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## WHITE PAPER

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### Key Patent Decisions of 2018

In another noteworthy year for patent law, the U.S. Supreme Court and the Federal Circuit issued several decisions that altered the patent landscape, including three Supreme Court decisions and three en banc Federal Circuit decisions. The topics of the key cases included the constitutionality and scope of *inter partes* reviews, venue, damages and tribal sovereign immunity.

This *White Paper* summarizes and explains some of the most significant patent law decisions of 2018. Each of these decisions has meaningful implications for patent owners, defendants and patent practitioners alike.

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## THE SUPREME COURT FINDS *INTER PARTES* REVIEWS CONSTITUTIONAL, BUT PTAB CANNOT CURATE CLAIMS

### *SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348 (2018)

The Supreme Court addressed a straightforward question in SAS relating to *inter partes* reviews (“IPRs”): “When the Patent Office initiates an *inter partes* review, must it resolve *all* of the claims in the case, or may it choose to limit its review to only *some* of them?”<sup>1</sup>

This case originated when SAS filed a petition seeking IPR of a patent owned by ComplementSoft. Although SAS sought review of all 16 claims in the patent, the Patent Trial and Appeals Board (“the Board”) chose to institute review only on claims 1 and 3–10. The Board denied review with respect to claims 2 and 11–16, justifying its “partial institution” decision on U.S. Patent and Trademark Office (“PTO”) regulations that provided the Board with discretion to institute review on some claims without requiring institution on *all* claims. Following institution, the Board found that claims 1, 3 and 5–10 were unpatentable but found that claim 4 was patentable.

SAS appealed the Board’s determination, including its decision to institute review for only a subset of the claims that were included in SAS’s petition. According to SAS, the America Invents Act (“AIA”) (specifically, 35 U.S.C. § 318(a)<sup>2</sup>) required the Board to institute review on every claim that had been challenged in the petition. The Federal Circuit disagreed, holding that “§ 318(a) does not foreclose the claim-by-claim approach the Board adopted . . . in this case.”<sup>3</sup> SAS (represented by Jones Day) subsequently sought (and was granted) a writ of certiorari.

The Supreme Court reversed the Federal Circuit, holding 5-4 in favor of SAS that the Board “cannot curate the claims at issue but must decide them all.”<sup>4</sup> In a majority opinion authored by Justice Gorsuch (his first majority opinion in a patent case), the Court relied on an alternative interpretation of § 318(a). The Court focused on the statute’s use of the terms “shall” and “any” in commanding that the Board “*shall* issue a final written decision with respect to the patentability of *any* patent claim challenged by the petitioner” if institution is granted.<sup>5</sup> According to the Court, the statute’s use of “shall” imposes a “nondiscretionary duty” on the Board and the statute’s use of “any” implies that “every” claim must be reviewed. “So when § 318(a)

says the [Board’s] final written decision ‘shall’ resolve the patentability of ‘any patent claim challenged by the petitioner,’ it means the Board must address every claim the petitioner has challenged.”<sup>6</sup> In a significant passage, the Court rejected the PTO’s *Chevron* deference argument, stating, “whether *Chevron* should remain is a question we may leave for another day.”<sup>7</sup>

Finally, the Court also disposed of the PTO’s argument that Article III courts do not have jurisdiction to review the “partial institution” decision. Although the Supreme Court’s earlier decision in *Cuozzo* had held that 35 U.S.C. § 314(d) precluded courts from substantively reviewing the Board’s determination whether review should be granted, the *Cuozzo* decision did not prevent the judiciary from evaluating whether the Board had exceeded its statutory authority.<sup>8</sup>

SAS ends partial institutions and prevents the Board from picking and choosing which claims to review. Further, SAS has influenced petitioners’ selection of claims to challenge and presented new issues of estoppel. Finally, SAS has caused the PTO to change its practices, such that instituted IPRs will encompass not only all challenged claims (as required by SAS), but also all grounds for challenge.<sup>9</sup>

### *Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC*, 138 S. Ct. 1365 (2018)

Issued on the same day as SAS, the Supreme Court’s *Oil States* decision was one of the most highly anticipated patent law decisions in recent memory.<sup>10</sup> And for good reason: the Court was deciding whether the relatively new (and highly popular) IPR procedures violated Article III of the U.S. Constitution.

The case’s origin followed a path that has become familiar to many in patent law: a patentee sued a competitor in a federal district court for patent infringement and, in response, the competitor challenged validity in both the district court action and by seeking IPR of the asserted patent.<sup>11</sup> The district court and the Board reached different results—although the Board found all claims unpatentable, the district court held that some of the claims were patentable.<sup>12</sup>

On appeal to the Federal Circuit, the patentee argued that only Article III courts have jurisdiction to revoke or invalidate a patent.<sup>13</sup> In other words, the patentee argued that the Board (part of an administrative agency) does not have jurisdiction to find the patent invalid. The Federal Circuit rejected the

constitutional challenge, and the patentee sought Supreme Court review.<sup>14</sup>

In a 7-2 decision, the Court held that IPR does not violate Article III. According to the Court, resolution of the constitutional question centered on a distinction between “public rights” and “private rights.”<sup>15</sup> The majority explained that “public rights” issues relate to matters “arising between the government and others.”<sup>16</sup> According to Supreme Court precedent, “Congress [has] significant latitude to assign adjudication of public rights to entities other than Article III courts.”<sup>17</sup> Thus, as the majority opinion framed the question: if patent validity relates to a matter of “public rights,” then Congress may properly delegate the authority to invalidate patents to Article I bodies.

The Court then proceeded to explain that the authority to *grant* patents has long been considered an Article I power. Because IPR involves the “same basic matter” as issuing patents (which the Court characterized as “a second look at an earlier administrative grant of a patent”), it also falls into the “public rights” category.<sup>18</sup> For good measure, the Court even looked to historical precedent (dating back to 17th century common law) to illustrate that both the courts and administrative bodies have the power to revoke patents.<sup>19</sup> Finally, the Court rejected the argument that IPR violates Article III simply because it resembles district court litigation, holding that there are several differences in the rules, burdens, and procedures that distinguish IPR from district court litigation.<sup>20</sup> Thus, the authority to cancel patents could properly be delegated to the Board in the form of IPR.

*Oil States* is a significant decision because it ended the “separation of powers” argument against IPRs that had been percolating in lower courts and avoided a potentially fatal blow to IPRs.

## THE FEDERAL CIRCUIT INTERPRETS VENUE IN THE WAKE OF *TC HEARTLAND*

### *In re BigCommerce, Inc.*, 890 F.3d 978 (Fed. Cir. 2018)

In *TC Heartland*, the U.S. Supreme Court in 2017 held that under the patent-specific venue statute (28 U.S.C. § 1400(b)), a corporate defendant “resides” only in the state in which it is incorporated, and not in any judicial district in which the defendant

was subject to the court’s personal jurisdiction as was previously thought under Federal Circuit precedent.<sup>21</sup> Following that landmark decision, in *BigCommerce* the Federal Circuit addressed a narrower venue question of whether a corporate defendant “resides” under § 1400(b) in every judicial district within its state of incorporation when the state has multiple judicial districts.<sup>22</sup> The Federal Circuit answered “no,” holding that a corporate defendant shall be considered to “reside” only in the single judicial district within that state where it maintains a principal place of business, or, failing that, the judicial district in which its registered office is located.<sup>23</sup> The court offered three principal reasons for its decision.

First, the plain text of § 1400(b) supports the interpretation. It states, “[a]ny civil action for patent infringement may be brought in *the judicial district* where the defendant *resides*, or where the defendant has committed acts of infringement and has a regular and established place of business.”<sup>24</sup> The court found that a plain reading of “*the judicial district*” indicated that the statute referred to only one particular judicial district in the state.<sup>25</sup> Additionally, the use of the disjunctive “or” and the comma after “resides” indicated that “the judicial district” only modifies the first of the two venue tests in § 1400(b), meaning Congress intended only one judicial district where the defendant resides.<sup>26</sup>

Second, § 1400(b)’s predecessor statute is consistent with § 1400(b). The predecessor statute provided that venue is proper “in *the district* of which the defendant is an inhabitant, or *in any district* in which the defendant, whether a person, partnership, or corporation, shall have committed acts of infringement and have a regular and established place of business.”<sup>27</sup> The Federal Circuit relied on the Supreme Court’s examination of the statute after the 1948 amendments and determined that, despite the language changes, Congress intended to keep the substance of the law as it existed.<sup>28</sup> Further, Congress has expanded venue in other statutes at the time to potentially lie in multiple judicial districts such as “in any judicial district” in 28 U.S.C. § 1391(c) (1952). By not using this language, Congress did not intend residence to include all judicial districts.

Third, the plain meaning of “resides” or “inhabits” at the time is consistent with the court’s interpretation. The Federal Circuit relied on the Supreme Court’s decision in *Stonite Products Co. v. Melvin Lloyd Co.*, 315 U.S. 561 (1942), where a patent

owner sued, in the Western District of Pennsylvania, a corporate defendant that was incorporated in Pennsylvania but had its principal place of business in the Eastern District of Pennsylvania.<sup>29</sup> While the Supreme Court did not define a standard for “resides” or “inhabits,” the Court noted that the defendant was an “inhabitant” of the Eastern District of Pennsylvania.<sup>30</sup> It made clear that a corporation incorporated in a multi-district state is not a resident of every district in that state.<sup>31</sup>

## TRIBAL SOVEREIGN IMMUNITY DOES NOT APPLY TO IPR PROCEEDINGS

### *Saint Regis Mohawk Tribe v. Mylan Pharm., Inc.*, 896 F.3d 1322 (Fed. Cir. 2018)

Among the most headline-grabbing patent cases of the year was the Federal Circuit’s decision in *Saint Regis Mohawk Tribe v. Mylan Pharm., Inc.*<sup>32</sup> The case began in 2016 when Mylan filed a petition seeking IPR of certain patents owned by Allergan relating to its dry eye treatment Restasis®. In response, Allergan transferred those patents to the Saint Regis Mohawk Tribe (“the Tribe”), which asserted sovereign immunity based on its status as a “domestic dependent nation.”<sup>33</sup> On that basis, the Tribe moved to terminate the IPR. The Board rejected the Tribe’s defense, and the Tribe appealed to the Federal Circuit.<sup>34</sup>

On appeal, the Federal Circuit considered the Tribe’s sovereign immunity arguments. In doing so, the court relied heavily on the Supreme Court’s 2002 decision in *Federal Maritime Comm’n v. S.C. State Ports Auth.* (“FMC”).<sup>35</sup> FMC resolved a sovereign immunity question by asking whether the proceedings in question were the type that “the Framers would have thought the [sovereign] possessed immunity from when they agreed to enter the Union.”<sup>36</sup> Consistent with this approach, the Federal Circuit determined that the key in performing the sovereign immunity analysis is to determine how similar the proceedings are to district court litigation (for which sovereign immunity was well recognized).

In answering the FMC question, the Federal Circuit concluded that an IPR is more similar to an administrative enforcement proceeding than it is to district court litigation. Among other things, the Federal Circuit found persuasive:

- The Board has discretion to conduct and institute review, which is different from the role of a court in district court litigation;<sup>37</sup>
- The parties play a less significant role in an IPR than they do in district court litigation, especially considering that the Board may proceed with an IPR even after both parties have dropped out; and<sup>38</sup>
- There are important differences between the Board’s trial practice rules and the Federal Rules of Civil Procedure governing district court litigation, such as different burdens of proof for invalidity.<sup>39</sup>

In short, the court held that IPR proceedings were not similar enough to district court litigation to justify recognition of tribal sovereign immunity. The court concluded that in an IPR “the [PTO] is acting as the United States in its role as a superior sovereign to reconsider a prior administrative grant and protect the public interest . . .”<sup>40</sup> Nevertheless, the Federal Circuit was careful to “leave for another day the question of whether there is any reason to treat state sovereign immunity differently” than tribal sovereign immunity.<sup>41</sup>

## TIME-BAR DETERMINATIONS: APPEALABLE AND NOT RESET BY VOLUNTARY DISMISSALS WITHOUT PREJUDICE

### *Wi-Fi One, LLC v. Broadcom Corp.*, 878 F.3d 1364 (Fed. Cir. 2018) (en banc)<sup>42</sup>

*Wi-Fi One* addressed whether judicial review under 35 U.S.C. § 314(d) is available to challenge the Board’s determination that a patent owner satisfied the timeliness requirement of 35 U.S.C. § 315(b), which governs the filing of petitions for IPR.<sup>43</sup> A nine-judge majority held that the Board’s time-bar determinations under § 315(b) are not exempt from judicial review and explicitly overruled *Achates Reference Publishing, Inc. v. Apple Inc.*, 803 F.3d 652 (Fed. Cir. 2015), which reached the opposite conclusion.<sup>44</sup>

The majority opinion began by recognizing and applying the “strong presumption” in favor of judicial review of administrative actions, extensively citing the Supreme Court’s decision in *Cuozzo Speed Technologies, LLC v. Lee*, 136 S. Ct. 2131 (2016).<sup>45</sup>

The majority found no “clear and convincing indication [in the] specific language [of the AIA], the specific legislative history, [or] inferences of intent drawn from the statutory scheme as a whole” that demonstrates Congress’s intent to bar judicial review of § 315(b) time-bar determinations.<sup>46</sup>

In *Cuozzo*, the Supreme Court held that where a patent owner challenges the director’s determination that there is a “reasonable likelihood” of success with respect to at least one claim challenged or where a patent owner grounds its claim in a statute “closely related” to that decision to institute IPR, § 314(d) bars such judicial review.<sup>47</sup> The majority’s reading of *Cuozzo* “strongly points toward unreviewability being limited to the director’s determinations closely related to the preliminary patentability determination or the exercise of discretion not to institute.”<sup>48</sup> Here, the time-bar in § 315(b) was “fundamentally different” from § 312(a)(3)’s particularity requirements at issue in *Cuozzo*.<sup>49</sup> Section 315(b) has nothing to do with patentability merits or discretion not to institute, and therefore is not “closely related” to the decision to institute IPR.<sup>50</sup> Because § 315(b) is not closely related to the director’s decision to institute IPR, it is not subject to § 314(d)’s bar on judicial review.<sup>51</sup> The majority, however, made clear that the “holding applies only to the appealability of § 315(b) time-bar determinations.”<sup>52</sup>

Judge O’Malley’s concurrence agreed with the majority’s conclusion but viewed the issue as one “much simpler than the majority’s analysis implies.”<sup>53</sup> The issue turned on the difference between the director’s authority to exercise discretion when reviewing the adequacy of a petition to institute IPR and the authority to undertake such a review in the first place.<sup>54</sup> In Judge O’Malley’s view, § 314(d)’s bar on appellate review is directed to the director’s assessment on the substantive adequacy of a timely-filed petition to institute IPR.<sup>55</sup> The § 315(b) time-bar, on the other hand, does not deal with the substantive adequacy but instead is directed to the director’s authority to act at all.<sup>56</sup> Congress recognized that the “core statutory function” of the PTO is to make patentability determinations and chose to insulate from judicial review preliminary determinations by the PTO to institute IPR.<sup>57</sup> Section 315(b), on the other hand, is a statutory time bar and is entirely unrelated to the “core statutory function” of determining whether claims are patentable. Section 314(d)’s bar on judicial review, therefore, does not apply to a time bar mandated by Congress.<sup>58</sup>

In the dissent, Judge Hughes (joined by Judges Lourie, Bryson and Dyk) wrote that the majority’s narrow interpretation is contrary to the statutory language and the Supreme Court’s decision in *Cuozzo*.<sup>59</sup> Section 315(b) states “[t]he determination by the Director whether to institute an *inter partes* review under this section shall be final and *nonappealable*.”<sup>60</sup> This statutory language is “absolute and provides no exceptions.”<sup>61</sup> *Cuozzo* bars judicial review in a claim grounded in a statute “closely related” to that decision to institute IPR.<sup>62</sup> Contrary to the majority, the dissent determined that timeliness under § 315(b) is “plainly” part of the Director’s institution decision and is therefore barred from judicial review.<sup>63</sup> The PTO evaluates timeliness within the context of determining whether to institute IPR.<sup>64</sup> Therefore, timeliness under § 315(b) is “closely tied” to the Director’s decision to institute.<sup>65</sup>

The dissent also relied on the history of the AIA, stating that the language difference between § 314(d) and the bar on judicial review for reexaminations confirms Congress’s intent to broadly prohibit judicial review of IPR institution decisions.<sup>66</sup> A different statute specifically barred review if a request for reexamination raises a “substantial new question of patentability” and does not bar review of the entire decision to initiate reexamination.<sup>67</sup> In contrast, § 314(d)’s bar more broadly prohibits review of the Director’s “determination . . . whether to institute” review.<sup>68</sup> Such a linguistic difference creates a presumption of a change in intent.<sup>69</sup> Finally, the dissent cautioned that “[v]acating the Board’s invalidity decision on the basis of threshold questions like timeliness or real parties in interest will squander the time and resources spent adjudicating the actual merits of the petition[,]” which “is counter to the AIA’s purpose of ‘providing quick and cost effective alternatives to litigation.’”<sup>70</sup>

#### ***Click-to-Call Techs., LP v. Ingenio, Inc.*, 899 F.3d 1321 (Fed. Cir. 2018) (en banc)**

In *Click-to-Call*, the court held that the one-year time bar under 35 U.S.C. § 315(b) for filing an IPR is not reset by a voluntary dismissal without prejudice of a district court litigation on the asserted patent. The court granted the *Click-to-Call* petition for rehearing eleven days after deciding *Wi-Fi One*,<sup>71</sup> where it held that time-bar determinations under § 315(b) are appealable.<sup>72</sup>

Section 315(b) provides that IPR “may not be instituted if the petition requesting the proceeding is filed more than 1 year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent.”<sup>73</sup> Under the Board’s interpretation of § 315(b), the one-year time bar would essentially be reset—even if a complaint were already served in a civil action—if it were subsequently dismissed voluntarily without prejudice by the court.<sup>74</sup> The Board pointed out that it had been the practice of the Federal Circuit, prior to *Click-to-Call*, to treat such dismissals “as though the action had never been brought.”<sup>75</sup>

The Federal Circuit, however, found that § 315(b) is unambiguous—it “does not contain any exceptions or exemptions for complaints served in civil actions that are subsequently dismissed, with or without prejudice.”<sup>76</sup> Once a party receives notice through service of a complaint in a civil action, § 315(b)’s time bar starts running, “irrespective of subsequent events.”<sup>77</sup> The court viewed its prior en banc decision in *Wi-Fi One* as confirming its interpretation. In *Wi-Fi One*, the court stated that once time-barred by § 315(b), “the petition *cannot be rectified* and *in no event* can IPR be instituted.”<sup>78</sup>

The court also found that § 315(b)’s legislative history supported its holding that dismissal did not reset the time bar.<sup>79</sup> According to the court, Congress chose the date of service as the trigger for § 315(b)’s time bar, rather than some other event, because Congress did not contemplate a subsequent event nullifying § 315(b)’s time bar triggered by service of the complaint.<sup>80</sup> The court rejected the Board’s interpretation, noting that the Board failed to understand that the text of § 315(b) is “agnostic as to the ‘effect’ of the service” and only concerns whether the complaint “was served . . . more than one year before the IPR petition was filed.”<sup>81</sup>

The Federal Circuit concluded that once a defendant is served with a complaint, the defendant remains served with a complaint for purposes of § 315(b), regardless of whether the action becomes a “nullity.”<sup>82</sup> Because the specific IPR at issue in *Click-to-Call* was time-barred by § 315(b), the Federal Circuit vacated the Board’s decision and remanded with instructions for the Board to dismiss.<sup>83</sup>

## THE FEDERAL CIRCUIT REJECTS PTO’S REQUEST FOR ATTORNEYS’ FEES

### *NantKwest, Inc. v. Iancu*, 898 F.3d 1177 (Fed. Cir. 2018) (en banc)

In a 7-4 decision, the Federal Circuit sitting en banc held that patent applicants do not have to pay the PTO’s attorneys’ fees in litigation pursuant to 35 U.S.C. § 145.<sup>84</sup>

The Patent Act provides two ways for an applicant to challenge a PTO rejection of its patent.<sup>85</sup> Most applicants appeal directly to the Federal Circuit, but the applicant may also seek a *de novo* review in the district court pursuant to § 145. Parties who file actions pursuant to § 145 may conduct discovery, introduce new evidence, and engage in motion practice.<sup>86</sup>

However, Congress named the price for pursuing a *de novo* review: “[a]ll the expenses of the proceedings shall be paid by the applicant.”<sup>87</sup> Ever since Congress introduced § 145’s predecessor in 1839, the PTO has relied on the “expenses” provision to recover only modest sums spent on traveling, printing, and hiring expert witnesses in defending its decisions.<sup>88</sup> In this case, however, the PTO took an aggressive and unprecedented position advocating that “expenses” included its attorneys’ fees.<sup>89</sup>

The case began when the patent examiner rejected NantKwest’s application as obvious in 2010, and the Board affirmed the rejection in 2013.<sup>90</sup> NantKwest challenged the Board’s decision in the district court pursuant to § 145, but the PTO won on summary judgment.<sup>91</sup> The Federal Circuit affirmed. The PTO then filed a motion for reimbursement of the “expenses of the proceedings,” and sought to recover nearly \$80,000 in attorneys’ fees.<sup>92</sup>

The district court denied the PTO’s motion with respect to attorneys’ fees, citing the “American Rule,” which provides that each litigant bear its own attorneys’ fees, win or lose.<sup>93</sup> A “bedrock principle” of American jurisprudence, the American Rule prohibits courts from shifting attorneys’ fees from one party to another absent a “specific and explicit” directive from Congress.<sup>94</sup> A panel of the Federal Circuit reversed on appeal

and held, for the first time, that applicants must pay the PTO's attorneys' fees under § 145.<sup>95</sup> The panel relied on *Shammas v. Focarino*, where the Fourth Circuit held that the trademark analogue to § 145 required the applicant to pay the PTO's attorneys' fees.<sup>96</sup> Specifically, the Fourth Circuit found that the American Rule only applies, and thus a court's ability to shift attorneys' fees is only limited, where the relevant statute refers to a prevailing party.<sup>97</sup>

Following the panel decision, the Federal Circuit voted *sua sponte* to hear the appeal en banc. The court invited amicus briefing on the issue of whether § 145 authorizes an award of the PTO's attorneys' fees.<sup>98</sup> Jones Day [filed an amicus brief on behalf of IPO](#) which was cited multiple times by the majority.

The en banc court vacated the panel's judgment and held that applicants do not have to pay PTO attorneys' fees under § 145.<sup>99</sup> First, the court found that the American Rule applies to § 145, diverging from the Fourth Circuit's holding in *Shammas* that the rule only applies to fee-shifting statutes that depend on who prevails.<sup>100</sup> The Federal Circuit disagreed, finding *Shammas* could not be reconciled with the Supreme Court's consistent and broad application of the American Rule to any statute that allows fee shifting to either party, regardless of who prevails.<sup>101</sup>

Having found that the American Rule applies to § 145, the majority proceeded to find that the statute's language falls short of indicating a "specific and explicit" directive of Congress necessary to permit the court to shift fees.<sup>102</sup> The court was persuaded, by both dictionaries and Congress's own usage of the terms, that Congress understands the ordinary meaning of "expenses" as not including "attorneys' fees."<sup>103</sup> If Congress had intended to make attorneys' fees recoverable under § 145, the court reasoned, it would have expressly stated so in the language of the statute, as it has done in other statutes since the 1800s.<sup>104</sup>

This ruling ensures that small businesses and individual inventors, for whom the responsibility to pay attorneys' fees would be particularly onerous, continue to have access to district courts to "avail themselves of § 145's benefits."<sup>105</sup>

## REMEDIES: THE SUPREME COURT EXPANDS DAMAGES TO INCLUDE FOREIGN LOST PROFITS

### *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018)

In *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018), the Supreme Court ruled that lost foreign profits may be recoverable in appropriate circumstances where infringement is shown under 35 U.S.C. § 271(f). On remand from the Supreme Court, the Federal Circuit remanded to the district court to determine whether to hold a new trial as to lost profits.<sup>106</sup>

## REMEDIES: THE FEDERAL CIRCUIT CONTINUES TO REFINE THE STANDARDS FOR APPORTIONMENT

### *Finjan, Inc. v. Blue Coat Sys., Inc.*, 879 F.3d 1299 (Fed. Cir. 2018)

The Federal Circuit vacated the Northern District of California's damages award in *Finjan* in the first of three 2018 cases addressing the complicated issue of apportionment of damages.<sup>107</sup> The case arose after a jury found Blue Coat liable for infringing three malware patents directed towards computer security.<sup>108</sup> The Federal Circuit affirmed the findings of validity and infringement, but vacated the \$39.5 million damages award.

One of the infringed patents covered a dynamic real-time rating engine ("DRTR"). DRTR is the part of Blue Coat's WebPulse program responsible for analyzing and classifying uncategorized URLs (i.e., gambling, shopping, pornography, social networking, "suspicious," etc.).<sup>109</sup> The lower court determined that DRTR performs both infringing and non-infringing functions.<sup>110</sup> At trial, Finjan established a royalty base by multiplying the 75 million worldwide users of Blue Coat's WebPulse system by four percent, the percentage of web traffic that passes through the DRTR software.<sup>111</sup> Finjan argued that apportionment to DRTR was adequate because it was the smallest salable patent practicing unit ("SSPPU").<sup>112</sup> The Federal Circuit disagreed.

Quoting *LaserDynamics, Inc. v. Quanta Computer, Inc.*,<sup>113</sup> the court stressed that in cases "involving multi-component products, patentees may not calculate damages based on sales of the entire product, as opposed to the smallest salable

patent-practicing unit, *without showing that the demand for the entire product is attributable to the patented feature.*"<sup>114</sup> The court stated that a royalty base based on the SSPPU does not insulate Finjan from the "essential requirement" that the award is based on the "incremental value that the patented invention adds to the end product."<sup>115</sup>

Although DRTR's attachment of security profiles to URLs for malicious/suspicious code was infringed, the function of categorizing URLs was unrelated to the patented malware feature.<sup>116</sup> Thus, the court held that further apportionment was required to separate the value of the patented technology compared to the SSPPU's unpatented elements.<sup>117</sup>

The court found that Finjan's expert had properly apportioned the royalty base for the two remaining patents.<sup>118</sup> The patents were directed to software that creates "security profiles" that are compared with the security policy of a user to decide whether the file should be provided.<sup>119</sup> Finjan's expert presented her apportionment theory using an infringer's architectural diagram consisting of twenty-four boxes representing different functions of the software.<sup>120</sup> Concluding that one function infringed the first patent, and three functions infringed the second, the expert applied 1/24<sup>th</sup> apportionment and 3/24<sup>th</sup> apportionment respectively.<sup>121</sup> The court found this approach adequate and affirmed the jury's award as supported by "substantial evidence."

#### ***Exmark Mfg. Co. Inc. v. Briggs & Stratton Power Prods. Grp., LLC*, 879 F.3d 1332 (Fed. Cir. 2018)**

In the second installment on apportionment of damages, *Exmark* (decided by a different panel two days after *Finjan*) confirms that when determining a reasonable royalty, apportionment of a patented invention can be addressed in a variety of different ways.

Exmark sued Briggs & Stratton for infringing its patent directed to an improved flow control baffle for a lawn mower that guides grass clippings from under the lawn mower and through a side chute. At trial, the jury found that Briggs willfully infringed.<sup>122</sup>

Briggs argued that Exmark's damages expert should have apportioned the value of the baffle separately from the mower's other non-patented features through the royalty base instead of the royalty rate.<sup>123</sup> The Federal Circuit disagreed. Apportionment of damages can be addressed in a variety of

ways, including by using a royalty base to reflect the patented value or by adjusting the royalty rate discount the product's non-patented features.<sup>124</sup> "The essential requirement is that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product."<sup>125</sup> In this case, the court found that using the entire product price as the royalty base was "particularly appropriate" because the asserted claim is directed to a "multiblade lawn mower."<sup>126</sup> The court held that "apportionment can be done in this case through a thorough and reliable analysis to apportion the royalty rate."<sup>127</sup> Furthermore, the court recognized that using the product sales as the royalty base is consistent with the "realities of hypothetical negotiation and accurately reflects the real-world bargaining that occurs, particularly in licensing."<sup>128</sup>

#### ***Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 904 F.3d 965 (Fed. Cir. 2018)**

In a third case on damages apportionment, the Federal Circuit emphasized the burden on patent holders to show that non-patented features of the accused product do not contribute to consumer demand for the product. In *Power Integrations*, the Federal Circuit vacated a \$140 million damages award where the patent holder did not properly invoke the entire market rule.<sup>129</sup> Under 35 U.S.C. § 284, a patent holder is "only entitled to a reasonable royalty attributable to the infringing features."<sup>130</sup> The default rule requires patent holders to apportion its damages and the defendant's profits between the patented feature and the un-patented features.<sup>131</sup>

However, if the patent holder can show that the patented technology is the sole driver of consumer demand for the product, then the patent holder may invoke the alternative entire market value rule, which allows for the recovery of damages based on the value of the entire product.<sup>132</sup> The Federal Circuit has articulated that the royalty base in cases involving an accused multi-component product should not be any larger than the SSPPU.<sup>133</sup> It cautions that using the entire market value rule where only small elements of multi-component products are accused of infringement can "artificially inflate the jury's damages calculation" and "carries a considerable risk that the patentee will be improperly compensated for non-infringing components of that product."<sup>134</sup>

Power Integrations sued Fairchild for infringing two power supply controller chip patents.<sup>135</sup> In the first trial, the jury found

Fairchild had infringed both patents and awarded Power Integrations \$105 million in damages.<sup>136</sup> However, while the case was still pending in district court, the Federal Circuit, in *VirnetX, Inc. v. Cisco Systems, Inc.*,<sup>137</sup> clarified that simply identifying the smallest salable unit does not necessarily relieve the patent holder of its duty to apportion damages for accused products with valuable unpatented features.<sup>138</sup> Power Integrations did not apportion beyond the smallest salable unit in its first trial, so the district court granted a new trial on the issue of damages in light of *VirnetX*.<sup>139</sup>

In the second trial for damages, a jury awarded Power Integrations \$140 million based on testimony that relied solely on the entire market value rule.<sup>140</sup> Power Integrations did not provide any evidence about the effect, or lack thereof, that the un-patented features had on consumer demand for the product, even though both parties agreed that the accused products had valuable un-patented features.<sup>141</sup> Fairchild moved for judgment as a matter of law that Power Integrations presented insufficient evidence to invoke the entire market value rule. The district court denied its motion, and Fairchild appealed to the Federal Circuit.<sup>142</sup>

The Federal Circuit vacated the award and ordered a third trial to determine damages using the correct calculation, finding the district court's decision to use the entire market value rule improper, because Power Integrations did not bear its burden of proof.<sup>143</sup>

[I]t is not enough to merely show [1] that the patented feature is viewed as essential, [2] that a product would not be commercially viable without the patented feature, or [3] that consumers would not purchase the product without the patented feature. When the product contains other valuable features, a patentee must prove that those other features do not cause consumers to purchase the product.<sup>144</sup>

## CONCLUSION

The cases discussed in this White Paper address significant issues that will profoundly affect patent litigation in the years ahead. First, the Federal Circuit and Supreme Court showed a continued interest in questions relating to the AIA, especially as they relate to the popular IPR proceedings (as in *SAS*, *Oil*

*States*, *Saint Regis*, *Wi-Fi One* and *Click-to-Call*). Second, both courts addressed important remedy issues, including damages (*WesternGeco*, *Finjan*, *ExMark* and *Power Integrations*) and attorneys' fees (*NantKwest*). Finally, in *BigCommerce* the Federal Circuit continued to refine one of the most significant procedural questions in patent litigation: venue in the wake of the Supreme Court's *TC Heartland* decision. Practitioners should take note of these important changes and clarifications, which will have implications in 2019 and for years to come.

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## ENDNOTES

- 1 *SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1352–53 (2018) (emphasis in original).
- 2 35 U.S.C. § 318(a) states that “[i]f an *inter partes* review is instituted and not dismissed under this chapter, the Patent Trial and Appeal Board shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner and any new claim added under section 316(d).”
- 3 *SAS Inst., Inc. v. ComplementSoft, LLC*, 825 F.3d 1341, 1352 (Fed. Cir. 2016).
- 4 138 S. Ct. at 1353.
- 5 *Id.* at 1354 (emphasis added).
- 6 *Id.*
- 7 *Id.* at 1358.
- 8 *Id.*
- 9 *AC Techs. S.A. v. Amazon.com, Inc.*, No. 2018-1433, 2019 WL 138176, at \*3 (Fed. Cir. Jan. 9, 2019) (“And, we have held, if the Board institutes an IPR, it must similarly address all grounds of unpatentability raised by the petitioner.”).
- 10 See Nix et al., “Key Patent Law Decisions of 2017” at \*6-7.
- 11 *Oil States Energy Servs, LLC v. Greene’s Energy Grp., LLC*, 138 S. Ct. 1365, 1372 (2018).
- 12 *Id.*
- 13 *Id.*
- 14 *Id.*
- 15 *Id.* at 1373.
- 16 *Id.*
- 17 *Id.*
- 18 *Id.* at 1373–75.
- 19 *Id.* at 1377.
- 20 *Id.* at 1378.
- 21 *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 137 S. Ct. 1514, 1521 (2017).
- 22 *In re BigCommerce, Inc.*, 890 F.3d 978, 981 (Fed. Cir. 2018).
- 23 *Id.* at 986.
- 24 28 U.S.C. § 1400(b) (emphasis added).
- 25 *In re BigCommerce*, 890 F.3d at 983.
- 26 *Id.*
- 27 Act of Mar. 3, 1987, ch. 395, 29 Stat. 695 (emphasis added).
- 28 *In re BigCommerce*, 890 F.3d at 983.
- 29 *Id.* at 984.
- 30 *Id.* (citing *Stonite*, 315 U.S. at 562–3).
- 31 *Id.*
- 32 896 F.3d 1322 (Fed. Cir. 2018).
- 33 *Id.* at 1325.
- 34 *Id.*
- 35 535 U.S. 743, 754–56 (2002).
- 36 896 F.3d at 1326.
- 37 *Id.* at 1327–28.
- 38 *Id.* at 1328.
- 39 *Id.* at 1328–29.
- 40 *Id.* at 1329.

- 41 *Id.*; see Petition for Writ of Certiorari for Appellant Saint Regis Mohawk Tribe, *Saint Regis Mohawk Tribe v. Mylan Pharmaceuticals Inc.* (No. 18-899).
- 42 Jones Day filed an amicus brief on behalf of the Intellectual Property Owner's Association (IPO) in *Wi-Fi One, LLC v. Broadcom Corp.*
- 43 *Wi-Fi One, LLC v. Broadcom Corp.*, 878 F.3d 1364, 1371 (2018).
- 44 *Id.* at 1375.
- 45 *Id.* at 1371.
- 46 *Id.* at 1375.
- 47 *Cuozzo*, 135 S. Ct. at 2142.
- 48 *Wi-Fi One*, 878 F.3d at 1373.
- 49 *Id.* at 1374.
- 50 *Id.* at 1373–74.
- 51 *Id.* at 1374.
- 52 *Id.* at 1375.
- 53 *Id.* at 1375 (O'Malley, J., concurring).
- 54 *Id.*
- 55 *Id.* at 1376 (O'Malley, J., concurring).
- 56 *Id.*
- 57 *Id.*
- 58 *Id.* at 1377 (O'Malley, J., concurring).
- 59 *Id.* (Hughes, J., dissenting).
- 60 *Id.* at 1378 (Hughes, J., dissenting) (emphasis in original).
- 61 *Id.* at 1380 (Hughes, J., dissenting).
- 62 *Cuozzo*, 135 S. Ct. at 2142.
- 63 *Wi-Fi One*, 878 F.3d at 1378 (Hughes, J., dissenting).
- 64 *Id.*
- 65 *Id.*
- 66 *Id.* at 1380 (Hughes, J., dissenting).
- 67 *Id.* at 1381 (Hughes, J., dissenting).
- 68 *Id.*
- 69 *Id.* at 1380 (Hughes, J., dissenting).
- 70 *Id.* at 1382 (Hughes, J., dissenting) (internal citations omitted).
- 71 *Wi-Fi One, LLC v. Broadcom Corp.*, 878 F.3d 1364 (Fed. Cir. 2018)
- 72 *Click-to-Call Techs., LP v. Ingenio, Inc.*, 899 F.3d 1321, 1328 (Fed. Cir. 2018).
- 73 35 U.S.C. § 315(b).
- 74 *Click-to-Call*, 899 F.3d at 1326–27.
- 75 *Id.*
- 76 *Id.*, at 1330.
- 77 *Id.*
- 78 *Id.* (emphasis added).
- 79 *Id.*
- 80 *Id.* at 1331–32.
- 81 *Id.* at 1333 (emphasis in original).
- 82 *Id.* at 1336.
- 83 *But see* Petition for Writ of Certiorari for Dex Media, *Dex Media, Inc. v. Click-to-Call Techs., LP* (No. 18-916).
- 84 *NantKwest, Inc. v. Iancu*, 898 F.3d 1177, 1196 (Fed. Cir. 2018) (en banc).
- 85 *Id.* at 1180.
- 86 *Id.*
- 87 35 U.S.C. § 145.
- 88 *NantKwest*, 898 F.3d at 1180–81.
- 89 *Id.* at 1183.
- 90 *Id.*
- 91 *Id.*
- 92 *Id.*
- 93 *Id.*
- 94 *Id.* at 1181.
- 95 *NantKwest, Inc. v. Matal*, 860 F.3d 1352 (Fed. Cir. 2017).
- 96 784 F.3d 219 (4th Cir. 2015).
- 97 *Id.* at 223.
- 98 *NantKwest*, 898 F.3d at 1184.
- 99 *Id.* at 1196.
- 100 *Id.* at 1185–86.
- 101 *Id.*
- 102 *Id.* at 1186–87.
- 103 *Id.* at 1188.
- 104 *Id.* at 1187–90.
- 105 *Id.* at 1181. *But see* Petition for Writ of Certiorari for Iancu, *Iancu v. NantKwest, Inc.*, (No. 18-801).
- 106 Nos. 2013-1527, 2014-1121, 2014-1526, 2014-1528 (Fed. Cir. Jan. 11, 2019).
- 107 *Finjan, Inc. v. Blue Coat Sys., Inc.*, 879 F.3d 1299 (Fed. Cir. 2018).
- 108 *Id.* at 1302.
- 109 *Id.* at 1310.
- 110 *Id.*
- 111 *Id.*
- 112 *Id.* at 1310.
- 113 694 F.3d 51, 67–68 (Fed. Cir. 2012)
- 114 *Id.* at 1310–11 (emphasis added).
- 115 *Id.* at 1311.
- 116 *Id.*
- 117 *Id.* at 1312.
- 118 *Id.*
- 119 *Id.*
- 120 *Id.* at 1313–14.
- 121 *Id.* at 1314.
- 122 *Exmark*, 879 F.3d at 1337–38.
- 123 *Id.* at 1348.
- 124 *Id.*
- 125 *Id.* (quoting *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1226 (Fed. Cir. 2014)).
- 126 *Id.*
- 127 *Id.*
- 128 *Id.* at 1349.
- 129 *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 904 F.3d 965, 979 (Fed. Cir. 2018).
- 130 *Id.* at 977.
- 131 *Id.* at 977.
- 132 *Id.* at 977–78.
- 133 *Id.* at 977.
- 134 *Id.*
- 135 *Id.* at 969.

136 *Id.* at 970.

137 767 F.3d 1308 (Fed. Cir. 2014).

138 *Id.*

139 *Id.*

140 *Id.*

141 *Id.* at 978.

142 *Id.* at 970.

143 *Id.* at 979–80. *But see* Petition for Writ of Certiorari for Power Integrations Inc., *Power Integrations Inc. v. Fairchild Semiconductor, Inc.* (No. 18-779).

144 *Id.*

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