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WHITE PAPER

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Key Patent Decisions of 2017

In another noteworthy year for patent law, the U.S. Supreme Court and Federal Circuit issued a number of decisions that altered the patent landscape, including four Supreme Court decisions. The topics of the key cases included venue, patent exhaustion, patent eligible subject matter, and several decisions interpreting provisions of the America Invents Act.

This *White Paper* summarizes and explains some of the most significant patent law cases decided in 2017. Each of these decisions has meaningful implications for patentees and patent practitioners alike.

TABLE OF CONTENTS

THE SUPREME COURT UPENDS PATENT VENUE, AND THE FEDERAL CIRCUIT REDEFINES THE TEST.	1
<i>TC Heartland LLC v. Kraft Foods Group Brands LLC</i> , 137 S. Ct. 1514 (2017)	1
<i>In re Cray</i> , 871 F.3d 1355 (Fed. Cir. 2017)	1
<i>In re Micron Tech., Inc.</i> , 875 F.3d 1091 (Fed. Cir. 2017)	2
PATENTABILITY: THE FEDERAL CIRCUIT ADDRESSES LAWS OF NATURE	3
<i>Thales Visionix Inc. v. United States</i> , 850 F.3d 1343 (Fed. Cir. 2017)	3
THE FEDERAL CIRCUIT CONTINUES TO INTERPRET THE AMERICA INVENTS ACT	3
<i>Secure Access, LLC v. PNC Bank National Association</i> , 848 F.3d 1370 (Fed. Cir. 2017)	3
<i>Helsinn Healthcare S.A. v. Teva Pharm. USA, Inc.</i> , 855 F.3d 1356 (Fed. Cir. 2017)	4
<i>Aylus Networks v. Apple Inc.</i> , 856 F.3d 1353 (Fed. Cir. 2017)	5
<i>Aqua Prods., Inc. v. Matal</i> , 872 F.3d 1290 (Fed. Cir. 2017) (en banc)	5
<i>Cascades Projection LLC v. Epson Am., Inc.</i> , 864 F.3d 1309 (Fed. Cir. 2017)	6
DEFENSES: THE SUPREME COURT ABOLISHES LACHES, NARROWS THE REACH OF “EXPORT INFRINGEMENT,” AND EXPANDS PATENT EXHAUSTION.	7
<i>SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC</i> , 137 S. Ct. 954 (2017)	7
<i>Life Technologies Corp. v. Promega Corp.</i> , 137 S. Ct. 734 (2017)	7
<i>Impression Products, Inc. v. Lexmark International, Inc.</i> , 137 S. Ct. 1523 (2017)	8
CONCLUSION	8
LAWYER CONTACTS	9
ENDNOTES	9

THE SUPREME COURT UPENDS PATENT VENUE, AND THE FEDERAL CIRCUIT REDEFINES THE TEST

TC Heartland LLC v. Kraft Foods Group Brands LLC, 137 S. Ct. 1514 (2017)

The Supreme Court's decision in *TC Heartland* has already reconfigured the landscape of patent litigation in the United States. The significance of *TC Heartland* was previewed in the 2016 version of this *White Paper*.¹ Prior to the *TC Heartland* decision, Federal Circuit precedent provided that venue was proper in any judicial district in which the defendant was subject to the court's personal jurisdiction. In practice, this standard made the venue requirements for most patent litigation defendants a dead letter—the bulk of defendants in patent litigation are large entities, which are subject to the jurisdiction of many (if not all) of the 94 judicial district courts in the United States. As a result, a few courts (e.g., the Eastern District of Texas) became magnets for plaintiffs—and thus hotbeds for patent litigation—because they were perceived to be faster, to have more plaintiff-friendly judges, or to have jury pools more likely to render large verdicts. Prior to *TC Heartland*, these courts were handling more cases than most of the rest of the districts in the United States combined.

By reconsidering the venue provisions covering patent law, however, *TC Heartland* has disrupted that system. In *TC Heartland*, the Court addressed the interaction between the general venue statute (28 U.S.C. § 1391(c)) and the patent-specific venue statute (28 U.S.C. § 1400(b)). Specifically, the Court was asked to determine whether § 1391's definition of "residence" modifies the provisions of § 1400(b). According to § 1400(b), venue is proper in patent cases "where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business."² Although § 1400(b) does not define the term "resides," § 1391(c) provides that entities (e.g., corporations) that are sued "shall be deemed to reside ... in any judicial district in which such [entity] is subject to the court's personal jurisdiction."³ Relying on its holding in *VE Holding Corp. v. Johnson Gas Appliance Co.*,⁴ the Federal Circuit held that § 1391(c) dictated that venue is proper for patent litigation in any district in which the defendant is subject to the court's personal jurisdiction.⁵

The Supreme Court reversed, holding that a defendant in a patent-infringement case "resides" *only* in the state in which

it is incorporated.⁶ Among other things, the Court relied on its 1957 decision in *Fourco Glass*: "In *Fourco*, this Court definitively and unambiguously held that the word 'reside[nce]' in § 1400(b) has a particular meaning as applied to domestic corporations: It refers only to the State of incorporation."⁷ Although Congress has amended § 1391 since *Fourco* was decided, Congress has not amended § 1400(b). Moreover, the Court found no evidence that Congress had intended to alter the *Fourco* decision by modifying § 1391. Accordingly, the Court reversed the Federal Circuit and held that a defendant in a patent case "resides" in its state of incorporation.⁸

The *TC Heartland* decision clarifies the "residence" prong of the patent venue statute. However, § 1400(b) also states that venue is proper "where the defendant has committed acts of infringement and has a regular and established place of business." Of course, the liberal pre-*TC Heartland* interpretation of "residence" meant that the second prong of § 1400(b) was rarely invoked, and, as a result, few cases explain what is required by those elements. Thus, following *TC Heartland*, as discussed below, it will be up to the Federal Circuit and district courts to give meaning to the second prong of § 1400(b).

In re Cray, 871 F.3d 1355 (Fed. Cir. 2017)

In re Cray provided the first opportunity for the Federal Circuit to consider a venue question following the Supreme Court's landmark decision in *TC Heartland*. In *Cray*, the Federal Circuit was left to wrestle with the previously ignored second prong of the patent-venue statute, § 1400(b), stating that venue is proper "where the defendant has committed acts of infringement and has a regular and established place of business."⁹

The Eastern District of Texas had denied a request to transfer venue made by defendant Cray Inc. ("Cray").¹⁰ Cray was incorporated in Washington state and had its headquarters there. Cray also had "facilities" in Minnesota, Wisconsin, and Houston and Dallas, Texas. (Neither Houston nor Dallas are within the Eastern District of Texas.) Although Cray did have two employees who worked remotely in the Eastern District of Texas, it did not "rent or own an office or any property" in that district.¹¹ The employees did not maintain Cray products at their homes or have Cray advertising literature available, nor did Cray ever compensate the employees for their homes as part of its business.¹² Nevertheless, the district court held that venue was proper in the Eastern District of Texas under the Federal Circuit's decision in *In re Cordis Corp.*¹³

The Federal Circuit reversed. It held that venue was not proper in the Eastern District of Texas. In so holding, the court set out “three general requirements relevant to the inquiry: (1) there must be a physical place in the district; (2) it must be a regular and established place of business; and (3) it must be the place of the defendant.”¹⁴ With respect to the first requirement, the court stated that there “must be a physical, geographical location in the district from which the business of the defendant is carried out.” The court noted, for example, that in its *Cordis* decision, the defendant had used its employees’ homes in the district to store products, advertising literature, and inventory.¹⁵

For the second requirement, the court emphasized “regular” and “established.” The court noted that regularity required the business to be “steady” and not merely transient. Likewise, for “established,” the court indicated that the place of business “must for a meaningful time period be stable.”¹⁶ Thus, “if an employee can move his or her home out of the district at his or her own instigation, without the approval of the defendant, that would cut against the employee’s home being considered a place of business of the defendant.”¹⁷

Finally, the court emphasized that the place must be “of the defendant, not solely a place of the defendant’s employee.”¹⁸ The court offered additional guidance for this factor:

Relevant considerations include whether the defendant owns or leases the place, or exercises other attributes of possession or control over the place. One can also recognize that a small business might operate from a home; if that is a place of business of the defendant, that can be a place of business satisfying the requirement of the statute.... Another consideration might be whether the defendant conditioned employment on an employee’s continued residence in the district or the storing of materials at a place in the district so that they can be distributed or sold from that place. Marketing or advertisements also may be relevant, but only to the extent they indicate that the defendant itself holds out a place for its business.¹⁹

In view of the standard announced, the Federal Circuit vacated the district court’s denial of Cray’s motion and ordered the district court to transfer the case to an appropriate venue.²⁰

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

Another mandamus petition granted by the Federal Circuit in the wake of *TC Heartland* further fleshed out the importance of the Supreme Court’s change in the trajectory of venue law. After the Supreme Court decided *TC Heartland*, a number of defendants in pending patent cases—particularly in the Eastern District of Texas—moved to change venue but were rebuffed by judges who had held that the defendants had waived venue challenges by not bringing them at the outset of litigation, as Rule 12(h)(1) of the Federal Rules of Civil Procedure requires. When the defendants protested that they could not have brought such a motion at the outset of the case, because of the state of Federal Circuit law, the courts responded that *TC Heartland* was not actually a change in the law, because it just reaffirmed *Fourco*, which had been the law all along—meaning that the venue challenge was available to the defendants all along.

In *Micron*, the Federal Circuit held otherwise. Under Rule 12(g) (2) of the Federal Rules, a venue objection is not waived if it was not “available to the party.” The Federal Circuit “conclude[d] as a matter of law that it was not. The venue objection was not available until the Supreme Court decided *TC Heartland* because, before then, it would have been improper, given controlling precedent, for the district court to dismiss or to transfer for lack of venue.”²¹

Though the Federal Circuit rejected the district court’s finding of waiver, it went on to hold that there were other bases on which a district court might find a belated waiver objection to have been “forfeited”: “We have not provided a precedential answer to the question whether the timeliness determination may take account of factors other than the sheer time from when the defense becomes available to when it is asserted, including factors such as how near is the trial, which may implicate efficiency or other interests of the judicial system and of other participants in the case. But we have denied mandamus, finding no clear abuse of discretion, in several cases involving venue objections based on *TC Heartland* that were presented close to trial.”²²

The court went on to outline one particular possibility of forfeiture: “a defendant’s tactical wait-and-see bypassing of an opportunity to declare a desire for a different forum, where the

course of proceedings might well have been altered by such a declaration. We do not here say how such a claim of forfeiture ultimately should be analyzed.”²³ The panel thus remanded for the district court to consider any such claim of forfeiture that might be made. On remand, the District of Massachusetts granted the defendant’s (Micron’s) motion and transferred the case to the District of Delaware.²⁴

Although *Cray* and *Micron* provide the first glimpses of a developing area of venue law, district courts and the Federal Circuit will certainly continue to wrestle with these questions in 2018 and beyond.

PATENTABILITY: THE FEDERAL CIRCUIT ADDRESSES LAWS OF NATURE

***Thales Visionix Inc. v. United States*, 850 F.3d 1343 (Fed. Cir. 2017)**

One of the most unsettled areas of patent jurisprudence arises out of the Supreme Court’s recent decisions concerning patent eligibility, under 35 U.S.C. § 101.

In *Thales*, the Federal Circuit addressed issues of patentability relating to abstract ideas in the course of overturning a decision from the Court of Federal Claims. The subject matter of the patent involved an inertial tracking system used to calculate the position, orientation, and velocity of objects in three-dimensional space. Such sensors are used in a variety of applications, including aircraft navigation and virtual reality simulators. According to the patent, traditional systems measured inertial changes relative to the earth, whereas the claimed invention measures changes relative to a moving reference frame. These improvements are said to increase the accuracy of positional information and eliminate hardware needed in traditional devices. However, the Court of Federal Claims held that all claims of the patent were directed to ineligible subject matter under 35 U.S.C. § 101.²⁵ The court held the claims were directed to the abstract idea of using the laws of nature to track two objects and provided no inventive concept beyond an abstract idea.

Relying on the Supreme Court’s 1981 decision in *Diamond v. Diehr*,²⁶ the Federal Circuit reversed and found the claims patentable. In *Diehr*, the Supreme Court found claims utilizing “the Arrhenius equation” to calculate curing times for molding

rubber were patentable. The Court held that although mathematical formulas alone are not patent-eligible, claims with mathematical formulas implemented “in a structure or process which, when considered as a whole, is performing a [patentable] function” are valid.²⁷ Because the claims were directed to an improvement in the rubber curing process, not simply a mathematical formula, they were held valid.

The Federal Circuit found the claims in *Thales* “nearly indistinguishable” from those in *Diehr*.²⁸ The court held that while the claims use mathematical equations to “determine the orientation of the object relative to the moving reference frame, the equations ... serve only to tabulate the position and orientation information in [the] configuration.”²⁹ Thus, the claims “are not merely directed to the abstract idea of using a ‘mathematical equation’” but, instead, are “directed to systems and methods that use inertial sensors in a non-conventional manner to reduce errors...”³⁰

Emphasizing their decision, the Federal Circuit stressed that just because “a mathematical equation is required to complete [a] claimed method and system does not doom the claims to abstraction.”³¹ Thus, *Thales* may be useful when prosecuting claims relying on laws of physics and nature. Practitioners can argue that rather than tying up laws of nature, the invention consists of an application of principles to a configuration of elements.

THE FEDERAL CIRCUIT CONTINUES TO INTERPRET THE AMERICA INVENTS ACT

Each year since the America Invents Act (“AIA”) went into effect in 2012, the Federal Circuit and Supreme Court have addressed its many provisions. 2017 proved no different.

***Secure Access, LLC v. PNC Bank National Association*, 848 F.3d 1370 (Fed. Cir. 2017)**

In *Secure Access*, the Federal Circuit built on several recent decisions clarifying the scope of covered business method (“CBM”) patent review. In 2015, the Federal Circuit rejected an argument that CBM patents included only “products and services such as credits, loans, real estate transactions, securities and investment products, and similar financial products and services.”³² Then, in 2016, the Federal Circuit rejected the determination of the Patent Trial and Appeal Board (“PTAB”) that “whether a particular patent is a CBM patent involved

determining ‘whether the patent claims activities that are financial in nature, are *incidental* to a financial activity, or *complementary* to a financial activity.’”³³ According to the court, because the emphasized phrases were not part of the governing statute, they did not govern the determination of whether a patent qualified for CBM patent review. In *Secure Access*, the court further sought to clarify the standard for whether patents qualify for CBM patent review.

First, the court held that a CBM patent must “contain at least one claim to the effect that the method or apparatus is ‘used in the practice ... of a financial product or service[.]’”³⁴ In other words, it is not enough for a patent’s specification to allude to financial products or services if none of the patent’s claims is directed to those subjects.³⁵ Of course, the determination of whether a patent qualifies for CBM patent review will depend on how those claims are construed, which in turn depends on the content of the specification. However, “the written description alone cannot substitute for what may be missing in the patent ‘claims,’ and therefore does not in isolation determine CBM status.”³⁶

Second, the court underscored its prior holding in *Unwired Planet*: It is not enough for a patent to be “incidental to a financial activity” to qualify for CBM patent review. According to the Federal Circuit, the PTAB had violated this principle by looking beyond the scope of the patent to determine whether the patent qualified for CBM patent review. Specifically, the PTAB had considered the “litigation history of [the] patent owner[.] in which it sued a large number of defendants who could be described as ‘financial’ in their business activities.”³⁷ The Federal Circuit stated that the PTAB’s analysis improperly shifted the focus away from the claim language: “[A] patent owner’s choice of litigation targets could be influenced by a number of considerations[.] ... Those [considerations] do not necessarily define a patent as a CBM patent, nor even necessarily illuminate an understanding of the invention as claimed.”³⁸

The court then held that the patents at issue did not qualify for CBM patent review. Although the patent purported to relate to “computer security,” the specification included references that suggested the technology could be employed by banks and other financial institutions.³⁹ The specification also suggested the technology was appropriate for “customer and merchant” situations. Nevertheless, the court held that the patent did not qualify for CBM patent review because the claims,

as construed, did not meet the relevant standard. According to the court, “just because the invention could be used by various institutions that include a financial institution, among others, does not mean a patent on the invention qualifies under the proper definition of a CBM patent.”⁴⁰

***Helsinn Healthcare S.A. v. Teva Pharm. USA, Inc.*, 855 F.3d 1356 (Fed. Cir. 2017)**

The Federal Circuit offered guidance on the on-sale bar under the AIA in *Helsinn*. The sale of products before the filing of a patent application has long been a bar on patentability in the United States. However, with the enactment of the AIA, changes to the statutory language defining the on-sale bar left open issues for interpretation.

Under pre-AIA § 102, an invention was barred from patenting when it was “on sale in [the United States], more than one year prior to the date of the application for patent” regardless of whether the sale was known to the public.⁴¹ Post-AIA § 102 bars patentability for sales made worldwide that are “on sale, or otherwise available to the public.”⁴² Thus, the new rule left open the question of what constitutes a “public sale.”

In *Helsinn*, the patents at issue related to palonosetron, a drug that reduces chemotherapy-induced nausea and vomiting. Two years before the filing of the patent application, Helsinn entered into a marketing and distribution agreement with MGI Pharma, Inc. The contracts included a license and supply/purchase agreement, which were both contingent on regulatory approval of palonosetron. The terms of the agreements were announced in a joint press release of the two corporations and in MGI’s Form 8-K filings with the SEC. Under the license agreement, MGI agreed to pay \$11 million, plus further royalties on the distribution of palonosetron. Under the supply/purchase agreement, MGI agreed to purchase exclusively from Helsinn and Helsinn agreed to supply the palonosetron products to MGI. Notably, the details of the invention were not disclosed in the agreements. Nevertheless, Teva sought approval to market a generic version of palonosetron on the grounds that Helsinn’s patent was invalid under the on-sale bar provision.

The Federal Circuit found the claims invalid. First, the court confirmed that an agreement contracting for the sale of a claimed invention is indeed a commercial sale, regardless of the agreement’s contingency on regulatory approval.⁴³ The

court held that “a contract for sale that includes a condition precedent is a valid and enforceable contract.”⁴⁴

Second, the court held that “if the existence of the sale is public, the details of the invention need not be publicly disclosed in the terms of sale.”⁴⁵ The court reasoned that requiring disclosure of the invention as a condition would be a “foundational change in the theory of the statutory on-sale bar.”⁴⁶ Further, it concluded that “there is no indication in the [legislative history]” of an intention to overrule prior cases where the on-sale bar was applied when “the public could not ascertain the claimed invention.”⁴⁷

The court distinguished this ruling from *The Medicines Co. v. Hospira Inc.*⁴⁸ (where a pre-filing confidential contract for marketing/distribution and stockpiling of materials was held not invalidating) because *Medicines* involved a secret contract for marketing/distribution services and did not involve the invention itself being placed on sale. Practitioners should heed the warnings of *Helsinn* in preserving the confidentiality of all aspects of a pre-filing sale.

***Aylus Networks v. Apple Inc.*, 856 F.3d 1353 (Fed. Cir. 2017)**

As a matter of first impression, in *Aylus* the Federal Circuit held that statements made by patent owners during *inter partes* review (“IPR”) proceedings can be considered for claim construction and relied on to support a finding of prosecution disclaimer in a district court.

Patent owner Aylus Networks owns a patent relating to a system and method for streaming and displaying media content between devices on the same Wi-Fi network. Aylus sued Apple for its “AirPlay” feature, claiming it infringed Aylus’s patent. Apple countered by filing two petitions for IPR, in which all claims but two were instituted. Apple then moved and was granted summary judgment of non-infringement of the non-instituted claims, based on a limiting construction argued in Aylus’s preliminary responses to the IPR petitions.

On appeal, the Federal Circuit held that prosecution estoppel applies to statements made in IPRs, both before and after the petition is granted. The court ruled that although the doctrine arose in the context of pre-issuance prosecution, the doctrine has been applied in other post-issuance proceedings before the PTO, such as reissue and reexamination proceedings.⁴⁹

The court reasoned that “[e]xtending the prosecution disclaimer doctrine to IPR proceedings will ensure that claims are not argued one way in order to maintain patentability and a different way against accused infringers.”⁵⁰ This, the court said, “promote[s] the public notice function of the intrinsic evidence and protect[s] the public’s reliance on definitive statements made during IPR proceedings.”⁵¹

The court rejected Aylus’s argument that pre-institution IPR statements are not part of an IPR proceeding. The court held that “for the purposes of a prosecution disclaimer ... the differences between the two phases of an IPR [are] a distinction without a difference.”⁵² The court held that both preliminary and non-preliminary responses are “official papers” in which the “patent owner can define claim terms and otherwise make representations about claim scope to avoid prior art....”⁵³

Following *Aylus*, patent owners should be cautious of statements made in IPRs, and petitioners should be opportunistic in using IPR statements to estop contrary arguments in district courts. Although the *Aylus* court did not address whether (i) IPR statements apply to subsequent IPRs or (ii) statements made in district courts apply to IPRs, given the non-limiting extension of the doctrine, it seems possible that they could.

***Aqua Prods., Inc. v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017) (en banc)**⁵⁴

In a narrow 6–5 en banc decision, the Federal Circuit overturned its previous rulings in holding that the burden of persuasion in IPR proceedings must always remain on the petitioner. This decision upends the current motion-to-amend proceedings before the PTAB (in which patent owners had the burden to prove patentability) and shifts the burden of persuasion to the petitioner to prove unpatentability of claims amended during IPRs.

The case began when Zodiac Pool Systems filed an IPR challenge against Aqua Products’s patent for a motorless jet-propelled pool cleaner. After institution, Aqua Products moved to amend claims, which was denied by the Board for Aqua Products’s failure to demonstrate patentability. In a decision analyzed in last year’s version of this *White Paper*,⁵⁵ Aqua Products’s subsequent appeal was upheld by the Federal Circuit; however, en banc reconsideration was granted. The en banc panel vacated the Board’s final written decision and

remanded with instructions to assess patentability of the amended claims “without placing the burden of persuasion on the patent owner.”⁵⁶

In reaching its 6–5 decision, the panel was tasked with interpreting the evidentiary standard of 35 U.S.C. § 316(e). Section 316(e) states that in an IPR, “the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence.”⁵⁷ Conducting a *Chevron* analysis, a majority of judges concluded that § 316(e) was ambiguous, and thus no *Chevron* deference was given to the PTO on this issue.⁵⁸ They then held that the “most reasonable reading of the AIA is one that places the burden of persuasion with respect to patentability of amended claims on the petitioner.”⁵⁹

Judge O'Malley's lead opinion reasoned that § 316(e)'s use of the term “unpatentability,” which refers to existing *and* proposed claims, as opposed to “invalidity,” which refers only to issued claims, demonstrates Congress's intention “that the burden of proof be placed on the petitioner for all propositions of unpatentability arising during IPRs, whether related to originally challenged or amended claims.”⁶⁰

Aqua Products will likely encourage patent owners to seek to amend claims during IPRs and might lead to more active allowance of amendments in IPRs. This is significant because the broader availability of amendments gives patent owners another avenue to end the review with valid claims. This might in turn reduce invalidity rulings and make victory for petitioners more difficult.

***Cascades Projection LLC v. Epson Am., Inc.*, 864 F.3d 1309 (Fed. Cir. 2017)**

In May 2017, the Federal Circuit denied a petition for an original en banc hearing—meaning a request for en banc hearing before a three-judge panel decides the case—that asked “whether a patent right is a public right.” The petitioner (Cascades) argued that patent rights are not public rights; therefore, the Patent Office cannot revoke issued patents, and an IPR “in its present form violates Article III of the United States Constitution (Separation of Powers), unless [IPR] outcomes are deemed advisory in the trial courts.”

Under the “public-rights doctrine” of separation of powers, only a controversy involving public rights “may be removed from Art. III courts and delegated to legislative courts or administrative

agencies for their determination.”⁶¹ “Private-rights disputes, on the other hand, lie at the core of the historically recognized judicial power.”⁶² Thus, the case depended on whether patent rights are private or public rights. If they are public rights, an agency can revoke them. If they are private rights, only an Article III court can do so.

Cascades asked for an initial hearing because this issue had already been decided against Cascades by the Federal Circuit in *MCM Portfolio v. Hewlett Packard Co.*,⁶³ and a later three-judge panel cannot overrule an earlier panel's decision; only the court en banc or the U.S. Supreme Court can do that.⁶⁴ Cascades's petition relied on the characterization of an issued patent as private property and on the Supreme Court's decision in *McCormick Harvesting Mach. Co. v. Aultman*,⁶⁵ where the Court stated that the “only authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the patent.”⁶⁶ Both arguments seemingly have been rejected by the Federal Circuit. *Patlex Corp. v. Mossinghoff* upheld the constitutionality of ex parte reexamination proceedings because “the grant of a valid patent is primarily a public concern.”⁶⁷

The Federal Circuit denied the petition for initial en banc hearing, with six of its 12 judges writing or joining separate opinions:

Judge Newman concurred in the denial of initial hearing en banc, noting that the best course of action is for the case to be heard by a panel in the first instance, and, “[i]f necessary” and appropriate, then proceed to an en banc rehearing.⁶⁸ Judge Dyk, joined by Chief Judge Prost and Judge Hughes (the three members of the *MCM* panel), also concurred in the denial of initial hearing en banc and offered a full-throated defense of *MCM*, concluding that “*MCM* was correctly decided, and there is no need to restate *MCM*'s reasoning here.”⁶⁹

Shortly thereafter, the Supreme Court granted certiorari in *Oil States Energy Services LLC v. Greene's Energy Group, LLC*.⁷⁰ In *Oil States*, the Supreme Court will answer the same question as in *Cascades*—the constitutionality of IPR proceedings. This is the first time the Supreme Court has agreed to review the constitutionality of IPRs.

Oil States made its way to the Supreme Court following a PTAB decision finding *Oil States*'s oilfield tool patent to be

unpatentable. Oil States appealed to the Federal Circuit; however, Oil States's constitutional arguments were rejected in a Rule 36 affirmance without an opinion, and its subsequent petition for en banc review was denied. The Supreme Court then agreed to hear the case and heard oral arguments in November 2017. Practitioners will want to keep an eye out for the Court's final ruling in *Oil States* as it has the potential to upend the widely used IPR process.

DEFENSES: THE SUPREME COURT ABOLISHES LACHES, NARROWS THE REACH OF "EXPORT INFRINGEMENT," AND EXPANDS PATENT EXHAUSTION

SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC, 137 S. Ct. 954 (2017)⁷¹

In 2014, the Supreme Court eliminated the laches defense in copyright law. With that decision, practitioners began wondering whether the Supreme Court would likewise do away with laches in patent law. The Supreme Court's decision in *SCA Hygiene* provided the answer.

Historically, the equitable defense of laches provided that a patentee was precluded from bringing claims that it had unreasonably delayed in asserting.⁷² In *Petrella*, the Supreme Court addressed a conflict in copyright law between laches and a statute of limitations.⁷³ According to the Court, the three-year copyright statute of limitations constituted a "congressional judgment that a claim filed within three years of accrual cannot be dismissed on timeliness grounds."⁷⁴ Because Congress had spoken on the issue, the Court held that it violated principles of separation of powers for a court to substitute its own judgment that an asserted copyright claim was untimely even if brought within the three-year limitations period, which is precisely what the laches defense allowed courts to do. Thus, the Court struck the defense of laches in copyright law.⁷⁵

The Court followed the same rubric in *SCA Hygiene* to eliminate the defense of laches in patent law. First, the Court noted the similarity to its decision in *Petrella*, holding that the only significant difference between the statutes-at-issue in the two cases was the period that was prescribed (six years for patent law, compared to three years for copyright law). Thus, the Court held that the reasoning from *Petrella* applied equally to

patent law.⁷⁶ Second, the Court surveyed pre-1952 cases to determine whether the 1952 Patent Act would have incorporated a common law defense of laches for claims at law (as opposed to equity).⁷⁷ Finding virtually no evidence of a legal defense of laches in patent cases, the Court held that the Patent Act had not implicitly codified the laches defense.⁷⁸

Justice Breyer dissented from the decision in *SCA Hygiene*. According to Justice Breyer, laches provides a "gap-filling" defense that limits liability in equitable situations not contemplated by the statute of limitations.⁷⁹

Life Technologies Corp. v. Promega Corp., 137 S. Ct. 734 (2017)

Life Technologies considered important questions for companies engaging in cross-border manufacturing and product development. In that case, the accused infringer had assembled a multi-component product in the United Kingdom.⁸⁰ All but one of the components of that product had been manufactured outside of the United States.⁸¹ However, § 271(f)(1) of the Patent Act "prohibits the supply of 'all or a substantial portion' of the components of a patented invention for combination abroad."⁸² Thus, the Court needed to determine whether the supply of a single component from the United States ran afoul of § 271(f)(1)'s prohibition against supplying "all or a substantial portion" of the components from the United States.

The Court first determined that the phrase "substantial portion" had a quantitative meaning, rather than a qualitative meaning. Thus, the § 271(f)(1) inquiry depended on the number of components that were being supplied, rather than the components' relative value to the complete invention. In so deciding, the Court relied primarily on statutory interpretation principles.⁸³ Additionally, the Court considered the impracticality of adopting a "qualitative" approach: "How are courts—or, for that matter, market participants attempting to avoid liability—to determine the relative importance of the components of an invention?"⁸⁴

Having decided that the § 271(f)(1) determination was quantitative, the Court next determined that the supply of a single component would not create infringement liability. Once again, the Court focused on principles of statutory interpretation in reaching its decision.⁸⁵ Among other things, the Court noted that § 271(f)(1) "consistently refers to 'components' in the plural."⁸⁶ Thus, the Court held that the accused infringer in the instant case could not be held liable for infringement under § 271(f)(1).

In reaching its decision, the Supreme Court created a bright-line rule for manufacturers: Supply of a single component from the United States does not trigger infringement liability under § 271(f)(1). (The result could be different under 35 U.S.C. § 271(f)(2), which refers to “any component.”⁸⁷) However, the Court’s decision also raises a number of additional questions. For example, even if a single component is not enough, how do courts determine the number of components that *is* enough to trigger liability? More fundamentally, how do courts determine the number of discrete “components” in a patented invention? These questions will surely be addressed by district courts and the Federal Circuit in the years ahead.

***Impression Products, Inc. v. Lexmark International, Inc.*, 137 S. Ct. 1523 (2017)**

The Supreme Court expanded the patent exhaustion doctrine in *Impression Products*. Reversing the Federal Circuit, the Court ruled that a patent owner loses all rights after the sale of a product, regardless of any post-sale restrictions.

The issue arose when Lexmark attempted to restrict the refilling of toner cartridges it sells. Lexmark owns several patents on toner cartridges used in laser printers. When these cartridges run out, they can be refilled. Impression Products is a company that refills empty cartridges and sells them at a lower price. To stop these practices, Lexmark implemented a system to encourage customers to return empty cartridges. In exchange for a discount, Lexmark’s “Return Program” contractually obligated customers to a single-use of their discounted cartridges and forbade them from transferring cartridges to any third party. Lexmark sued Impression Products, claiming the refilling of restricted cartridges infringes their patents. Lexmark further argued that Impression Products’s importation and refilling of cartridges sold abroad also constitutes infringement.

In a decision discussed in the 2016 version of this *White Paper*,⁸⁸ the Federal Circuit sided with Lexmark, holding that Lexmark had not exhausted its patents. They held that clearly communicated post-sale restrictions are permissible. The Federal Circuit also held that products sold overseas do not exhaust patent rights. Reversing this decision, the Supreme Court ruled that all patents rights are exhausted after the sale of a product. Further, the Court held that a sale outside the United States also exhausts all patent rights.

The Court reasoned that the purpose of the Patent Act is to promote innovation “by allowing inventors to secure the financial rewards for their inventions.”⁸⁹ The Court stated that “[o]nce a patentee sells an item, it has secured that reward, and the patent laws provide no basis for restraining the use and enjoyment of the product.”⁹⁰

The Court criticized the Federal Circuit for interpreting the exhaustion doctrine as part of the patent infringement statute. Infringement prohibits the use or sale of patented products “without authority” from the patentee.⁹¹ The Supreme Court made clear that the sale of a product is not a mere grant of authority to use and sell a product. Rather, the exhaustion doctrine is “a limit on the scope of the patentee’s right.”⁹² The Court said that a “purchaser has the right to use, sell, or import an item because those are rights that come along with ownership, not because it purchased authority to engage in those practices from the patentee.”⁹³

As to products sold abroad, the Court reasoned that patent exhaustion “has its roots in antipathy toward restraints on alienation, and nothing in the Patent Act shows that Congress intended to confine that principle to domestic sales.”⁹⁴ The Court also relied on *Kirtsaeng v. John Wiley & Sons, Inc.*,⁹⁵ which held that the first-sale doctrine applies to copyrighted works made and sold abroad. Although the Patent Act does not have a first-sale doctrine, the Court reasoned that because of the “strong similarity and identity of purpose” of the exhaustion and first-sale doctrines, they should apply in the same manner.

Notably, the Supreme Court stressed that post-sales restrictions are permissible “as a matter of contract law.” Patent owners looking to restrict post-sale activities may do so, but they will not be able to enforce or collect damages via patent infringement suits.

CONCLUSION

The cases discussed in this *White Paper* address significant issues that will profoundly affect patent litigation in the years ahead. Practitioners should take note of these important changes and clarifications that were announced by the Supreme Court and Federal Circuit.

First, the landmark decision *TC Heartland* upended the patent venue rules by holding a defendant resides *only* in the state in which it is incorporated, and the Federal Circuit interpreted the newly significant “regular and established place of business” provision of the venue statute in *Cray*.

Second, the courts issued several decisions relating to the 2012 America Invents Act. In *Secure Axxess*, the scope of CBM review was further clarified. Likewise, *Aylus Networks* and *Aqua Products* both considered issues relating to IPRs. In *Helsinn*, it was determined that public sales are a bar to patentability under post-AIA § 102. And in *Cascades*, IPR reviews were upheld as constitutional. Whether *Cascades* will hold will be decided by the Supreme Court’s upcoming decision in *Oil States*.

Finally, the Supreme Court eliminated the laches defense in *SCA Hygiene*, narrowed the reach of “export infringement” in *Life Tech*, and clarified the total exhaustion of patent rights after sales in *Lexmark*.

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ENDNOTES

- 1 See Nix et al., “[Key Patent Law Decisions of 2016](#)” at *7-8.
- 2 28 U.S.C. § 1400(b).
- 3 28 U.S.C. § 1391(c).
- 4 917 F.2d 1574 (Fed. Cir. 1990).
- 5 *In re TC Heartland LLC*, 821 F.3d 1338, 1343 (Fed. Cir. 2016).
- 6 *TC Heartland*, 137 S. Ct. at 1521.
- 7 *Id.* at 1520 (citing *Fourco Glass Co. v. Transmirra Products Corp.*, 353 U.S. 222, 226 (1957)) (alteration in original) (footnote omitted).
- 8 *Id.* at 1521.
- 9 28 U.S.C. § 1400(b).
- 10 *In re Cray*, 871 F.3d at 1356-57.
- 11 *Id.* at 1357.
- 12 *Id.*
- 13 *Id.* at 1358 (citing *In re Cordis Corp.*, 769 F.2d 733 (Fed. Cir. 1985)).
- 14 *Id.* at 1360.
- 15 *Id.* at 1362.
- 16 *Id.* at 1362-63.
- 17 *Id.* at 1363.
- 18 *Id.* at 1363.
- 19 *Id.* (citations omitted).
- 20 *Id.* at 1367.
- 21 *In re Micron Tech., Inc.*, 875 F.3d 1091, 1096 (Fed. Cir. 2017).
- 22 *Id.* at 1102.
- 23 *Id.*
- 24 *President & Fellows of Harvard College v. Micron Tech., Inc.*, No. 1:16-cv-11249-WGY, Dkt. No. 165 (D. Mass. Nov. 30, 2017).
- 25 35 U.S.C. § 101 provides: “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.”
- 26 450 U.S. 175 (1981).
- 27 *Diehr*, 450 U.S. at 192.
- 28 *Thales*, 850 F.3d at 1348.
- 29 *Id.*
- 30 *Id.* at 1348-49.
- 31 *Id.* at 1349.
- 32 *Id.* at 1379-80 (discussing *Versata Development Group, Inc. v. SAP America, Inc.*, 793 F.3d 1306 (Fed. Cir. 2015)); see Nix et al., “[Key Patent Law Decisions of 2015](#)” at *7.
- 33 *Id.* at 1380 (quoting *Unwired Planet, LLC v. Google Inc.*, 841 F.3d 1376, 1379-82 (Fed. Cir. 2016)).
- 34 *Id.* at 1378-79.
- 35 *Id.* at 1379.
- 36 *Id.* at 1378-79.
- 37 *Id.* at 1381.

- 38 *Id.*
- 39 *Id.* at 1374.
- 40 *Id.* at 1382.
- 41 35 U.S.C. § 102(b) (pre-AIA).
- 42 35 U.S.C. § 102(a)(1).
- 43 *Helsinn Healthcare*, 855 F.3d at 1365.
- 44 *Id.*
- 45 *Id.* at 1371.
- 46 *Id.* at 1369.
- 47 *Id.* at 1371.
- 48 827 F.3d 1363 (Fed. Cir. 2017) (en banc).
- 49 *Aylus Networks*, 856 F.3d at 1360.
- 50 *Id.*
- 51 *Id.* (citation omitted).
- 52 *Id.* at 1362.
- 53 *Id.*
- 54 Jones Day filed an amicus brief on behalf of the Intellectual Property Owners Association (“IPO”) urging that the petitioner or the Patent Office bears the burden of proving that claims amended during IPR proceedings are unpatentable. The en banc court’s opinion embraces each of the arguments set forth by the IPO.
- 55 See Nix et al., “[Key Patent Law Decisions of 2016](#)” at *8.
- 56 *Aqua Prods.*, 872 F.3d at 1328.
- 57 35 U.S.C. § 316(e).
- 58 *Id.* at 1296.
- 59 *Id.*
- 60 *Id.* at 1307.
- 61 *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 70 (1982).
- 62 *Id.*
- 63 812 F.3d 1284, 1293 (Fed. Cir. 2015).
- 64 *Newell Cos., Inc. v. Kenney Mfg. Co.*, 864 F.2d 757, 777 n.4 (Fed. Cir. 1988).
- 65 169 U.S. 606 (1898).
- 66 *McCormick Harvesting Mach. Co. v. Aultman*, 169 U.S. 606, 609 (1898).
- 67 *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985).
- 68 *Cascades Projection LLC v. Epson Am., Inc.*, 864 F.3d 1309, 1311 (Fed. Cir. 2017).
- 69 *Id.*
- 70 639 Fed. App’x 639 (Fed. Cir. 2016).
- 71 Jones Day submitted an amicus brief on behalf of the IPO before the en banc Federal Circuit.
- 72 *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, 137 S. Ct. 954, 960 (2017).
- 73 *Id.* (citing *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014)).
- 74 *Id.*
- 75 *Id.*
- 76 *Id.* at 960-62.
- 77 *Id.* at 964-67.
- 78 *Id.* at 967.
- 79 *Id.* at 967-68.
- 80 *Id.* at 738.
- 81 *Id.*
- 82 *Id.* at 737.
- 83 *Id.* at 739-740.
- 84 *Id.* at 741.
- 85 *Id.* at 741-42.
- 86 *Id.* at 741.
- 87 35 U.S.C. § 271 (f)(2), in contrast, refers to “any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article...” (emphasis added).
- 88 See Nix et al., “[Key Patent Law Decisions of 2016](#)” at *1-2.
- 89 *Impression*, 137 S. Ct. at 1526.
- 90 *Id.*
- 91 *Id.* at 1527.
- 92 *Id.*
- 93 *Id.*
- 94 *Id.*
- 95 568 U.S. 519 (2013).

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