JONES DAY | One Firm Worldwide℠

WHITE PAPER

January 2017

Key Patent Law Decisions of 2016

The U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit wrestled with a number of important issues of patent law in 2016, including in three Supreme Court opinions (with more on the way) and three en banc Federal Circuit opinions. The issues in these cases were diverse and wide-ranging, including administrative review of patents in the U.S. Patent and Trademark Office ("PTO") and the International Trade Commission ("ITC"), recognition of a new patent agent privilege, and the Supreme Court's first design patent decision in more than a century.

TABLE OF CONTENTS

This *White Paper* summarizes and explains some of the most significant patent law cases of 2016. Each of these cases provides important precedent for patent practitioners.

DEFENSES—ON-SALE BAR AND PATENT EXHAUSTION

The Medicines Co. v. Hospira, Inc., 827 F. 3d 1363 (Fed. Cir. 2016) (*en banc*)—On-Sale Bar

In *Medicines Co.*, a unanimous Federal Circuit, sitting *en banc*, clarified two aspects of the 35 U.S.C. § 102(b) on-sale bar that are particularly significant to patentees who utilize third-party contract manufacturing.[1] First, the court held that, in general, the on-sale bar does not apply where there has been no transfer of title.[2] Second, the court held that merely "stockpiling" a product will not trigger the on-sale bar.[3]

Medicines Co. arose under the Hatch-Waxman Act, but its holding is not limited to pharmaceutical cases. The plaintiff (Medicines Co. or "MedCo") held product and product-by-process patents covering Angiomax®, an anti-clotting drug used during heart surgery.[4] The defendant (Hospira) sought to market a generic version of Angiomax®. Hospira argued that the asserted patents were invalid under § 102(b) because MedCo had contracted with a third-party contractor (Ben Venue), and compensated that contractor, to manufacture the drug before the critical date.[5] In addressing whether § 102(b) had been triggered, all parties (and the court) agreed that the Supreme Court's test from *Pfaff v. Wells Electronics* applied: a claimed invention will be invalid if it is both "(1) the subject of a commercial offer for sale[,] and (2) ready for patenting" prior to the critical date.[6] Although *Pfaff* had focused on the second prong of this test, the Federal Circuit's opinion sought to clarify the application of the "commercial offer" prong, in view of the common "contract manufacturer" business arrangement at issue in the case. The unanimous decision brought some needed clarity to the law and allowed greater flexibility for companies to engage in such common business practices without risking the loss of a patenting opportunity.

First, the court held that the on-sale bar was not triggered by the mere act of contracting with a third-party for manufacturing. Critically, the court noted that the patented invention covered a product, and not the accompanying process that had been used to create the product.[7] In contrast to cases involving method or process patents, the court noted that it had "never espoused the notion that, where the patent is to a product, the performance of the unclaimed process of creating the product, without an accompanying 'commercial sale' of the product itself, triggers the on-sale bar."[8] Additionally, in considering whether a "commercial sale" had taken place, the court relied on the Uniform Commercial Code's ("UCC") definition of "sale": "the passing of title from the seller to the buyer for a price."[9] The court made clear that, although passage of title was not "dispositive[,] the absence of title transfer was significant because, in most instances, that fact indicates an absence of commercial marketing by the inventor."[10] Thus, relying heavily on the absence of title transfer, the court held that the contract manufacturing performed by Ben Venue did not amount to a commercial offer for sale and thus did not trigger the § 102(b) on-sale bar.[11]

Second, the court held that mere "stockpiling" of the patented invention did not trigger the on-sale bar. Hospira noted that, by allowing patentees to accumulate their patented products prior to the first offer for sale, patentees were reaping a commercial benefit.[12] "But commercial *benefit* generally is not what triggers § 102(b); there must be a commercial sale or offer for sale."[13] According to the court, it was well-settled that "preparations" for commercial sales did not trigger the on-sale bar, and that "[s]tockpiling is merely a type of preparation for *future* commercial sales."[14] Therefore, the court declined to hold that stockpiling of patented products—even when manufactured by third-party contractors—triggered the on-sale bar.

Lexmark International v. Impression Products, 816 F.3d 721 (Fed. Cir.) (*en banc*), cert. granted, 84 U.S.L.W. 3563 (2016)—Patent Exhaustion

Lexmark involved printer cartridge technology, and it implicated important questions of patent exhaustion.[15] The plaintiff (Lexmark) is a printer cartridge manufacturer that owns several patents covering its cartridge products. It sells its products in two forms: restricted and unrestricted. The "restricted" cartridges—which are available at a lower price—are accompanied by a restriction against reuse or resale, while the "unrestricted" cartridges are not.[16] The defendant (Impression) purchased both restricted and unrestricted Lexmark cartridges from within and outside the United States.[17] When Lexmark charged Impression with infringement, Impression countered that Lexmark's rights had been "exhausted"—meaning that Lexmark's initial sale of the cartridges had exhausted its rights to sue purchasers and later consumers of the

cartridges.[18] The questions put before the court *en banc* were "(a) whether a sale, even though accompanied by a clearly communicated and otherwise-lawful denial of [authority to infringe the patents], nonetheless has the legal effect of conferring such authority and (b) whether a foreign sale has the legal effect of conferring such authority where … neither a grant nor a reservation of § 271(a) rights was communicated to the purchaser before the foreign sale."[19]

In addressing the first question, the Federal Circuit revisited its 1992 decision in *Mallinckrodt v. Medipart*.[20] In *Mallinckrodt*, the court had held that a patentee's sale of covered products with restrictions did not exhaust its ability to enforce its patent rights against purchasers that used the products in violation of those restrictions.[21] However, Impression argued that *Mallinckrodt* had been wrongly decided at the time, and in any event should be abandoned in view of the Supreme Court's more recent decision in *Quanta Computer, Inc. v. LG Electronics, Inc*.[22]

The Federal Circuit disagreed, stating that *Quanta* did not directly address the issues presented because it did not involve a patentee's restrictions on either its own sales or its licensee's sales.[23] The closer Supreme Court precedent, according to the Federal Circuit, was the 1938 *General Talking Pictures* case, in which the Court held that a patentee had not exhausted its rights by licensing its patents with a restriction on the licensee's ability to sell the products that the licensee manufactured.[24] Reconciling the defendant's argument with *General Talking Pictures* would require the court to hold that "exhaustion law embodies a sharp distinction between a sale by a patentee (for which restrictions are to be disregarded) and a sale made by another person authorized by the patentee to sell, *i.e.*, a licensee as in *General Talking Pictures* (for which a patentee may preserve its § 271 rights by restricting the licensee's authorized sales.)"[25] The court was unwilling to take this leap, especially absent any clear overruling of *Mallinckrodt* in *Quanta*. Thus, the court adhered to its longstanding exhaustion principle: "A sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the 'authority' to engage in the use or resale that the restriction precludes."[26]

The court likewise rested its second holding on its earlier precedent. The 2001 Federal Circuit decision in *Jazz Photo* held that "the foreign sale of a U.S.-patented article, when the sale is either made or authorized by the U.S. patentee, does not, standing alone, confer on the buyer the 'authority' to import the item into the United States or to sell and use it here, and so does not save those acts from being infringing under § 271(a)."[27] The defendant argued, in part, that *Jazz Photo* had been abrogated by the Supreme Court's 2015 copyright decision in *Kirtsaeng v. John Wiley & Sons, Inc*.[28] In that case, the Court held that § 109(a) of the Copyright Act provided that a copy owner is entitled to "sell or otherwise dispose of" that copy, "regardless of the place of manufacture, as long as the maker of the copies had permission from the copyright owner to make them."[29]

The Federal Circuit rejected the defendant's arguments, noting that the Supreme Court's decision in the area of copyright law did not address issues of patent law, or specifically patent exhaustion.[30] The court noted that the *Kirtsaeng* opinion "did not advert to the foreign-exhaustion issue under patent law[, n]or did it cite" or distinguish the Supreme Court's "leading case on exhaustion and foreign sales in the patent area."[31] Moreover, the court noted that *Kirtsaeng* required analysis of a copyright-specific statute, which "has no counterpart in the Patent Act."[32] The court ultimately determined that the rule of *Jazz Photo* should be maintained but noted that "[l]oss of U.S. patent rights based on a foreign sale" could still occur as a result of an "express or implied license."[33]

Recently, however, the Supreme Court granted Impression's petition for certiorari.[34] Impression's petition presented the following questions:

1. Whether a "conditional sale" that transfers title to a patented item while specifying post-sale restrictions of the article's use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law's infringement remedy.

2. Whether, in light of this Court's holding in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), that the common law doctrine barring restraints on alienation that is the basis of exhaustion doctrine "makes no geographical distinctions," a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.[35]

On its present schedule, *Lexmark* is likely to be fully briefed and argued during the current Supreme Court term. If so, a decision will almost certainly be forthcoming by the end of June 2017.

REVIEW OF AGENCY DECISIONS

Cuozzo Speed Tech., LLC v. Lee, 136 S. Ct. 2131 (2016)36—Institution of IPR and the "Broadest Reasonable Interpretation" Standard for Patent Claim Construction

Cuozzo involved a challenge to the Federal Circuit's determination that: (i) the Patent and Trial Appeal Board's ("PTAB") decision to institute an *inter partes* review (" IPR") was non-appealable; and (ii) the PTO's "broadest reasonable interpretation" ("BRI") standard for claim construction during IPR is appropriate. The Supreme Court held that decisions by the PTAB to institute IPRs are generally not appealable, and that the PTO's BRI standard is appropriate for construing claims during IPR proceedings.

As to the first question: in addition to focusing on the text of the statute, which states that decisions to institute IPRs "shall be final and non-appealable,"[37] the Court placed emphasis on the PTO's role in administering the patent system.[38] The Court noted that "giving the Patent Office significant power to revisit and revise earlier patent grants" was an "important congressional objective" of the AIA.[39] Further, the Court cautioned that allowing courts to review the initial decision to start an IPR would undermine the PTO's ability to make final determinations on patent claims, since a final determination could be "unwound under some minor statutory technicality related to" the decision to institute an IPR.[40] The Court noted, however, that

> [O]ur interpretation applies where the grounds for attacking the decision to institute [IPR] consist of questions that are closely tied to the application and interpretation of statutes related to the Patent Office's decision to initiate [IPR]. This means that we need not, and do not, decide the precise effect of § 314(d) on appeals that implicate constitutional questions, that depend on other less closely related statutes, or that present other questions of interpretation that reach, in terms of scope and impact, well beyond "this section."[41]

As to the second question: the Court's deference to administrative agencies also guided its endorsement of the BRI standard. Cuozzo had argued that the PTO should construe claims under the *Phillips* standard, that is, giving claims their ordinary meaning as understood by a person of skill in the art.[42] The Court disagreed, noting that the AIA grants the PTO authority to issue regulations "establishing and governing [IPR] under this chapter."[43] In assessing the permissibility of the BRI standard, the Court noted that IPR is "less like a judicial proceeding and more like a specialized agency proceeding."[44] Specifically, the Court highlighted the following: parties initiating review may lack constitutional standing; the PTAB may conduct the review even after the adverse party has settled; and the PTO may intervene in a later judicial proceeding to defend its decision, even after the private challengers drop out.[45] Moreover, the Court pointed to the burden of proof in IPR—preponderance of the evidence as opposed to the "clear and convincing evidence" standard in district court proceedings.[46] The Court also noted the PTO's institutional interest in re-examining patents, and the fact that the PTO has used that standard for more than a century.[47] This is ultimately grounded in the Court's view of the PTO's role in "protect[ing] the public's 'paramount interest in seeing that patent monopolies … are kept within their legitimate scope.'"[48]

Ethicon Endo-Surgery, Inc. v. Covidien LP, 812 F.3d 1023 (Fed. Cir. 2016)—IPR Panels Making Both Institution Decisions and Final Decisions

In *Ethicon Endo-Surgery, Inc. v. Covidien LP*,[49] the Federal Circuit held that neither the Constitution nor the AIA is violated when the same PTAB panel that made the decision to institute IPR makes a final determination on the validity of challenged claims.[50] Ethicon, whose claims the PTAB had found invalid as obvious, argued that the Board's final decision was invalid because the same Board panel made the decision to institute and the final decision.[51] The PTO intervened and argued that the Federal Circuit was barred from considering the issue on appeal under 35 U.S. C. § 314(d), because it concerned the institution of an IPR proceeding.[52]

The Federal Circuit first considered the PTO's argument. Writing for the majority, Judge Dyk noted that § 314(d) prohibits review of the decision to institute an IPR.[53] According to the Federal Circuit, the issue before the court was not a challenge to the institution decision but, rather, an appeal alleging a defect in the final decision.[54] The Federal Circuit noted that the AIA does not preclude review of a final decision, and a party dissatisfied with the final written decision of the Board may appeal the decision.[55] Thus, the court was not precluded from hearing the challenge.[56]

Turning to the merits, the Federal Circuit considered Ethicon's argument that having the same panel institute a review and also render a final decision violated due process.[57] According

to Ethicon, the panel is first exposed to a limited record, which bears the risk that the panel may prejudge the case before seeing a full record. Thus, according to Ethicon, having the same panel render the final decision deprives a patent holder of a due process right to an impartial decision-maker.[58] The court rejected that claim, explaining that under well-settled Supreme Court precedent, combining these roles is unproblematic.[59] To support its conclusion, the Federal Circuit pointed to Supreme Court precedent upholding combining investigative and adjudicatory function in a single body in cases involving medical licensing boards and Social Security disability benefits.

Ethicon also argued that the history, structure, and content of the AIA reflected a congressional intent to withhold the power of the director to delegate to the Board the power to institute IPR.[60] But the Federal Circuit held that "the longstanding rule that agency heads have implied authority to delegate" meant that the PTO director could delegate the decision to institute IPRs.[61] The court noted that, well before the AIA, the director of the PTO regularly delegated tasks to the officers working for him, and that Congress assumed this practice would carry over.[62] Further, the grant of rulemaking power to the PTO director—including the power to make rules governing IPRs—was another source of the director's authority to delegate. The court additionally reasoned that the rule allowing the PTAB to institute IPRs was permissible under *Chevron*, as an exercise of the PTO's rulemaking authority.[63] In the end, the Federal Circuit's decision reaffirmed a central role for the PTO to supplement the statute by setting forth the structure governing IPRs.

ClearCorrect Operating LLC v. ITC, 819 F.3d 1334 (Fed. Cir. 2016) (denying en banc rehearing)—ITC Jurisdiction over "Articles"

In *ClearCorrect*, the Federal Circuit denied *en banc* rehearing of its earlier panel decision holding that the ITC's § 337 jurisdiction to remedy unfair international trade practices was limited to unfair acts involving the importation of "articles." According to the panel, the plain language statutory term "articles" refers to "material things" and therefore did not cover electronically transmitted digital data.[64]

Chief Judge Prost and Judge O'Malley filed a joint concurring opinion, which was joined by Judge Wallach, supporting the denial of rehearing *en banc*, in response to Judge Newman's dissent from the denial of rehearing. (Judge Newman had also dissented from the original panel decision.) According to Judge Newman, the ITC's jurisdiction under § 337 depends on "whether the imported goods infringe a patent or copyright or trademark or design[,]" not on "the mode of importation."[65]

Judge Newman's dissent explained that § 337 does not distinguish between electronically imported goods and goods imported on a physical medium.[66] She also pointed to a Senate Report issued before § 337 was enacted in 1922, which states that the "carrier by which the infringing imports arrive in the United States is irrelevant."[67] Moreover, her dissent noted that patent laws are not limited to technologies that existed when the Patent Act was enacted in 1952.[68] Judge Newman also asserted that the panel decision does not comport with determinations of other courts and agencies, such as the Bureau of Customs and Border Protection, and the Department of Labor, both of which have found that transmission of software products into the United States is "importation," regardless of the method of transfer.[69] Finally, her dissent argued that the term "article" encompasses more than just tangible goods, and that there is "no suggestion in the text or context that Congress intended the word 'article' to limit Section 337 to goods or technology that existed in 1930."[70]

The concurring opinion responded, asserting that "the dissent cites a hodgepodge of other legislative enactments," and the "wholly separate statutory regimes" cited by the dissent "have no bearing on Congressional intent regarding Section 337."[71] According to the concurrence, the "fact that something might infringe a U.S. patent is separate from the question of whether it is an 'article.' Both of these separate statutory requirements must be met in order for the ITC to exercise jurisdiction."[72] The concurring opinion also criticized the dissent's listing of "thirty definitions of 'article.'" According to the concurrence, "none of the dissent's definitions are inconsistent with defining 'article' as a 'material thing.'"[73] Finally, according to the concurring judges, the panel majority's definition of "articles" to mean "material things" was "the one that is mandated by the plain meaning of the word, the context of 19 U.S.C. § 1337(a) and the entire statutory scheme, and the legislative history."[74]

PATENT PROSECUTION

Immersion Corp. v. HTC Corp., 826 F.3d 1357 (Fed. Cir. 2016)—Continuation Application Priority

Immersion Corp. involved questions of continuation patents and priority claims.[75] The asserted patents claimed priority to an earlier patent ("continuation patent"), which in turn claimed priority to an earlier, parent patent.[76] The continuation application was filed on the same day that the parent patent issued.[77] To avoid certain prior art that the defendant (HTC) had asserted, the plaintiff (Immersion) argued that the continuation patent was entitled to the earlier filing date of the parent patent (thereby also entitling the asserted patents to the filing date of the parent patent).[78] Under 35 U.S.C. § 120, a continuation patent will be entitled to the earlier filing date of its parent patent's application if, *inter alia*, it is "filed *before* the patenting" of the parent application.[79] HTC argued that, because the continuation patent had been filed on the same day that the parent patent issued, it failed to meet § 120's "before" requirement.[80]

The court, in an opinion by Judge Taranto, held that the "before" requirement was satisfied where the continuation application was filed on the same day that the parent patent issued.[81] The court began its analysis with the text of § 120, which did not specify whether the "before" condition had to be satisfied in days, or whether the condition could be satisfied by filing mere hours or minutes "before" the parent patent issued.[82] Given the ambiguity in the text, the court looked to other sources to bolster its interpretation. Significantly, in 1864, the Supreme Court held that where a patent applicant had withdrawn an application and on the same day refiled that application with a new specification, the two actions should be considered "as constituting one continuous application."[83] According to the Court, this provided "the basis for same-day continuations for priority-date purposes."[84]

Likewise, nothing in the legislative history of § 120 suggested a congressional intent to deviate from *Godfrey*'s endorsement of same-day continuations.[85] Furthermore, "longstanding administrative constructions"—including an MPEP provision that specifically provided for "same day" filings—supported the court's decision.[86] The court was unwilling to adopt an interpretation that would be contrary to "over 50 years of public and agency reliance on the permissibility of same-day continuations."[87] Therefore, the court held that a continuation application filed on the same day that its parent patent issues will be entitled to the priority date of its parent application if all other conditions are satisfied.[88]

In re Queen's University at Kingston, 820 F.3d 1287 (Fed. Cir. 2016)—Patent Agent Privilege

In *Queen's University*, the Federal Circuit—for the first time—established a privilege covering communications between patentees and their patent agents, an issue that had previously divided district courts across the nation.[89] The plaintiffs in *Queen's University* asserted patents covering technology that "allow[s] devices to change their behavior based on the attentiveness of a user—for example, pausing or starting a video based on a user's eye contact with the device."[90] Throughout fact discovery, the plaintiffs refused to produce certain communications between plaintiffs "and registered non-lawyer patent agents discussing the prosecution of the patents-in-suit."[91] Although plaintiffs argued that these communications were privileged, the district court granted defendants' motion compelling production.[92] In response, the plaintiffs filed a petition for a writ of mandamus.[93] Pursuant to Federal Rule of Evidence 501, the Federal Circuit analyzed the common law and its own "reason and experience" to determine whether a patent-agent privilege was appropriate.[94]

First, the court analyzed the nature of the work performed by patent agents, noting that the Supreme Court had "expressly found that 'the preparation and prosecution of patent applications for others constitutes the practice of law.'"[95] The Supreme Court's holding was based on nearly a century of patent agent practice before the PTO predating the Patent Act of 1952.[96] Furthermore, when the patent laws were codified in 1952, "Congress endorsed a system in which patent applicants [could] choose between patent agents and patent attorneys when prosecuting patents before the Patent Office."[97] According to the Federal Circuit, refusing to recognize a patent agent privilege would frustrate congressional intent and force inventors to choose between proceeding with an attorney (for which privilege would attach) or with a registered patent agent (for which there would be no privilege).[98] Thus, consistent with the Supreme Court's finding that patent agents engage in the practice of law, the court held that a privilege should attach to communications between patent agents and their clients.[99]

Second, the court held that the scope of the privilege should be commensurate with the practice of law in which patent agents engage.[100] In defining that scope, the court pointed

to the PTO's regulations regarding patent agent practice.[101] Accordingly, the court held that communications will be protected by patent agent privilege if they are "reasonably necessary and incident to the preparation and prosecution of patent applications or other proceedings before the Office involving a patent application or patent in which the practitioner is authorized to participate."[102] In contrast, other communications that are not "reasonably necessary and incident" to prosecution will not be protected by the privilege.[103] Unprotected communications would include, for example, "communications with a patent agent who is offering an opinion on the validity of another party's patent in contemplation of litigation or for the sale or purchase of a patent, or on infringement."[104]

In dissent, Judge Reyna argued that there was a presumption against creation of new privileges that had not been overcome.[105] Significantly, Judge Reyna noted that the newly created privilege would have uncertain boundaries and that the differences between the practices of attorneys and agents counseled against creation of the new patent agent privilege.[106]

REMEDIES

Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. 1923 (2016)—Enhanced Damages

In *Halo*, the Supreme Court held that enhanced damages determinations should be left to the discretion of the district court. [107] In doing so, the Court abolished both the Federal Circuit's two-part test for enhanced damages, as well as the longstanding "clear and convincing" standard for enhanced damages, each of which had previously been mandated by *In re Seagate* and other cases prior to *Seagate*.[108]

The Court set out to decide whether the Federal Circuit's two-part test for enhancing patent infringement damages was consistent with 35 U.S.C. § 284.[109] Under *Seagate*, to award enhanced damages, a patent owner must show by clear and convincing evidence that: (i) the infringer acted despite an objectively high likelihood that its actions "constituted infringement of a valid patent" and (ii) the risk of infringement "was either known or so obvious that it should have been known to the accused infringer."[110] Unless both steps were satisfied, the district court did not have discretion to award enhanced damages.[111]

Pulse was accused of infringing Halo's patents for electronic packages containing transformers designed to be mounted to the surface of circuit boards.[112] The jury found that Pulse infringed Halo's patents, and that there was a high probability Pulse had done so willfully.[113] Nevertheless, because the district court determined that Pulse's defense "was not objectively baseless,"[114] the court did not award enhanced damages under § 284, and the Federal Circuit affirmed the decision.[115]

In keeping with its practice of eliminating bright-line rules from the Federal Circuit's jurisprudence, the Supreme Court eliminated the *Seagate* test.[116] While the Court recognized that enhanced damages are generally appropriate only in egregious cases, it concluded that the *Seagate* test is "unduly rigid," leading to the effect of "insulating some of the worst patent infringers from any liability for enhanced damages."[117] The Court instructed lower courts to "continue to take into account the particular circumstances of each case in deciding whether to award damages and in what amount."[118] In addition, the Court rejected the "clear and convincing" evidence standard, finding that § 284 "imposes no specific evidentiary burden, much less such a high one, and substituting the preponderance of the evidence standard."[119] Finally, the Court held the Federal Circuit should review decisions to enhance damages under the deferential "abuse of discretion" standard rather than the "substantial evidence" standard.[120]

Samsung Elecs. Co. v. Apple Inc., No. 15-777, 2016 WL 7078449 (U.S. Dec. 6, 2016)—Design Patent Damages

In a dramatic turn of events, the Supreme Court in *Samsung Electronics Co., Ltd. v. Apple Inc.* reversed the Federal Circuit's interpretation of § 289 of the Patent Act and remanded the case.[121] Section 289 provides for damages based on an infringer's total profits in design patent cases.[122] The case centered around the interpretation of the phrase "article of manufacture" and how it relates to products with multiple components.[123] The Supreme Court held that § 289 applies to both products sold to consumers and individual components of end products, irrespective of whether the components are sold separately to the public.[124]

The case involved Samsung's infringement of Apple's iPhone design patent for a rectangular-faced shell with rounded corners.[125] Apple argued, and the Federal Circuit agreed, that for calculating § 289 damages, the "article of manufacture" was the entire smartphone because consumers could not purchase individual components (i.e., only the outer shell) of phones.[126] Therefore, rejecting Samsung's argument that damages should be limited to the infringing "article of manufacture" (the shell with rounded corners), and not the entire

product, Apple was awarded $399 million based on Samsung's total profit from sales of the infringing phones.[127]

The Supreme Court reversed, finding that the term "article of manufacture" "encompasses both a product sold to a consumer and a component of that product."[128] The Court reasoned that "article of manufacture" is a broad term for something "made by hand or machine" and "can embrace both a product sold to a consumer and a component of that product, whether sold separately or not."[129]

The Court also defined a two-step process for calculating damages under § 289: "First, identify the article of manufacture to which the infringed design has been applied. Second, calculate the infringer's total profit made on that article of manufacture."[130]

Rather than decide the ultimate issue of whether the relevant article of manufacture is the smartphone or the screen/shell, the Court remanded the case.[131] Despite the Supreme Court's vagueness, it is clear that courts must first identify the "article of manufacture" and limit damages to the profit made on that article. However, since the Supreme Court tasked the Federal Circuit with creating a test for the first step of § 289 inquiries, the complete approach to patent design remedies remains to be determined.[132]

APPELLATE REVIEW OF CLAIM CONSTRUCTION

Apple Inc. v. Samsung Elecs. Co., 839 F.3d 1034 (Fed. Cir. 2016) (en banc)—Scope of Appellate Review

Sitting *en banc*, and doing so without receiving *en banc* briefing or argument, the Federal Circuit in this chapter of the *Apple v. Samsung* litigation made clear that the appellate court cannot rely on or search for evidence outside the record, nor may it make factual findings concerning what outside evidence suggests about the plain meaning of a patent term in question.[133]

Apple sued Samsung over patents that teach a system and method for detecting structures such as phone numbers, addresses, and dates in documents, and then link actions or commands to those structures.[134] The actions/commands include placing a phone call or adding a contact to the address book in a phone.[135]

The district court found that Samsung infringed Apple's valid patents, granted summary judgment, and denied Samsung's request for judgment as a matter of law ("JMOL").[136] Samsung appealed, and the Federal Circuit reversed the district court's decision.[137] In doing so, the Federal Circuit reversed several district court findings that had not been appealed.[138] For instance, the panel modified the definition of "analyzer server" using a computer dictionary, although the parties agreed to the term's construction and had not appealed it.[139] Apple then filed a petition for a rehearing *en banc*, which was granted.

To define the Federal Circuit's correct role, the *en banc* court stressed that their job is "limited to deciding the issues raised on appeal by the parties, deciding these issues only on the basis of the record made below, and as requiring appropriate deference be applied to the review of fact findings."[140] The court stressed that it should not look to "extra-record extrinsic evidence" to construe patent claim terms and could not reverse a fact finding that the parties had not appealed.[141]

Ultimately, the Federal Circuit affirmed and reinstated the district court's decision, concluding that the jury verdict was supported by substantial evidence and the district court did not err in denying the JMOL request.[142] Going forward, it will be interesting to see how the Federal Circuit adjusts to its narrowed role in future cases.

Judge Dyk dissented, as did Chief Judge Prost and Judge Reyna. In particular, Judge Dyk decried the procedural irregularity of the *en banc* court's decision: "For the first time in 26 years, this court has taken an obviousness case en banc.... Remarkably, the majority has done so without further briefing and argument from the parties, amici, or the government, as has been our almost uniform practice in this court's en banc decisions."[143]

ON THE HORIZON FOR 2017

TC Heartland LLC v. Kraft Food Brands Grp. LLC, No. 16-341 (U.S. Dec. 14, 2016)

The Supreme Court granted certiorari in *TC Heartland* in late 2016.[144] The issue presented in the case is whether the patent venue statute, 28 U.S.C. § 1400(b), which provides that patent

infringement actions "may be brought in the judicial district where the defendant resides[,]" is the sole and exclusive provision governing venue in patent infringement actions, or whether it is supplemented by the general venue statute, 28 U.S.C. § 1391. Significantly, § 1391(c), where applicable, deems a corporate entity to reside in multiple judicial districts.

In the opinion below, the Federal Circuit denied TC Heartland's petition for a writ of mandamus to direct the U.S. District Court for the District of Delaware to either dismiss or transfer the patent infringement suit filed against it by Kraft Food Brands.[145] In denying the petition, the Federal Circuit rejected TC Heartland's arguments that: (i) it does not "reside" in Delaware for venue purposes according to 28 U.S.C. § 1400(b), and (ii) the Delaware district court lacked specific personal jurisdiction over it.[146] The Federal Circuit concluded that the "arguments raised regarding venue have been firmly resolved by *VE Holding*, a settled precedent for over 25 years."[147] In *VE Holding*, the Federal Circuit held that the definition of corporate residence in the general venue statute, § 1391(c), applied to the patent venue statute, 28 U.S.C. § 1400.[148]

The Federal Circuit also held that TC Heartland's personal jurisdiction arguments "have been definitively resolved by *Beverly Hills Fan*, a settled precedent for over 20 years."[149] In *Beverly Hills Fan*, the Federal Circuit held that where a nonresident defendant purposefully shipped accused products into the forum through an established distribution channel and the cause of action for patent infringement was alleged to arise out of those activities, the due process requirement for sufficient minimum contacts with the forum was met.[150] Based on these prior holdings, the Federal Circuit held that TC Heartland's arguments were "foreclosed by our long standing precedent."[151] The Supreme Court's decision could have sweeping changes and sharply reduce the number of patent cases filed in popular fora such as the District of Delaware and the Eastern District of Texas.

In re Aqua Products, No. 2015-1177 (Fed. Cir. 2016) (*en banc*)

The Federal Circuit has granted a petition for a rehearing *en banc*, and heard oral argument, in *In re Aqua Products*.[152] The court in this case will decide who bears the burden of proof regarding the patentability of claim amendment motions made in IPRs.[153] Specifically, the *en banc* court will decide whether to overturn the Federal Circuit's May 2016 holding that a motion to amend will not be granted in IPR proceedings unless the patentee can demonstrate that the amended claims would be patentable over the art of record.[154] The Federal Circuit has invited briefing from Aqua Products and the PTO on: (i) whether the PTO can require the patent owner to bear the burden of persuasion or production regarding patentability of amended claims as a condition of allowance under 35 U.S.C. § 316(e), and (ii) whether the PTAB may *sua sponte* raise patentability changes when the petitioner does not challenge the patentability of a proposed amended claim, and if so, who has the burden of production or persuasion.[155]

CONCLUSION

The cases discussed in this *White Paper* have addressed a variety of important issues that will affect patent litigation in several ways. For patent law practitioners, each of these decisions contains important changes and clarifications that should be studied carefully. First, the appellate courts decided a number of important issues regarding administrative agencies and patent law. Certain procedural issues surrounding the PTAB's post-grant review procedures, which have indisputably modified the litigation landscape, have been clarified by the Federal Circuit's 2016 decisions. Furthermore, the Federal Circuit clarified issues surrounding the jurisdiction of the ITC as it relates to patent disputes.

Second, several decisions addressed long-standing issues in patent law. Sitting *en banc*, the Federal Circuit clarified issues concerning on-sale bars and patent exhaustion in *Medicines Co.* and *Lexmark*. Of interest to patent prosecutors, *Immersion Corp.* endorsed long-standing practice for continuation applications, and *Queen's University* established a patent agent privilege. On the issue of damages, *Halo* lowered the burden to an award of enhanced damages, and *Apple* clarified, to some extent, the standard for damages for design patent infringement. Finally, a different *Apple* decision clarified, again to some extent, the scope of appellate review of claim construction.

LAWYER CONTACTS

For further information, please contact your principal Firm representative or one of the lawyers listed below. General email messages may be sent using our "Contact Us" form, which can be found at www.jonesday.com/contactus/.

Kelsey I. Nix
New York
+1.212.326.8390
knix@jonesday.com

Gregory A. Castanias
Washington
+1.202.879.3639
gcastanias@jonesday.com

Patrick J. O'Rear, an associate in the Chicago Office, and Shehla Wynne and Adam Nicolais, associates in the New York Office, assisted in the preparation of this White Paper.

ENDNOTES

1 *The Medicines Co. v. Hospira, Inc.*, 827 F.3d 1363 (Fed. Cir. 2016) (*en banc*). For additional information, *see* Jones Day *Commentary*, "Federal Circuit Decision Clarifies Application of On-sale Bar to Third Party Manufacturers and Suppliers."

2 *Id.* at 1375-76.

3 *Id.* at 1378.

4 *Id.* at 1365-66.

5 *Id.* at 1368.

6 *Id.* (citing *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 67-68 (1998)).

7 *Id.* at 1374. Significantly, the court reiterated that, "[f]or validity purposes, the 'invention' in a product-by-process claim is the product." *Id.*

8 *Id.*

9 *Id.* (quoting U.C.C. § 2-106(1)).

10 *Id.* at 1376.

11 *Id.* at 1376-77. The court also noted that the "confidential nature of the transactions … weighs against the conclusion that the transactions were commercial in nature." *Id.* at 1376. The court thereby made clear that its determination depended heavily on the policies behind the on-sale bar: that a patentee should not be able to *commercially* benefit from placing its patented invention into the marketplace before disclosing that invention to the public via a patent application. *Id.* at 1376-77.

12 *Id.* at 1376-77.

13 *Id.* at 1377 (emphasis added).

14 *Id.* at 1377-78 (emphasis in original).

15 *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721 (Fed. Cir. 2016). For additional information, *see* Jones Day *Commentary*, "*En Banc* Federal Circuit Reaffirms that Foreign Sales and Restricted Domestic Sales Don't Exhaust Patent Rights."

16 *Id.* at 727-29.

17 *Id.* at 728-29.

18 *Id.* at 729.

19 *Id.* at 734-35.

20 *Id.* at 737 (discussing *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992)).

21 *Id.* at 737.

22 *Id.* at 731.

23 *Id.* at 737-38.

24 *Id.* at 744-45.

25 *Id.* at 739.

26 *Id.* at 735.

27 *Id.* at 755.

28 *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013)

29 *Id.* at 756.

30 *Lexmark*, 816 F.3d at 756-60.

31 *Id.* at 756.

32 *Id.* at 757.

33 *Id.* at 773-74.

34 *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721, 734-35 (Fed. Cir. 2016), *cert granted*, 84 U.S.L.W. 3563 (Dec. 2, 2016) (No. 15-1189).

35 Petition for Writ of Certiorari at i, *Impression Prods., Inc. v. Lexmark Int'l, Inc.* (No. 15-1189).

36 For a more detailed discussion of the decision, *see* Jones Day *Commentary*, "Supreme Court Affirms Existing Rules for *Inter Partes* Review Proceedings."

37 35 U.S.C. § 314(d).

38 *Cuozzo Speed Tech v. Lee*, 136 S. Ct. 2131, 2139 (2016) (citing 35 U.S.C. § 314(d)).

39 *Id.* at 2139-40.

40 *Id.* at 2140.

41 *Id.* at 2141.

42 *Id.* at 2142.

43 *Id.* (citing 35 U.S.C. § 316(a)(4)).

44 *Id.* at 2143.

45 *Id.* at 2143-2144 (citing 35 U.S.C. § 317(a)).

46 *Id.* at 2144.

47 *Id.*

48 *Id.* (quoting *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U. S. 806, 816 (1945)).

49 Petition for Writ of Certiorari pending.

50 *Ethicon Endo-Surgery, Inc. v. Covidien LP*, 812 F.3d 1023 (Fed. Cir. 2016).

51 *Id.* at 1026.

52 *Id.* at 1028.

53 *Id.*

54 *Id.* at 1029.

55 *Id.* (citing 35 U.S.C. § 319).

56 *Id.*

57 *Id.*

58 *Id.*

59 *Id.*

60 *Id.* at 1031.

61 *Id.*

62 *Id.* at 1032.

63 *Id.* at 1033 (citing *Chevron, U.S.A., Inc. v. Nat. Res. Def. Council, Inc.*, 467 U.S. 837, 842-43 (1984)).

64 *ClearCorrect Operating, LLC v. ITC*, 810 F.3d 1283 (Fed. Cir. 2015). For further details on the panel decision, *see* Jones Day *White Paper*, "Key Patent Law Decisions of 2015."

65 *Id.* at 1337 (Newman, J. dissenting).

66 *Id.*

67 *Id.* at 1338.

68 *Id.* at 1339.

69 *See id.* at 1340-42.

70 *Id.* at 1344.

71 *Id.* at 1336 (Prost, C.J. & O'Malley, J., joined by Wallach, J., concurring).

72 *Id.*

73 *Id.*

74 *Id.* at 1336-37.

75 *Immersion Corp. v. HTC Corp.*, 826 F.3d 1357 (Fed. Cir. 2016).

76 *Id.* at 1360.

77 *Id.*

78 *Id.* at 1359-60.

79 *Id.* at 1359 (emphasis added).

80 *Id.* at 1360.

81 *Id.* at 1365.

82 *Id.* at 1362.

83 *Id.* (quoting *Godfrey v. Eames*, 68 U.S. (1 Wall.) 317, 326 (1864)).

84 *Id.*

85 *Id.* at 1363.

86 *Id.* at 1363-64 (citing MPEP § 201.11 (3d ed. 1961)).

87 *Id.* at 1364.

88 *Id.* at 1365.

89 *In re Queen's University at Kingston*, 820 F.3d 1287, 1292 (Fed. Cir. 2016). For additional information, *see* Jones Day *Commentary*, "Federal Circuit Creates Patent Agent Privilege."

90 *Id.* at 1290.

91 *Id.*

92 *Id.*

93 *Id.*

94 *Id.* at 1294.

95 *Id.* at 1296 (quoting *Sperry v. State of Florida ex rel. Florida Bar*, 373 U.S. 379, 383 (1963)).

96 *Id.* at 1296-97.

97 *Id*. at 1298.

98 *Id.*

99 *Id.*

100 *Id.* at 1301.

101 *Id.*

102 *Id.*

103 *Id.*

104 *Id.* at 1301-02.

105 *Id.* at 1302-03 (Reyna, J., dissenting).

106 *Id.* at 1302-16.

107 *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016). For additional information, *see* Jones Day *Commentary*, "Supreme Court Upends Law of Treble Damages in Patent Cases."

108 *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed Cir. 2007) (*en banc*).

109 *Halo*, 136 S. Ct. at 1928.

110 *Seagate*, 497 F.3d, at 1371.

111 *Id.*

112 *Halo*, 136 S. Ct. at 1930.

113 *Id.* at 1931.

114 App. To Pet. For Cert. in No. 14-1513, p. 64a (quoting *Bard*, 682 F.3d at 1007).

115 *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 769 F.3d 1371 (Fed. Cir. 2014).

116 *Halo*, 136 S. Ct. at 1936. *See, e.g.,* Kelsey I. Nix & Gregory A. Castanias, Jones Day *White Paper*, "Key Patent Law Decisions of 2014" at 1-2 (March 2015).

117 *Id.* at 1932.

118 *Id.* at 1933.

119 *Id.* at 1934 (quoting *Octane Fitness, LLC v. ICON Health & Fitness Inc.*, 234 S. Ct. 1749, 1758, 188 L. Ed. 2d 816 (2014)).

120 *Id.*

121 *Samsung Elecs. Co. v. Apple Inc.*, No. 15-777, 2016 WL 7078449 (U.S. Dec. 6, 2016).

122 35 U.S.C. § 289.

123 *Samsung,* 2016 WL 7078449, at *1.

124 *Id.* at *6.

125 *Id.* at *3.

126 *Apple Inc. v. Samsung Elecs. Co.*, 786 F.3d 983, 1002 (Fed. Cir. 2015).

127 *Samsung,* 2016 WL 7078449, at *4.

128 *Id.* at *4, 6.

129 *Id.* at *6, 8.

130 *Id.* at *5.

131 *Id.* at *7.

132 *Id*.

133 *Apple Inc. v. Samsung Elecs. Co.*, 839 F.3d 1034, 1039 (Fed. Cir. 2016).

134 *Id.* at 1040.

135 *Id.*

136 *Id.* at 1038.

137 *Id.* at 1038-39.

138 *Id.* at 1039.

139 *Id.* at 1042-43.

140 *Id.* at 1039.

141 *Id.*

142 *Id.* at 1039-40.

143 *Id.* at 1074 (Dyk, J., dissenting).

144 *TC Heartland LLC v. Kraft Food Brands Grp. LLC*, No. 16-341, 2016 WL 4944616 (U.S. Dec. 14, 2016).

145 *In re TC Heartland LLC*, 821 F.3d 1338 (Fed. Cir. 2016), cert. granted sub nom. *TC Heartland LLC v. Kraft Food Brands Grp. LLC*, No. 16-341, 2016 WL 4944616 (U.S. Dec. 14, 2016).

146 *Id.* at 1341.

147 *Id.*

148 *VE Holding Corp. v. John Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990).

149 *In re TC Heartland*, 821 F.3d at 1341.

150 *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558 (Fed. Cir. 1994).

151 *In re TC Heartland*, 821 F.3d at 1345.

152 *In re Aqua Prods., Inc.,* 833 F.3d 1335 (Fed. Cir. 2016).

153 *Id.*

154 *In re Aqua Prods., Inc.,* 823 F.3d 1369, 1371 (Fed. Cir.), reh'g *en banc* granted, opinion vacated, 833 F.3d 1335 (Fed. Cir. 2016).

155 *In re Aqua Prods., Inc.,* 833 F.3d 1335, 1336 (Fed. Cir. 2016).