are directed to a patent-

ineligible concept. If so, the court must then consider the elements of each claim both individually and as an ordered combination to determine whether the additional elements transform the nature of the claim into a patent-eligible application.)

The panel then turns to the two post-*Alice* cases in which it found computer-related claims to meet the tests of *Alice* and *Mayo*: *Enfish* and *DDR*. In *Enfish*, decided a little over a month ago, the Circuit found claim language reciting the invention's specific improvements to help the determination in step one that the invention was directed to those specific improvements in computer technology. But in *Enfish*, the Circuit also recognized that, in other cases involving computer related claims, there may be close calls about how to characterize what the claims are directed to. In such cases, an analysis of whether there are arguably concrete improvements in the recited computer technology could take place under step two. That is, some inventions' basic thrust might more easily be understood as directed to an abstract idea, but under step two of the *Alice* analysis, it might become clear that the specific improvements in the recited computer technology go beyond well-understood, routine, conventional activities and render the invention patent-eligible. The panel notes that the Circuit took this step-two path in *DDR*. That is, when the limitations of the claims are taken together as an ordered combination, the claims recite an invention that is not merely the routine or conventional use of the Internet.

The claims of Bascom's patent are directed to filtering content on the Internet. According to the panel, this case, unlike *Enfish*, presents a close call about how to characterize what the claims are directed to. Here, in contrast, the claims and their specific limitations do not readily lend themselves to a step-one finding that they are directed to a non-abstract idea. The panel therefore defers its consideration of the specific claim limitations' narrowing effect for step two.

Turning to step two, the panel notes that the "inventive concept" may arise in one or more of the individual claim limitations or in the ordered combination of the limitations. Under *Alice*, an inventive concept that transforms the abstract idea into a patent-eligible invention must be significantly more than the abstract idea itself, and cannot simply be an instruction to implement or apply the abstract idea on a computer.

In an interesting discussion of prior Federal Circuit section 101 cases, the panel contrasts the claims at issue in the present case with those involved in the post-*Alice* cases of *OIM*, *Content Extraction*, *Intellectual Ventures*, and *Ultramercial v. Hulu.*

The panel then turns to the patent at issue and concludes that an inventive concept is found in the non-conventional and non-generic arrangement of known, conventional pieces. The inventive concept described and claimed in the patent may be the installation of a filtering tool at a specific location, remote from the end-users, with customizable filtering features specific to each end-user. This design gives the filtering tool both the benefits of a filter on a local computer and the benefits of a filter on the ISP server. The panel rules that on this limited record, this specific method of filtering

Internet content cannot be said, as a matter of law, to have been conventional or generic.

Comment: It is nice to see the Circuit provide further guidance as to patentable subject matter. Today, the Circuit issued another reversal on a ruling of patentable subject matter ineligibility in *Rapid Reversal v. Cellzdirect*. In that case, which will be included in next week's report, the Circuit held that a patent directed to a process for freezing hepatcytes (a type of liver cell) for use in research does in fact recite patentable subject matter.

The BASCOM claim at issue:

1. A content filtering system for filtering content retrieved from an Internet computer network by individual controlled access network accounts, said filtering system comprising:

> a local client computer generating network access requests for said individual controlled access network accounts; at least one filtering scheme;
>
> a plurality of sets of logical filtering elements; and
>
> a remote ISP server coupled to said client computer and said Internet computer network, said ISP server associating each said network account to at least one filtering scheme and at least one set of filtering elements, said ISP server further receiving said network access requests from said client computer and executing said associated filtering scheme utilizing said associated set of logical filtering elements.

***Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327 (Fed. Cir. 2016)** – In an unusually pro-patent-eligibility opinion, the Circuit reverses a district court ruling that the claims of a patent directed to a "self-referential data base" are invalid under *Alice* and § 101. The panel also vacates a determination of anticipation under § 102. However, the panel affirms the district court's summary judgment of noninfringement so Microsoft escapes liability for its ADO.NET product.

Bilski and *Alice* and virtually all of the computer-related § 101 cases that the Circuit has analyzed involved claims that were directed to abstract ideas. Therefore, courts have needed to proceed to the second step of the *Alice* inquiry, which asks if there is some inventive concept in the application of the abstract idea. But here, the panel rules that the plain focus of the claims at issue is on an improvement to computer functionality itself, not on economic or other tasks for which a computer is used in its ordinary capacity. Therefore, the claims are not directed to a patent-ineligible abstract idea and there is no need to go to the second step of *Alice*'s two step inquiry.

The district court also found the claims anticipated by the Microsoft Excel 5.0 software program, the spreadsheet that has been in public use since early 1994. However, the panel rules that finding anticipation required an inappropriately broad reading of the claims, and therefore reverses and remands the anticipation ruling.

Finally, as to infringement, the panel affirms the construction of "means for indexing" and agrees with the district court's ruling that the accused ADO.NET does not perform either step two (store the text value of a keyword in the index), or step three (store a pointer from the text value to the index).

Representative claim:

A data storage and retrieval system for a computer memory, comprising:

> means for configuring said memory according to a logical table, said logical table including:
>
> a plurality of logical rows, each said logical row including an object identification number (OID) to identify each said logical row, each said logical row corresponding to a record of information;
>
> a plurality of logical columns intersecting said plurality of logical rows to define a plurality of logical cells, each said logical column including an OID to identify each said logical column; and
>
> means for indexing data stored in said table.

Inequitable Conduct

***Ohio Willow Wood* shows that even after *Therasense*, the Circuit will find inequitable conduct when deceptive intent is the single most reasonable inference to be drawn from the evidence. *U.S. Water* shows that the Circuit will vigorously apply *Therasense*. *TransWeb* adds a new dimension to the effect of *Therasense* in adding potential antitrust liability.**

***The Ohio Willow Wood Co. v. Alps South, LLC*, 813 F.3d 1350 (Fed. Cir. 2016)–** Ohio Willow Wood must pay Alps the attorney fees it incurred from the time it engaged in inequitable conduct during the second of two ex parte reexaminations. This determination is based on the panel's holding that the district court was not clearly erroneous in ruling that OWW's patent liaison was guilty of inequitable conduct by failing to disclose letters to the PTO that provided corroboration to testimony that OWW repeatedly contended was uncorroborated. Pursuant to *Therasense*, the panel agrees that deceptive intent is the single most reasonable inference to be drawn from the evidence. The PTO had withdrawn its rejection because the testimony about alleged

prior art was uncorroborated, so the panel also found that the district court's ruling of "but for" materiality was not clearly erroneous.

While the panel finds that the district court did not abuse its discretion in its ultimate conclusion that the patent was unenforceable, the panel finds that Alps had not demonstrated by clear and convincing evidence that deceptive intent was the single most reasonable inference to draw from the liaison's failure to disclose "confidential" declarations from the litigation.

Finally, the panel rejects Alps' cross appeal contending that other related patents should also be held to be unenforceable, as those patents had never been in the litigation and Alps had not requested such relief in its counterclaim.

***U.S. Water Services, Inc. v. Novozymes A/S*, Fed. Cir. 2015-1950, -1967 (December 15, 2016)** - The Circuit affirms the grant of summary judgment of no inequitable conduct because the documents and disclosures were not material. Novozymes bases its charge on representations made by U.S. Water about the parent application of which the '137 and '399 Patents-in-Suit were continuations in part. The parent application matured into the '244 patent, which U.S. Water asserted against another party in a separate action. During that other litigation, U.S. Water was arguing that the Veit patent was distinguishable from the claimed invention. The judge in that case suggested that the position that U.S. Water was now taking was different from the position it had taken during prosecution of the '244 patent. Following that exchange, U.S. Water amended the claims in the prosecution of what became the '137 Patent-in-Suit. U.S. Water never disclosed to the PTO examiner handling the '137 patent that the judge had questioned it about taking inconsistent positions as to Veit and patentability. A third party later identified this purported distinction to the PTO during the prosecution of what became the '399 Patent-in-Suit. The examiner noted in the file history that she reviewed the third party's submission along with Veit and other prior art references.

***TransWeb, LLC v. 3M Innovative Properties Co.*, 812 F.3d 1295 (Fed. Cir. 2016) --** The Circuit determines that attorney fees incurred defending a patent suit qualify as antitrust damages subject to trebling under the Sherman Act, affirming a $26 million award against 3M. The panel first affirms the district court's finding that 3M had engaged in inequitable conduct in procuring its patents, and rules that post-*Therasense*, the standards for inequitable conduct and a *Walker Process* "bad act" are essentially the same. The panel rejects 3M's argument that defense costs do not constitute an antitrust injury because they lead neither to reduced competition nor to increased prices. Pointing to a 1977 6th Circuit decision, the Circuit reasons that where the accused infringer has the choice either of (a) abandoning the market or (b) defending itself in court, treating only the former as antitrust injury would incentivize parties to leave the market, inevitably leading to reduced competition. Thus, the Court rules, an accused infringer that chooses to stand its ground and fight an ill-gotten patent should be able to claim defense costs as antitrust damages.

This decision puts a powerful new weapon in the hands of accused infringers where credible allegations of inequitable conduct exist. The case also increases the potential malpractice liability to the firm that prosecuted the patent application, and suggests that prior to filing suit, patentee's counsel should engage in a full study of the prosecution history and the prior art known to the patentee prior to issuance. Remember that the Supplemental Examination procedure, established by the AIA, can be used to eliminate duty-of-disclosure issues prior to bringing suit if there does appear to be a problem.

On Sale Bar

There were two important decisions in the past year relating to the on sale bar. In an en banc decision in *Medicines v. Hospira*, the Circuit ruled that a pre-critical date transaction with a supplier did not trigger a section 102(b) statutory bar. In *Merck*, a panel ruled that a faxed offer six months prior to the critical date that included price, delivery and payment terms was a barring offer for sale, rejecting Merck's argument that the offer was not barring because it did not include safety and liability terms, was never signed, and was ultimately withdrawn.

***The Medicines Co. v. Hospira, Inc.*, 827 F.3d 1363 (Fed. Cir. 2016)(en banc)** – A unanimous en banc Circuit reverses the panel decision, pre-critical date transaction with a supplier did not trigger a section 102(b) statutory bar. The Circuit ruled that two product-by-process patents directed to bivalirudin drug products used as anticoagulants to prevent blood from clotting during coronary surgery are not invalid despite an alleged on-sale bar under § 102(b). In an instructive analysis of the Supreme Court's 1998 *Pfaff v. Wells* case and other on-sale cases, the Circuit rules that in order to be an invalidating sale, title must have passed from the seller to the buyer for a price pursuant to UCC § 2-106(1). Here there was no title transfer, and this underscores that the sale was only of a third party's manufacturing services and not of the patented products.

Ben Venue Laboratories was paid by MedCo to manufacture what became MedCo's Angiomax product in order to make sure that the drug met USDA requirements. According to the opinion, for there to be a sale, the product must be commercially marketed, and that did not happen here until after the bar date. The opinion notes that it should not make a difference that the patentee contracted to have the product manufactured by a third party instead of having it manufactured in-house, which clearly would not have established a bar.

The opinion holds that the mere sale of manufacturing services by a contract manufacturer to create embodiments of a patented product does not constitute a "commercial sale." The commercial benefit—even to both parties in a transaction—is not enough to trigger the on-sale bar of § 102(b); the transaction must be one in which the product is "on sale" in the sense that it is "commercially marketed." The invention was not commercially marketed in this case because: (1) only manufacturing services were sold to the inventor—the invention was not; (2) the inventor maintained control of the invention, as shown by the retention of title to the embodiments and the absence of

any authorization to Ben Venue to sell the product to others; and (3) "stockpiling" by the purchaser of manufacturing services, standing alone, does not trigger the on-sale bar.

Comments: This ruling could prove to be quite helpful to pharmaceutical companies, which sometimes have early versions of drugs manufactured by outside suppliers. Readers will recall that on July 5 in the *Rapid v. Cellzdirect* case, the Circuit upheld a patent on medical diagnostics that had been ruled by the district court as not being directed to patentable subject matter. These recent Federal Circuit decisions are a breath of fresh air to an industry that has seen a series of negative rulings ever since the Supreme Court's broad patentable subject matter decisions in *Myriad* and *Mayo*.

In deciding that the patents were invalid under § 102(b), the panel decision also ruled that the experimental use exception does not apply here because experimental use cannot occur after a reduction to practice. The en banc opinion did not review this experimental use ruling by the panel since it held that this was not a commercial sale.

***Merck & Cie v. Watson Laboratories, Inc.*, 822 F.3d 1347 (Fed. Cir. 2016)** – The Circuit reverses a ruling that an offer for sale more than one year prior to the filing date of a patent application was not an invalidating bar under 35 U.S.C. § 102(b). Specifically, Merck sued Watson Laboratories, and Watson stipulated to infringement, relying exclusively on its on- sale bar defense. The district court rejected the defense but the panel finds that a faxed offer six months prior to the critical date that included price, delivery and payment terms was a barring offer for sale, rejecting Merck's argument that the offer was not barring because it did not include safety and liability terms, was never signed, and was ultimately withdrawn.

Obviousness

While there were a number of decisions holding patents invalid as being obvious, the most significant decisions appear to continue the Circuit's trend, despite *KSR*, of finding patents valid in the face of obviousness challenges. Specifically, *Apple v. Samsung, ClassCo, Arendi* and *WBIP* all stress the significance of the objective indicia of nonobviousness, and particularly the importance of the jury's determinations on those preliminary factual inquiries.

***Apple Inc. v. Samsung Electronics Co., Ltd*, 839 F.3d 1034 (Fed. Cir. 2016)(en banc)** -- Apple alleged infringement of five of its smartphone patents, and Samsung countersued for infringement of two of its patents. After a jury trial, the district court entered a judgment awarding Apple $119,625,000 in damages and ongoing royalties. In this en banc decision, with one dissent, the Circuit reinstates the district court judgments as to the three patents in suit that were reversed in the panel decision, holding that the jury verdict on each issue is supported by substantial evidence and the district court did not err when denying Samsung's JMOLs. The majority notes that the panel reversed nearly a dozen jury fact findings including infringement, motivation to combine, the

teachings of prior art references, commercial success, industry praise, copying, and long-felt need across three different patents. It did so despite the fact that some of these findings were not appealed and without ever mentioning the applicable substantial evidence standard of review. And with regard to objective indicia, it did so in ways that departed from existing law.

***ClassCo, Inc. v. Apple, Inc.,* 838 F.3d 1214 (Fed. Cir. 2016)** – The Panel affirms the Board's determination of obviousness for a caller ID system included in Apple's iPhone despite the failure of the Board to give appropriate weight to the secondary considerations of nonobviousness. The most interesting part of the opinion is the panel's determination that the Board erred in dismissing some of ClassCo's evidence of nonobviousness. The panel first notes that it agrees with the Board that much of ClassCo's evidence of praise deserved no weight because it did not have a nexus to the merits of the claimed invention. While much of ClassCo's evidence of praise focused on conventional features in the prior art, the Board improperly dismissed some evidence of praise related to features that were not available in the prior art. It also improperly dismissed evidence because it found that the claims were not commensurate in scope with the praised features. The opinion notes that the Circuit does not require a patentee to produce objective evidence of nonobviousness for every potential embodiment of the claim. As such, the Board should have afforded ClassCo's evidence some weight, taking into account the degree of the connection between the features presented in evidence and the elements recited in the claims.

The panel also considers the Board's analysis of ClassCo's evidence of commercial success as flawed. ClassCo presented testimony of its sales volumes and growth of market share. According to the opinion, if a patent owner shows that the marketed product embodies the claimed features, then a nexus is presumed and the burden shifts to the party asserting obviousness to present evidence to rebut the presumed nexus.

Despite the Board's failure to give appropriate weight to the secondary considerations, the panel affirms the ultimate determination of obviousness because the examiner and the Board correctly found that the combination of Fujioka and Gulick presents a strong showing that the claims at issue would have been obvious. In doing so, the opinion cites to Graham v. Deere, which also held that the alleged secondary considerations of commercial success and long felt need in that case did not "tip the scales of patentability" where the invention "rested upon exceedingly small and quite non-technical mechanical differences in a device which was old in the art."

***Arendi S.A.R.L. v. Apple Inc.*, 832 F.3d 1355 (Fed. Cir. 2016)** – The Circuit reverses an IPR determination of obviousness because the Board misapplied Circuit law on the use of common sense in an obviousness analysis. The Board determined that the Pandit reference discloses each limitation of claim 1 except for performing a search for duplicate telephone numbers, names and addresses. However, the Board found it reasonable to presume, as a matter of common sense and common knowledge at the time of the invention, that Pandit would search for duplicate telephone numbers and,

upon locating a duplicate entry, would display the name and/or address associated with the telephone number.

The panel notes that common sense has its proper place in the obviousness inquiry, but that there are caveats. First, common sense is typically invoked to provide a known motivation to combine, not to supply a missing claim limitation. Second, the limitation in question should be simple and the technology straightforward. Third, references to "common sense" cannot be used as a wholesale substitute for reasoned analysis and evidentiary support.

The panel concludes that the Board's presumption that adding a search for phone numbers to Pandit would be "common sense" was conclusory and unsupported by substantial evidence. Also, the missing limitation is not a "peripheral" one, and there is nothing in the record to support the Board's conclusion that supplying the missing limitation would be obvious to one of skill in the art.

***WBIP, LLC v. Kohler Co.*, 829 F.3d 1317 (Fed. Cir. 2016)** –The panel rejects Kohler's first argument on appeal that there was no nexus demonstrated between the claimed invention and the objective indicia. Where the patentee shows that the asserted objective evidence is tied to a specific product and that product is the invention disclosed and claimed in the patent, there is a presumption of nexus. The presumption may be rebutted by a patent challenger that can present evidence showing the objective evidence was due to extraneous factors, such as improvements in marketing. The Circuit determines that Kohler failed to present evidence to rebut the presumption, and rejects Kohler's argument that evidence of nexus must be limited to the supposedly "new" features recited in the claims.

The opinion then points to the substantial evidence supporting the jury's presumed factual findings as to long felt need (third-party product liability suits against Kohler involving prior generators), industry praise (trade association and other awards received for patented generator), skepticism (an industry workshop audience expressed "shock" when the inventor announced that he would have a commercial product as claimed within two years), copying (when the inventor explained to Kohler engineers at a trade show how his product achieved the claimed benefits, Kohler documents show that funding was requested to develop a product following the same techniques), and commercial success (evidence of immediate success of the Kohler unit). The panel stresses that it will not substitute its judgment for the jury verdict on any of these preliminary *Graham v. Deere* factual inquires.

***Allied Erecting and Dismantling Co., Inc. v. Genesis Attachments, LLC*, 825 F.3d 1373 (Fed. Cir. 2016)** – The panel affirms the IPR invalidation of claims directed to a universal attachment for mounting a variety of construction and demolition tools that can easily and quickly convert between different tools. Allied argued that two prior art pieces of equipment disclosed in patents to Caterpillar and Ogawa could not be physically combined in the manner proposed by the Board. However, the panel rules that the test is not whether the features of a secondary reference may be bodily incorporated into the

structure of the primary reference, but rather whether a skilled artisan would have been motivated to combine the teachings to achieve the claimed invention.

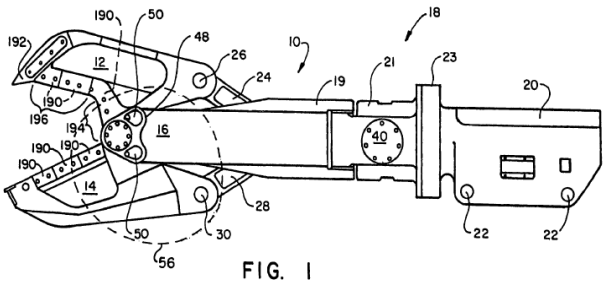


FIG. 1

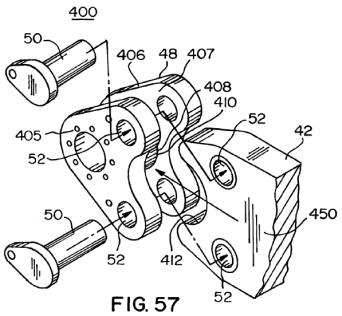
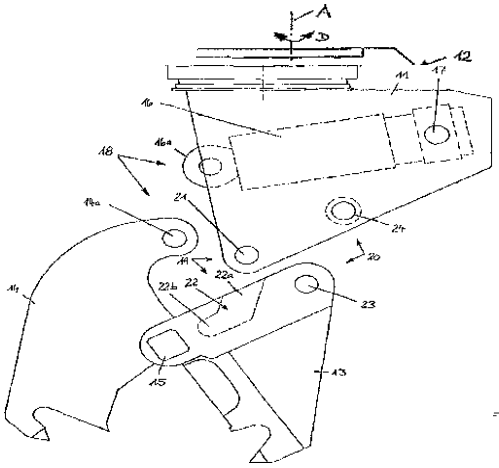


FIG. 57



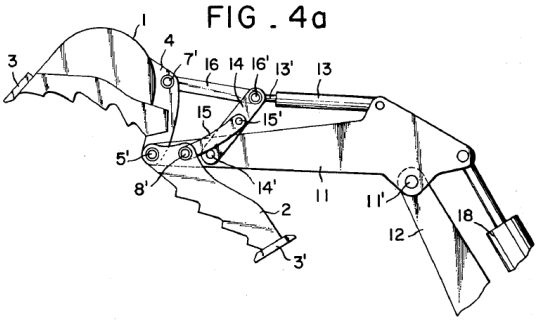


FIG. 4a

***Zoltek Corp. v. United States*, 815 F.3d 1302 (Fed. Cir. 2016)** –Zoltek sought compensation from the United States for use of the patented method of producing carbon fiber sheet products used in the B-2 Bomber and the F-22 Fighter. With respect to obviousness, the panel rejects the attempts by the government's expert to reconstruct the invention using not only teachings that were not prior art but also the teachings of the patent itself. The patent cannot be used as a road map for putting together the pieces of a jigsaw puzzle to come up with the claimed invention.

***Purdue Pharma L.P. v. Epic Pharma, LLC*, 811 F.3d 1345 (Fed. Cir. 2016)** –In affirming the case, the panel holds that the district court did not err in disregarding process limitations in product-by-process claims since the focus of such claims must be the product, not the process of making it. The panel also rejects the argument that it was impermissible for the district court to pick and choose among the teachings of a reference since the examples within the reference are all "directly related" to one another.

***In re Gregory E. Urbanski*, 809 F.3d 1237 (Fed. Cir. 2016)** – The panel affirms a determination of obviousness based upon two references that are directed to achieving different food properties. The panel rejects Urbanski's argument that, because modifying the Gross process by shortening the hydrolysis time would have rendered the

modified process inoperable for Gross's intended purpose, viz., forming stable dispersions, Gross teaches away from the claimed method of making a hydrolysate of a soy fiber. Although Gross teaches the benefit of stable dispersions, Wong teaches other desirable properties, viz., improved sensory properties without substantially reducing the fiber content. The panel thus rules that the Board properly found that one of ordinary skill would have been motivated to pursue the desirable properties taught by Wong, even at the expense of foregoing the benefit taught by Gross.

***Spectrum Pharms., Inc. v. Sandoz Inc.,* 802 F.3d 1326 (Fed. Cir. 2015)** – Sandoz submitted an ANDA for single use 175-mg and 250-mg bottles of its cancer drug to be sold under the Fusilev mark. Spectrum sued for infringement, but the district court granted summary judgment of non-infringement and in a bench trial found the other claims to be invalid as being obvious. As to invalidity, the panel rejects Spectrum's argument that the district court used hindsight, and that the prior art did not disclose a motivation to produce the claimed substantially pure compound. The panel rules that there will always be a motivation to try to obtain the purest compound possible, so that motivation does not need to be taught in the cited prior art.

Injunctive Relief

The past year shows that the Circuit will affirm injunctions and enthusiastically reverse denials of injunctions when appropriate. In fact, there may not have been another year, since *eBay*, when we have seen so many decisions by the Circuit granting preliminary and permanent injunctions in patent cases.

***Apple Inc. v. Samsung Elecs. Co.,* 801 F.3d 1352 (Fed. Cir. 2015) –** The district court denied Apple's motion for a permanent injunction, but in a split decision the Circuit reverses, clarifying the standard for showing irreparable harm post-*eBay* in cases where a product includes many features and embodies many patented inventions. The majority rules that in order to show irreparable injury, the patented features do not need to be the sole reason why consumers purchase the infringing product. Here, where the patents cover many features that the record reflects contribute to the consumer's purchasing decision, causal nexus has been shown. Evidence of copying also supports this nexus. In balancing the hardships of the injunction, the majority accepts as true Samsung's testimony to the district court that design-arounds for the patented features would be easy or already existed.

Comment: This opinion can't help but lower the bar for injunctions in patent cases. Note the majority's recognition that the right to exclude competitors from using one's property rights is important, especially when the parties are competitors. The recognition that the public interest nearly always weighs in favor of protecting property rights, especially when the patentee practices his inventions, could have come out of any pre-*eBay* opinion.

***Tinnus Enter., LLC v. Telebrands Corp.*, Fed. Cir. Case 2016-1410 (January 24, 2017) -**The Circuit affirms the grant of a preliminary injunction in favor of a small company that pursued a larger "as seen on TV" infringer selling its product at Bed Bath and Beyond. The patented toy attaches to a hose to simultaneously fill multiple balloons by directing water through a plurality of hollow tubes. The Tinnus product is called BUNCH O BALLOONS. Telebrands' product is called BALLOON BONANZA.

Operating in parallel with the district court proceeding was Telebrands' Post Grant Review seeking to invalidate the Tinnus patent. The PTAB found that claim 1 was likely indefinite because the specification and the prior art both fail to provide any objective standard for measuring the scope of "filled" or "substantially filled," and the specification sets forth no limit on the amount of shaking needed to detach a filled container from the tube. The PTAB also found that a combination of prior art patents would likely render claim 1 obvious.

The magistrate concluded that the accused product infringed because he found that Telebrands' claim construction argument hinged on the contention that shaking is not required to detach the balloons from the tubes. The Balloon Bonanza instruction manual tells users to "turn off water and give balloons a shake to release." The panel finds that these instructions are at least circumstantial evidence of infringement for any claim elements taught by those materials, and a patentee is entitled to rely on circumstantial evidence to establish infringement.

Regarding invalidity, the Circuit holds that the burden on the accused infringer to show a substantial question of invalidity at the preliminary injunction stage is lower than what is required to prove invalidity at trial. According to the opinion, "vulnerability" is the issue at the preliminary injunction stage, while validity is the issue at trial. The § 282 presumption is sufficient to establish a likelihood of success on the validity issue, the burden being on the challenger to come forward with evidence of invalidity, which the patentee must then rebut. If the trial court concludes there is a substantial question concerning validity, it necessarily follows that the patentee has not succeeded in showing it is likely to succeed at trial on the merits of the validity issue.

As to indefiniteness, Telebrands presented the same arguments it did in the PGR, but because Telebrands did not object to the magistrate's indefiniteness determination, the panel follows 5th Circuit law and reviews the district court's determination for plain error. With this degree of deference, the panel rejects Telebrands' argument, concluding that it is difficult to believe that a person of ordinary skill in the art (with an associate's degree in a science or engineering discipline) who had read the specification and relevant prosecution history would be unable to determine with reasonable certainty when a water balloon is "substantially filled."

As to obviousness, Telebrands advances several arguments on appeal but, again, because Telebrands did not object to the magistrate's findings relating to obviousness, the panel reviews the district court's analysis for plain error. The particular problem confronting the inventor here was how to rapidly fill multiple containers with fluid. This is

far removed from the problems associated with an endoscopic balloon insertion device for treating obesity, and Telebrands has not demonstrated that the cited art is reasonably pertinent to the problem addressed in the patent.

Finally, Telebrands alleges that it was clear error for the district court to rely on evidence pre-dating the '066 patent's issuance in support of its finding of irreparable harm. Evidence of consumer confusion, harm to reputation, loss of goodwill and a 40% price reduction pre-dating the patent is, at the very least, circumstantial evidence demonstrating the possibility of identical harms once the patent issues. Nonetheless, the record contains additional evidence of harm after the patent's issuance that is sufficient to support a finding of irreparable harm. For example, the Amazon website states that a customer liked the "off brand" Bunch O Balloons product better than the "name brand" Balloon Bonanza. This establishes persisting harm to Tinnus's reputation and tarnishes its status as the innovator in this market.

The magistrate also concluded that the balance of hardships and public interest factors weighed in Tinnus's favor due to the relative size of the parties and the strong public interest in enforcing valid patents. Telebrands did not appeal these findings so the grant of preliminary injunction is affirmed.

Comment: This case shows the importance of filing objections to all of the magistrate's findings and recommendations. Because Telebrands did not do so here, it faced the higher "plain error" standard of review as to indefiniteness and obviousness.

***United Construction Products, Inc. v. Tile Tech, Inc.*, Case No. 2016-1392 (December 15, 2016)** -The Circuit affirms a default judgment and injunction against a defendant who missed deadlines, misrepresented matters to the court, and destroyed evidence. The panel also affirms the permanent injunction, rejecting Tile Tech's three arguments. An order enjoining infringing and "substantially similar" products is well within the court's discretion. The requirement that Tile Tech turn over a mold that itself was not infringing but was critical in fabricating the infringing product was entirely appropriate. And finally, given Tile Tech's inappropriate use of images of United's products, projects, and drawings on its website and in other marketing materials, an injunction prohibiting such use was appropriate even though such use may not lead to a likelihood of confusion.

***Asetek Danmark A/S v. CMI USA Inc., fka Cooler Master USA, Inc., Cooler Master Co., Ltd.*, Case No. 2016-1026, -1183 (December 6, 2016)** -- In this action involving computer cooling systems, the full panel affirms determinations of non-invalidity, infringement and damages. The majority remands the injunction so the district court can evaluate whether the injunction is overly broad as to products provided by the supplier Cooler Master to its customer CMI that do not abet an infringement by CMI. Chief Judge Prost dissents as to the remand, arguing that that portion of the injunction should be vacated.

The panel indicates that the injunction appears to be overly broad insofar as the injunction reaches Cooler Master's sale, importation, etc., other than conduct that abets a new violation by CMI, the only party adjudicated liable for infringement. However, the majority is reluctant to disturb the status quo, which has existed for a year, so does not think it is appropriate to vacate the injunction. As noted above, Judge Prost disagrees with that part of the decision.

***WBIP, LLC v. Kohler Co.*, 829 F.3d 1317 (Fed. Cir. 2016)** –In perhaps the most interesting ruling in the case, the panel determines that the district court abused its discretion in denying a motion for permanent injunction just because WBIP, a smaller company, would otherwise have been the sole supplier of a product designed to ensure the safety of the public.

WBIP cross-appealed the district court's denial of a permanent injunction, which was based on the fact that WBIP was a much smaller producer of these low–carbon monoxide generators, so depriving the consuming public of access to a potentially lifesaving product showed that it was not in the public interest to grant the injunction. The panel notes that the district court did not explain how the public interest in enforcing patent rights was outweighed by the public interest of having more than one manufacturer of such generators, especially if WBIP has the manufacturing capacity to meet the industry's needs. The district court's decision was based on its reasoning that having more manufacturers of a lifesaving good in the market is better for the public interest, but this reasoning is true in nearly every situation involving such goods. Congress expressly indicated in 35 U.S.C. § 271(e)(4)(B) that injunctions may be granted in cases involving lifesaving goods, such as pharmaceutical drugs. The panel therefore vacates the judgment and remands the case for a more thorough analysis of the *eBay* factors.