



# 2016 PATENT LITIGATION YEAR IN REVIEW

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## Introduction



Wilson Sonsini Goodrich & Rosati is pleased to present its *2016 Patent Litigation Year in Review*. WSGR's patent litigation practice is nationwide in scope and has received national recognition in recent years, with our attorneys litigating patent disputes throughout the United States and before administrative tribunals such as the International Trade Commission (ITC) and the Patent Trial and Appeal Board (PTAB). With such a broad practice, WSGR has seen firsthand the developments in patent litigation that 2016 has brought.

Perhaps the most striking development has been with respect to patent-eligibility. Up until May 2016, the Federal Circuit had decided only one case (*DDR Holdings*) in the nearly two years since the *Alice* decision that found software patent claims patent-eligible. As we discuss in this report, a series of Federal Circuit decisions late in 2016 has started to provide meaningful insight into the bounds of software patent-eligibility. The ITC has also continued to evolve over the course of the past year, with an increase in the number of investigations designated for the court's 100-day proceeding in 2016. Intended to test the effectiveness of earlier

rulings on certain dispositive issues in some Section 337 investigations, the 100-day proceeding and other recent developments at the ITC are addressed in this report. In addition, we examine the increasing reliance on the threat of attorneys' fee awards in U.S. district courts following the landmark U.S. Supreme Court decisions in *Octane Fitness* and *Highmark*. Finally, we address the effects that 2016 jurisprudence has had on the doctrine of patent exhaustion, willful infringement, and damages in design patent litigation, along with potentially impactful cases currently up for review by the U.S. Supreme Court.

## Patent-Eligibility Under 35 U.S.C. § 101

### Section 101 at the Federal Circuit: 2016's Impact on Patent-Eligibility Jurisprudence

More than two years after the U.S. Supreme Court issued its decision in *Alice Corp. Pty. v. CLS Bank Int'l*,<sup>1</sup> the Federal Circuit and courts throughout the country continue to wrestle with the question of patent-eligibility under 35 U.S.C. § 101 (Section 101). In *Alice*, the Supreme Court clarified that courts can determine whether a claim is patent-eligible under Section 101 by applying a two-step test: first, determining whether the claim is directed to a patent-ineligible concept, such as an abstract idea; then, determining whether it adds an “inventive concept” sufficient to transform that idea into a patent-eligible application. Since then, many courts have found that application of the “*Alice* test” is far from straightforward. This struggle is reflected in the extensive discussion of *Alice* by the Federal Circuit in more than a dozen precedential Section 101 opinions issued in 2016 alone. Nine decisions found the subject claims invalid (including reversals of findings of patent-eligibility), and four reversed determinations of invalidity. Several decisions include important new principles and heuristics for applying the *Alice* test. Among these, at least three concepts have emerged as crucial considerations in the patent-eligibility analysis: the rejection of “functional” claiming, the role of the specification, and the treatment of expert testimony.

### “Functional” Claiming

Many Federal Circuit cases have focused on “result-oriented” or “functional” claiming, finding that claims that describe only a desired effect, but not how that effect is accomplished, likely do not pass the *Alice* test. In a number of prominent cases, the Federal Circuit derided claims that “contain[] no restriction on how the [claimed] result is accomplished . . . [and] [t]he mechanism . . . is not described.”<sup>2</sup> As stated by the *Electric Power* court, “the essentially result-focused, functional character of claim language has been a frequent feature of claims held ineligible under § 101.”<sup>3</sup> This analysis appeared most prominently in the Federal Circuit’s *TLI* decision, which criticized the asserted patent’s “abstract functional descriptions devoid of technical explanation as to how to implement the invention.”<sup>4</sup> By describing the claimed elements “in purely functional” terms, the patent could not recite any inventive concept. The *Affinity Labs* cases were similarly focused on the “functional” nature of the claim language, and also concluded that the claims were therefore patent-ineligible.<sup>5</sup>

While the “functional claiming” inquiry provides an important indicator of patent-eligibility, some questions are yet to be resolved. First, it is not entirely clear to which step of the *Alice* test this analysis relates; while some decisions discuss “functional claims” under step one, others raise this issue under step two, and certain opinions (such as *TLI*) raise the issue under both steps. Second,

the Federal Circuit’s *Amdocs* decision raises questions as to the applicability of the “functional claiming” analysis; the court’s opinion in that case strongly implied that requiring a claim to explain the method by which the claimed results are accomplished runs afoul of 35 U.S.C. § 112(f), which allows for “means-plus-function” claims.<sup>6</sup>

### The Role of the Specification

This ambiguity as to the “functional claiming” analysis leads to a second issue that has been prominent in Federal Circuit Section 101 opinions: the extent to which the patent specification affects the eligibility of the claims at issue. Opinions have come out on both sides of this issue. A number of Federal Circuit decisions—including very recent ones—have stated in no uncertain terms that the “§ 101 inquiry must focus on the language of the Asserted Claims themselves.”<sup>7</sup> In the *Synopsys* decision, the Federal Circuit held that even though the specification included implementation details and source code, the claims themselves were patent-ineligible because “[o]n their face, the claims do not call for any form of computer implementation of the claimed methods. . . . Just as we have held that complex details from the specification cannot save a claim directed to an abstract idea that recites generic computer parts, the Gregory Patents’ incorporation of software code cannot save claims that lack any computer implementation at all.” Similarly, this year’s *Intellectual Ventures I* decision reversed

a district court finding of patent-eligibility because “the district court erred in relying on technological details set forth in the patent’s specification and not set forth in the claims to find an inventive concept.”<sup>8</sup>

But in other decisions, the Federal Circuit has been willing to look beyond the claims in determining patent-eligibility. Most notably, in *Amdocs*, the Federal Circuit relied upon the district court’s construction, which read in certain limitations to the claim language and had been affirmed in an earlier decision, to assess the technical innovation underlying the claims. It further stated that “[i]n addition to taking into consideration the approved claim constructions, we examine the claims in light of the written description.”<sup>9</sup> The opinion looked to the specification to determine what the claim construction requires from a technical standpoint, concluding that “this enhancing limitation necessarily involves the arguably generic gatherers, network devices, and other components working in an unconventional distributed fashion to solve a particular technological problem.” Based on this finding, the Federal Circuit reversed the district court’s finding of patent-ineligibility for patent claims that, on their face, were recited in functional terms without implementation details. The key distinction between *Amdocs* and decisions such as *Synopsys* appears to be whether the trial court construed the claims.<sup>10</sup>

### **Expert Testimony**

Finally, one of the clearest and most significant signals sent by the Federal Circuit in 2016 with respect to Section 101 is that expert testimony on patent-eligibility is neither necessary nor helpful for issues that can be readily determined

by the court. The most detailed examination of this question came in the Federal Circuit’s *Mortgage Grader* opinion, in which both parties submitted expert declarations to the district court, “[b]ut the court did not rely on them in its § 101 analysis. Instead, in making its patent-eligibility determination, the district court looked only to the claims and specifications of the patents-in-suit.”<sup>11</sup> The court found that the existence of expert testimony did not create an issue of material fact, and that “appellee’s experts simply provided non-material historical information” that “added little if anything to the ’694 patent’s specification.” The appellant’s expert also offered an opinion that was not tied to the claim language, and his “other opinion” that “the patents-in-suit require use of a computer” did not create a dispute or issue of material fact “given the intrinsic evidence, and *Alice*’s clarification that use of a generic computer” cannot provide an inventive concept. In addition to this opinion, the Federal Circuit revisited the issue of expert testimony in *Affinity Labs*, finding that “there was no error in the district court’s not relying on Affinity’s expert’s testimony” that a particular element was not known in the prior art because patent-eligibility does not turn on novelty.<sup>12</sup>

### **The Year in Software Patent Section 101 Decisions**

In addition to these general trends, the Federal Circuit’s opinions in 2016 have been particularly important for software-related patent claims, given that all of the court’s precedential decisions regarding “abstract ideas” were related to software or mixed hardware/software patents. Indeed, nowhere is the judiciary’s increased attention to Section 101 more

evident than in the field of software patents. Courts routinely note the amorphous nature of the *Alice* test as applied to software, and rarely do more than a few days go by without a court weighing in on software claims in the context of Section 101. These decisions have made it possible to identify several software-specific trends that are evident in the Federal Circuit and reverberate throughout the district courts.

### **“Improvement in Computer Capabilities”**

The *Enfish* decision invoked a distinction between “abstract ideas” and improvements to technology, finding that the claims of the patent-in-suit were not directed to an abstract idea. As stated by the *Enfish* court, “the first step in the *Alice* inquiry in this case asks whether the focus of the claims is on the specific asserted improvement in computer capabilities (i.e., the self-referential table for a computer database) or, instead, on a process that qualifies as an ‘abstract idea’ for which computers are invoked merely as a tool.”<sup>13</sup> Both in the *Enfish* decision and in decisions rendered in its wake, the court has outlined what constitutes an improvement in “computer capabilities.” In *Enfish*, for instance, the claimed process “allow[ed] for faster searching of data” and “more effective storage of data” through the use of a self-referential table. In other words, it allowed a computer to perform its well-known functions more effectively. And in *McRO*, the court found that the claims were not directed to an abstract idea because they constituted a “technological improvement over the existing, manual 3-D animation techniques. The claim uses the limited rules in a process **specifically designed** to achieve an **improved technological**

**result** in conventional industry practice.”<sup>14</sup>

The key point, then, could be that a claim is directed to an improvement in computer capabilities when its goal is to improve an already computerized process by means specifically designed to apply to that process, rather than using generic computer functions to improve an existing process or applying a technique known from the pre-computer world.<sup>15</sup> As stated by the *Electric Power* court, interpreting *Enfish*, “the claims at issue focused not on asserted advances in uses to which existing computer capabilities could be put, but on a specific improvement—a particular database technique—in how computers could carry out one of their basic functions of storage and retrieval of data. . . . The present case is different: the focus of the claims is not on such an improvement in computers as tools, but on certain independently abstract ideas that use computers as tools.”<sup>16</sup>

### **Combination of Well-Known Elements**

Another major theme emerging from the Federal Circuit’s consideration of software patents under Section 101 is the potential inventive concept found in the combination of well-known elements, particularly in the field of network architecture. In the *BASCOM* case, the Federal Circuit determined that the asserted claims “recite a specific, discrete implementation of the abstract idea of filtering content.”<sup>17</sup> While “[f]iltering content on the Internet was already a known concept,” the claims recite an inventive concept because their “particular arrangement of elements is a technical improvement over prior art ways of filtering such content.”<sup>18</sup> The *BASCOM* decision confirmed a basis for patent-eligibility of software claims: “the non-conventional and non-generic arrangement of known, conventional pieces.”<sup>19</sup>

### **Data Analysis and Presentation**

In 2016, the Federal Circuit uniformly found that claims directed to gathering, analyzing, and displaying data are not patent-eligible. Most prominently, the *Electric Power* case relied upon numerous prior Federal Circuit decisions to support its conclusion that data collection, analysis, and presentation are all abstract ideas.<sup>20</sup> The decision went on to reinforce that “[m]erely selecting information, by content or source, for collection, analysis, and display does nothing significant to differentiate a process from ordinary mental processes.” Nor does gathering information from a variety of different sources and presenting them in human-readable format make a claim patent-eligible. While the court’s earlier decisions, such as *Content Extraction*, indicated that claims directed to manipulation of electronic data are suspect under Section 101, *Electric Power*, *FairWarning*, and a number of other opinions from this year underscore the fact that data-related claims are very likely to fall within “the realm of abstract ideas.”<sup>21</sup>

### **The Year’s Key Patent-Eligibility Decisions from the Federal Circuit**

Given the fact-specific nature of each Section 101 case and the Federal Circuit’s guidance that courts should look to prior decisions in rendering their opinions, it is worth looking beyond these trends and delving more deeply into a selection of the most prominent cases from which they emerged.

#### ***Apple, Inc. v. Ameranth, Inc.*<sup>22</sup>**

The *Ameranth* decision involved CBM petitions filed by multiple defendants on related patents “which disclose computer systems with hardware and software” that allow users to create a hierarchical menu,

then transmit that menu to mobile devices on which users can make selections. The claims were directed to a graphical user interface that can be presented on “a limited display area wireless handheld device.” In the decision below, the PTAB found the independent claims to be patent-ineligible under Section 101, but upheld dependent claims reciting additional features. The Federal Circuit affirmed in part and reversed in part, concluding that all claims are patent-ineligible. At step one of the *Alice* test, the court found that the claims are directed to an abstract idea because they “claim systems including menus with particular features. They do not claim a particular way of programming or designing the software to create menus that have these features, but instead merely claim the resulting systems.” At step two, the court analyzed several different features that *Ameranth* claimed were unconventional (modifying menus, sending them to a printer, and synchronizing between devices) and agreed with the PTAB that they do not provide an inventive concept. Summing up its conclusions, the court stated that “[t]he claimed invention replaces a server’s notepad or mental list with an electronic device programmed to allow menu items to be selected as a customer places an order. As noted above, the specifications describe the hardware elements of the invention as ‘typical’ and the software programming needed as ‘commonly known.’ The invention merely claims the addition of conventional computer components to well-known business practices.” The Federal Circuit also noted that “[t]he difficulty of the programming details for this functionality is immaterial because these details are not recited in the actual claims. The degree of difficulty in implementing an abstract idea in this circumstance does not itself render an abstract idea patentable.”

**Amdocs (Israel) Ltd. v. Openet Telecom, Inc.**<sup>23</sup>

In *Amdocs*, the Federal Circuit separately analyzed representative claims from each of four related asserted patents. While the particularized analysis is interesting as to each claim, the most notable claim appears, on its face, to be a broad software claim related to data collection and comparison—the kind of claim frequently found ineligible by the Federal Circuit. The court, however, found the claim to be “much closer to [the claims] in *BASCOM* and *DDR Holdings* than those in *Digitech*, *Content Extraction*, and *In re TLI Commc’ns*.” As discussed above, the basis for this opinion appears to be in a claim construction ruling—affirmed by the Federal Circuit in a prior case—that construed “enhance” as meaning “to apply a number of field enhancements in a distributed fashion” where “‘distributed’ means that the network usage records are processed close to their sources before being transmitted to a centralized manager.” In the previous decision, the Federal Circuit “approved of the district court’s ‘reading the ‘in a distributed fashion’ and the ‘close to the source’ of network information requirements into the term ‘enhance.’”” From this, the court reached back to the specification in order to explain the technical problems in the field, the corresponding advantages of this distributed system, and the specific arrangement of components required to achieve those advantages, concluding that the claim “is tied to a specific structure of various components (network devices, gatherers, ISMs, a central event manager, a central database, a user interface server, and terminals or clients). It . . . does not merely combine the components in a generic manner, but instead purposefully arranges the

components in a distributed architecture to achieve a technological solution to a technological problem specific to computer networks.” The remaining claims were analyzed similarly, looking to the construction of particular terms, and using that to import the specification’s discussion of an “unconventional distributed architecture” into every claim. Note that the appellees have petitioned for the case to be reheard *en banc*.

**Synopsys, Inc. v. Mentor Graphics Corp.**<sup>24</sup>

The Federal Circuit’s *Synopsys* opinion concerns patents that “provide a scheme to translate HDL-based functional descriptions of logic circuits into hardware component descriptions of those same circuits without requiring the designer to instantiate any individual hardware components.” The specification for the patents-in-suit elaborates on this concept, offering “several examples for different components to illustrate how control flow graphs and assignment conditions are used to translate a functional description of a logic circuit to a hardware component description of that logic circuit.” At step one, the Federal Circuit found that the claimed methods “can be performed mentally or with pencil and paper” and “are devoid of any reference to a computer or any other physical component.” Addressing the patent owner’s argument that “the inventions . . . were intended to be used in conjunction with computer-based design tools,” the Federal Circuit found that “the Asserted Claims are not confined to that conception.” As stated in the general discussion above, the *Synopsys* court stated that “[t]he § 101 inquiry must focus on the language of the Asserted Claims themselves.”

Accordingly, “complex details from the specification cannot save a claim directed to an abstract idea that recites generic computer parts,” and “software code cannot save claims that lack any computer implementation at all.” The court’s treatment of the step two analysis was fairly straightforward, stating that the novelty of the claimed method is an overlapping but ultimately inapposite concern, and that, unlike the cases in which claims were found to have recited an abstract idea, the claims of the patents-in-suit “do not introduce a technical advance or improvement.” Accordingly, the court found the claims to be patent-ineligible.

**FairWarning IP, LLC v. Iatric Systems, Inc.**<sup>25</sup>

The patent claims at issue in *FairWarning* cover “ways to detect fraud and misuse by identifying unusual patterns in users’ access of sensitive data,” which the claims particularly refer to as “protected health information (‘PHI’).” The claimed systems and methods record audit log data, “analyze it against a rule, and provide a notification if the analysis detects misuse.” Under step one of the *Alice* test, the Federal Circuit determined that the claims are directed to “collecting and analyzing information to detect misuse and notifying a user when misuse is detected.” As discussed above, the court found this to be a “combination . . . of abstract-idea categories.” The court added that, unlike the claims found patentable in other software cases, the claims “merely implement an old practice in a new environment.” Turning to step two, the Federal Circuit analyzed various technological elements of the claims, concluding that “the use of generic computer elements like a microprocessor

or user interface do not alone transform an otherwise abstract idea into patent-eligible subject matter.” The court also rejected the patent owner’s argument that the claims solved technological problems, stating that the claims are directed to a process performed on computers, not to overcoming a problem arising in the realm of computer technology.

***Intellectual Ventures I LLC v. Symantec Corp.***<sup>26</sup>

In *Intellectual Ventures*, the Federal Circuit considered three patents: two directed to rule-based email screening and routing, and one directed to virus screening in a telephone network. In its decision, the Federal Circuit affirmed the district court’s finding of patent-ineligibility for two patents under Section 101 and reversed the district court’s finding of patent-eligibility. This decision was noteworthy for being the first since *Alice* to reverse a court’s finding of patent-eligibility; doing so was only possible because the patent owner appealed the contemporaneous findings of ineligibility, thereby allowing the accused infringer to cross-appeal. The court addressed the email-related patents separately, but applied the same logic. At step one, the court found that the patents cover long-prevalent practices and “merely appl[y] a well-known idea using generic computers.” The Federal Circuit compared the claimed methods to the practice of throwing away unwanted mail and the functions of a corporate mailroom. At step two, the court echoed its prior rulings, finding that “each step does no more than require a generic computer to perform generic computer

functions,” which does not make an abstract idea patent-eligible because “claiming the improved speed or efficiency inherent with applying the abstract idea on a computer” does not provide an inventive concept. Answering the patent owner’s arguments, the court noted, quoting *Alice*, that “the inquiry is not whether conventional computers already apply, for example, well-known business concepts like hedging or intermediated settlement. Rather, we determine whether ‘each step does no more than require a generic computer to perform generic computer functions.’”

Addressing the virus screening claims, the court acknowledged that virus screening “originated in the computer era.” However, “[b]y itself, virus screening is well-known and constitutes an abstract idea.” Accordingly, the court moved on to step two of the *Alice* test, finding that “there is no other aspect of the claim that is anything but conventional.” Specifically, the claimed telephone network provided only a “generic environment” and the claim recites only the functions of a “generic computer.” The court added that the claim does not recite “any improvement to conventional virus screening software, nor does [the claim] solve any problem associated with situating such virus screening on the telephone network.”

The opinion is also notable for Judge Mayer’s concurrence, which was written “to make two points: (1) patents constricting the essential channels of online communication run afoul of the First Amendment; and (2) claims directed to software implemented on a generic computer are categorically not eligible for patent.”

***McRO, Inc. v. Bandai Namco Games America Inc.***<sup>27</sup>

The *McRO* opinion, one of the four in which the Federal Circuit found the relevant claims to be patent-eligible, concerned claims that relate to the animation of 3D characters; specifically, a process by which a computer uses rules with particular parameters to analyze a “script” of what the character should be saying, then creates facial morph targets to make that speech look realistic. The court found that the claims recite a set of rules with a common characteristic—a “genus,” which is permissible and does not necessarily make a claim abstract. In light of this finding, the Federal Circuit concluded that “when looked at as a whole, claim 1 is directed to a patentable, technological improvement over the existing, manual 3-D animation techniques. The claim uses the limited rules in a process specifically designed to achieve an improved technological result in conventional industry practice.”

The court noted that the process of speech animation was previously done by animators manually picking parts of the script that are associated with particular face and mouth shapes—in other words, the animators did not apply an equation or a set of rules, but rather used their subjective aesthetic assessment and experience to see if the animation “looks right.” Accordingly, “[t]his is unlike *Flook*, *Bilski*, and *Alice* where the claimed computer-automated process and the prior method were carried out in the same way.” The court therefore concluded that while the patent was aimed at automating a previously manual process, it was not just a matter of claiming that a computer performs the steps that were previously

performed by humans. Further fleshing out the distinction, the Federal Circuit noted that “we therefore look to whether the claims in these patents focus on a specific means or method that improves the relevant technology or are instead directed to a result or effect that itself is the abstract idea and merely invoke generic processes and machinery.”

***Electric Power Group, LLC v. Alstom S.A.*<sup>28</sup>**

In *Electric Power*, the Federal Circuit assessed the patent-eligibility of claims across three patents purporting to cover “systems and methods for performing real-time performance monitoring of an electric power grid by collecting data from multiple data sources, analyzing the data, and displaying the results.” The court did not consider the case to be close at step one of the *Alice* analysis, finding that “[t]he claims in this case fall into a familiar class of claims ‘directed to’ a patent-ineligible concept” because “[t]he focus of the asserted claims . . . is on collecting information, analyzing it, and displaying certain results of the collection and analysis.” The court cited several cases in support of its conclusion that each of “collecting,” “analyzing,” and “presenting” information is abstract, adding that “information as such is an intangible.” Distinguishing the claims from those in *Enfish*, the Federal Circuit stated that the claims focus not on improvements to computer technology, but rather “independently abstract ideas that use computers as tools.” Turning to step two of the *Alice* test, the court found that neither the “environment” of power-grid monitoring nor “enumerating types of information and information sources” available in that environment

can provide an inventive concept because “merely selecting information, by content or source, for collection, analysis, and display does nothing significant to differentiate a process from ordinary mental processes.” Nor do the claims “require an arguably inventive set of components or methods, such as measurement devices or techniques, that would generate new data” or “any assertedly inventive programming.” As to **how** the claimed method is performed, the Federal Circuit found that “nothing in the claims, understood in light of the specification, requires anything other than off-the-shelf, conventional computer, network, and display technology for gathering, sending, and presenting the desired information.” Finally, in keeping with the themes identified above, the court added that the result-oriented nature of the claims is a strong indication of their patent-ineligibility: “the essentially result-focused, functional character of claim language has been a frequent feature of claims held ineligible under § 101.”

***BASCOM Global Internet Services, Inc. v. AT&T Mobility LLC*<sup>29</sup>**

The Federal Circuit’s *BASCOM* opinion, another in which the court found the claims to be patent-eligible, concerned claims directed to filtering for Internet content. The claims are directed to a purported improvement over existing content-filtering methods that combines their benefits while avoiding their respective drawbacks. It accomplishes this by “provid[ing] individually customizable filtering at the remote ISP server by taking advantage of the technical capability of certain communication networks.” Despite its

ultimate ruling of patent-eligibility, the Federal Circuit found that the claims were directed to an abstract idea. Specifically, the court determined that the patent-in-suit was “directed to filtering content on the Internet,” and that “filtering content is an abstract idea because it is a longstanding, well-known method of organizing human behavior, similar to concepts previously found to be abstract.” However, at step two, as noted above, while the Federal Circuit “agree[d] with the district court that the limitations of the claims, taken individually, recite generic computer, network and Internet components, none of which is inventive by itself. . . . an inventive concept can be found in the non-conventional and non-generic arrangement of known, conventional pieces.” In other words, the claims “recite a specific, discrete implementation of the abstract idea of filtering content. Filtering content on the Internet was already a known concept, and the patent describes how its particular arrangement of elements is a technical improvement over prior art ways of filtering such content.” The court found that the district court could not, on the pleadings, decide that the patent owner had not sufficiently alleged the existence of an inventive concept in the combination of claim elements. Accordingly, the Federal Circuit reversed and remanded for further proceedings.

***In re TLI Communications LLC Patent Litigation*<sup>30</sup>**

The *TLI Communications* decision, issued just several days after *Enfish*, outlined several key issues that would continue to reemerge in software patent cases throughout the year. The patent at issue purports to address the problem

of “locating the data of an image” file, which increases “as the number of images to be archived increases,” by “providing for recording, administration and archiving of digital images simply, fast and in such way that the information therefore may be easily tracked.” The Federal Circuit found that the claims are directed to the “abstract idea of classifying and storing digital images in an organized manner.” The court added that rather than creating a new device or a way to combine devices, the patent “predominately describes the system and methods in purely functional terms.” Rather than “a specific improvement to computer functionality,” the court found that the claims “are directed to the use of conventional or generic technology in a nascent but well-known environment, without any claim that the invention reflects an inventive solution to any problem presented by combining the two.” With respect to inventive concept, the Federal Circuit found that “the recited physical components behave exactly as expected according to their ordinary use.” Here, too, the court found it important

that “the specification limits its discussion of these components to abstract functional descriptions devoid of technical explanation as to how to implement the invention.”

***Enfish, LLC v. Microsoft Corp.*<sup>31</sup>**

*Enfish*, the first Federal Circuit reversal of a district court patent-ineligibility finding under the “abstract idea” doctrine in over a year, involved claims directed to “an innovative logical model for a computer database.” Specifically, the claims were directed to a “self-referential” table that operated differently than traditional relational databases. This technique “allows for faster searching of data” and “more effective storage of data.” Notably, the *Enfish* decision made clear that the Federal Circuit has not held that “all claims directed to software, as opposed to hardware, are inherently abstract and therefore only properly analyzed at the second step of the *Alice* analysis. Software can make non-abstract improvements to computer technology just as hardware improvements can, and sometimes the improvements can

be accomplished through either route.” Accordingly, the appropriate inquiry is whether the “focus of the claims is on the specific asserted improvement in computer capabilities (i.e., the self-referential table for a computer database) or, instead, on a process that qualifies as an ‘abstract idea’ for which computers are invoked merely as a tool.” With respect to the claims at issue, the Federal Circuit disagreed with the district court, finding that “the claims are not simply directed to **any** form of storing tabular data, but instead are specifically directed to a self-referential table for a computer database.” As discussed above, the court determined this to be an “improvement in the functioning of a computer.” Accordingly, the court was “not faced with a situation where general-purpose computer components are added post-hoc to a fundamental economic practice or mathematical equation. Rather, the claims are directed to a specific implementation of a solution to a problem in the software arts.” The Federal Circuit therefore concluded its inquiry at step one of the *Alice* test.

## ITC Practice in 2016

The ITC continues to be an important and evolving forum for patent litigation. In 2016, two significant developments at the ITC were (1) the increased use of the 100-day program for early determination of case dispositive issues and (2) the issuance of multiple decisions addressing patent-eligibility under Section 101. This year also saw the Federal Circuit grapple with the scope of “articles” subject to Section 337 investigations and the ITC address interactions between ITC investigations and PTAB proceedings.

### 100-Day Program

Launched on June 24, 2013, the 100-day program provides an expedited process to decide a potentially case-dispositive issue early in an investigation. The objective of the program is to limit unnecessary litigation, and save time and costs for both the ITC and the parties. At institution, the Commission determines whether the investigation likely presents a case-dispositive issue appropriate for resolution on an expedited basis and,

if so, directs the Administrative Law Judge (ALJ) to conduct expedited fact finding, hold an abbreviated hearing, and issue an initial determination on the identified issue within 100 days of institution. The ITC identified domestic industry, standing, and importation as examples of potentially case-dispositive issues that would be appropriate for the new program, although the Commission has demonstrated that it is willing to consider other issues as well. This year, the Commission designated the 994

Investigation for the 100-day program based upon Section 101, the first use of the 100-day program to determine a substantive issue of patent law.

**Considerations Relevant to 100-Day Program Designation**

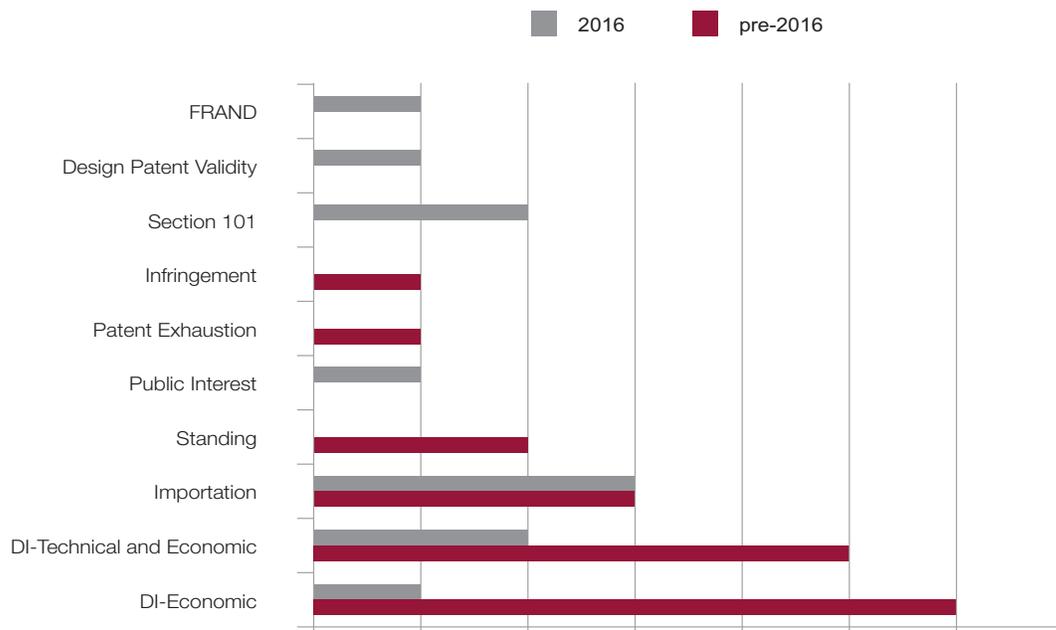
No specific procedure exists for requesting designation of an investigation for the 100-day program. Instead, respondents typically submit their request at the same time as the deadline for submitting comments relating to the public interest—either as part of their comments or in a separate letter. A formal letter requesting designation of an investigation for the 100-day proceeding is advisable, but is not necessary. It is also possible that the Commission will designate investigations for the 100-day program without a formal request, as it has previously done with respect to the economic prong of domestic industry. For example, for the two most recent investigations designated for the 100-day proceeding, no letters were submitted for one (Inv. No. 337-TA-1009) and only public interest comments were submitted for the other (Inv. No. 337-TA-1025). *Sua sponte* designations may be limited to deficiencies easily identifiable from the face of the complaint.

Respondents have requested that a variety of issues be considered for the 100-day program. While there is currently no tool to track the types of issues requested or how many requests have been made, a review of the investigations filed since 2013 reveals

that the types of issues that have been raised include standing, public interest, FRAND obligations, Section 101, and others, with domestic industry and importation being the most frequently requested issues. The chart below summarizes the types of issues for which designation into the 100-day program has been requested. 100-day program requests in 2016 demonstrate efforts to expand the program beyond the three categories identified by the ITC and reflect a reduction in the number of requests related to standing and domestic industry.

either designate or not designate an investigation for the 100-day program. In August and September 2016, the Commission issued three orders denying requests for use of the 100-day program.<sup>32</sup> There are several takeaways from these orders, which indicate that the Commission appears to consider: (1) whether the identified issue would be dispositive as to the entire investigation; (2) whether it is directed to liability rather than remedy; and (3) whether respondents are likely to prevail on the merits.

**Categories of Issues Requested 2016 vs. Pre-2016**



There has also been an increase in both the number of requests made and the number of issues identified, as shown on the chart on the next page.

Until recently, the Commission has not provided insight into its decisions to

First, the Commission emphasized that to be considered for the 100-day program, the issue has to be case dispositive and not simply dispositive as to one respondent or one issue. For instance, in one order denying a request for use of the program, the ITC stated that “The

Request relates to only two of the five asserted patents, and therefore does not involve a case dispositive issue”;<sup>33</sup> in another, the ITC noted that “The first issue identified by 3S [of importation] relates to the activities of one of the three Respondents, and therefore is outside of the scope of the Early Disposition Pilot Program as it does not involve an issue that is dispositive of the entire investigation.”<sup>34</sup>

infringed (or other unfair acts) as well as the scope of the imported infringing articles involved. As such, this issue is outside the scope of the Early Disposition Pilot Program as the issue cannot be resolved at the beginning of an investigation.”

Finally, the Commission appears to consider the strength of the issue and the probability that the respondents will prevail on the merits, and balance those considerations

for the 100-day program.

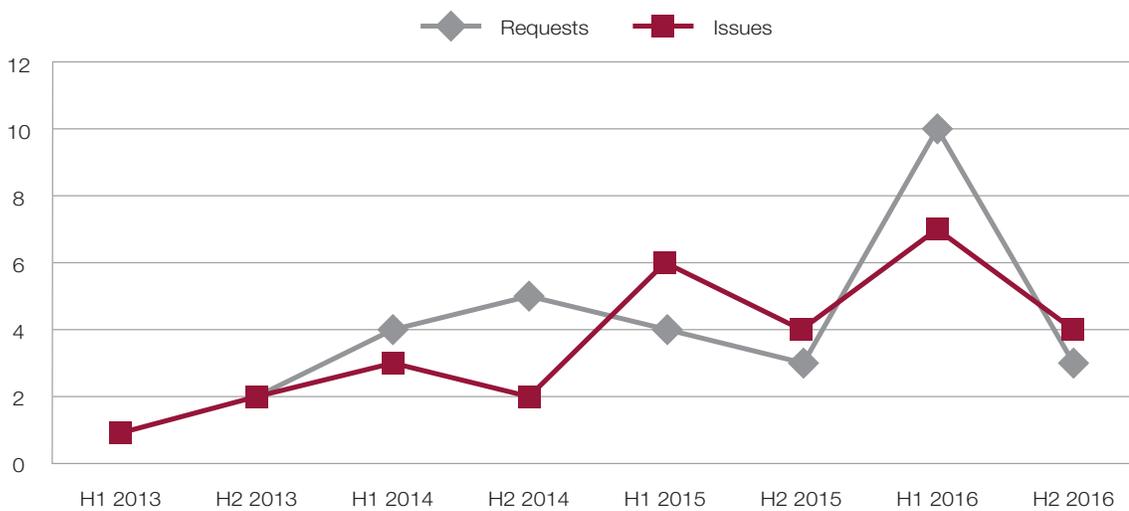
### The Five Investigations Designated for the 100-Day Program

After more than three years, only five investigations have been designated for the 100-day program, three in 2016.<sup>35</sup>

Procedurally, the 100-day proceedings have taken similar form, with the expedited proceeding similar to a full investigation, but limited to the single designated issue. Most have included full pre-hearing activities, including fact and expert discovery, pre-hearing briefs, objections to evidence, and motions in limine. The ALJ has typically held a hearing 45-50 days after institution. The parties are then usually given two weeks for post-hearing briefing, which leaves the ALJ with 30-40 days to write an initial determination.

Substantively, three of the investigations have addressed the economic prong of domestic industry, one was directed to standing, and one was directed to patent-eligible subject matter under Section 101. Two of them resulted in termination of the investigation, one resulted in continuation of the investigation, one settled prior to the hearing for the 100-day proceeding, and one is ongoing.

Number of Requests Made and Issues Identified



Second, the Commission appears to make a distinction between issues of liability and those of remedy. In the 1020 Investigation, one of the three referenced above, the Commission decided not to designate the issue of FRAND obligations because “[t]he Commission assesses the effect of potential remedies on the statutory public interest factors following an affirmative determination on violation – once the actual scope of the Section 337 violation is determined, including the scope of valid and enforceable IP rights that are

with the potential impact of a 100-day proceeding on the investigation and the ALJ. For example, in the 1022 Investigation, another of the three referenced above, the respondents requested use of the 100-day program for the economic prong of the domestic industry requirement. The complainants filed a response opposing the request and disclosing previously confidential information that the complainants’ products were now assembled in Atlanta, Georgia. Based on the complaint and exhibits, the Commission decided not to designate the investigation

### **Pre-2016 – The 874 and 949 Investigations**

The 874 Investigation was the first time the ITC used the 100-day proceeding and acted as a test case for the pilot program. In their letters to the Commission relating to the public interest, the respondents characterized the complainant as a non-practicing entity that was focused on licensing, not manufacturing, and advocated that the investigation should not be instituted. In the notice of institution of investigation, the Commission directed the ALJ to “hold an early evidentiary hearing, find facts, and issue an early decision, as to whether the complainant has satisfied the economic prong of the domestic industry requirement. Any such decision shall be in the form of an initial determination (ID).”

The complainant objected to the notice of institution and the Commission’s departures from its own rules in ordering the 100-day proceeding. Following a two-day hearing, the ALJ issued an initial determination finding that the complainant did not meet the economic prong for domestic industry. The ALJ also addressed the complainant’s objections. The ALJ found that the changes in the rule went beyond procedural modifications and determined that the issue was whether the Commission could change the rules without going through the rulemaking procedure. The ALJ concluded that the Commission had not provided an explanation or shown good cause for waiving the ordinary rules and had violated the Administrative Procedure Act.

In its opinion, the Commission upheld the ALJ’s decision that the complainant had failed to demonstrate the existence

of a domestic industry and squarely addressed whether it had authority to direct the ALJ to conduct a 100-day proceeding. The Commission first found that the ALJ lacked authority to address whether delegation of the 100-day proceeding was proper. The Commission further found that it had no obligation to undertake a notice and comment rulemaking process, as the change was procedural, not substantive. The Commission also decided that the 100-day proceeding was not inconsistent with preexisting Commission rules and that it had the authority to alter or waive procedural rules. Finally, the Commission concluded that the complainant had not shown substantial prejudice.

Almost two years passed before the Commission designated the 947 Investigation for the 100-day program, this time to address standing. In the 949 Investigation, the respondents requested that the Commission designate the investigation for the 100-day program to address the issues of standing and domestic industry. The respondents argued that the complainant was a non-practicing entity that had assigned significant ownership rights in order to obtain capital to monetize its patent portfolio and therefore lacked standing. The respondents further argued that the complainant’s domestic industry allegations were deficient. In the notice of institution of investigation, the Commission directed the ALJ to hold an expedited hearing on the issue of standing.

The ALJ ultimately determined that the operative agreement granted only a non-exclusive license and as such, the complainant had retained the right to sue under the asserted patents and

had standing. The ALJ found that good cause existed in view of the expedited procedure to extend the target date to a 19-month target date instead of the typical 16-month target date. The 947 Investigation terminated based on settlement agreements before a hearing on the remaining issues.

### **2016 Investigations**

The Commission designated three investigations for the 100-day program in 2016. In the first investigation, the 994 Investigation, the Commission directed the ALJ to determine whether the patent was directed to patent-eligible subject matter under Section 101. It was the first time the Commission designated an issue beyond the three examples identified by the ITC and the first time the Commission designated an investigation for the 100-day program based upon a substantive issue of patent law. The remaining two investigations addressed the economic prong of domestic industry.

- The 994 Investigation

In the 994 Investigation, complainants Creative Labs, Inc. and Creative Technology Ltd. filed their complaint against 18 companies, primarily smartphone manufacturers, alleging infringement of a single patent, U.S. Patent No. 6,928,433 (the ‘433 patent), by music apps. The sole independent claim of the ‘433 patent was canceled during *inter partes* reexamination. Creative asserted dependent claims 2, 3, 5, 7, and 17-28. Four respondent groups—LG, Sony, BlackBerry, and HTC—and intervenor Google Inc.<sup>36</sup> submitted requests that

the Commission designate the investigation for early determination under the 100-day program with respect to the issue of whether the patent was invalid as directed to patent-ineligible subject matter under Section 101. Following designation by the Commission, the ALJ issued an order setting a procedural schedule, including claim construction, and fact and expert discovery. A pre-hearing conference was held on July 5, 2016, and a two-day hearing on the merits was held on July 6-7, 2016.

On August 19, 2016, the ALJ issued an initial determination, finding that the asserted patent was invalid under Section 101 as directed to patent-ineligible subject matter. The Commission decided not to review the 100-day Initial Determination. Creative has appealed the decision to the Federal Circuit and the appeal is currently pending.

- The 1009 Investigation

Complainants Intex Marketing Ltd. and Intex Recreation Corp. filed a complaint against five related Bestway companies. In the notice of institution of investigation, the Commission *sua sponte* directed the ALJ to conduct a 100-day proceeding on the economic prong of domestic industry. The ALJ issued an order setting a procedural schedule for the expedited proceeding. On July 14, 2016, the parties moved to terminate the investigation, which was granted on July 25, 2016.

- The 1025 Investigation

Complainant Silicon Genesis Corporation filed a complaint against Soitec SA alleging infringement of two patents by Soitec's silicon-on-insulator wafers for use in semiconductors. Soitec filed comments relating to public interest in which it argued that "SiGen should not be permitted a 'do-over' of the 966 Investigation, where it failed to establish the existence of a domestic industry based on the activities of SunEdison after not obtaining information or cooperation from SunEdison." Soitec advocated that non-practicing entities should be required to have the cooperation of any third parties on which they intend to rely for domestic industry before filing the complaint, and the third parties should be included as co-complainants. In addition to Soitec, third parties GLOBALFOUNDRIES, Inc. and ARRIS Group, Inc. filed comments relating to public interest in which they made similar arguments to Soitec. None of the letters requested that the investigation be included in the 100-day program. The Commission's response to public interest letters suggests that it had concerns relating to SiGen's ability to meet the economic prong of the domestic industry requirement. The Commission then issued the notice of institution of investigation on October 19, 2016, *sua sponte* designating the issue of the economic prong of domestic industry to be determined in a 100-day proceeding. A hearing was held on December 6-7, 2016, and

an initial determination should issue by February 2, 2017.

### **The Future of the 100-Day Program**

On September 25, 2015, the ITC published a notice of proposed rulemaking. The proposed rules included a number of provisions relating to codifying the current 100-day program and further expanding it. Proposed Rule 210.10(b)(3) codifies the Commission's current practice of designating issues for 100-day proceedings. The proposed rule does not provide additional guidance regarding requesting designation of an investigation for the 100-day proceeding.

The ITC has also added two rules that expand the current practice. Under Proposed Rule 210.22, within 30 days of institution, any party may request that the ALJ issue an order designating a potentially dispositive issue for an early ruling. Under Proposed Rule 210.14(i), the ALJ may issue an order *sua sponte* designating an issue for early resolution. The rule does not contemplate certification of an issue by the Commission. Rather, the decision by the ALJ either in response to a request from a party or *sua sponte* is sufficient to initiate a 100-day proceeding.

The extent to which the 100-day program will be used going forward and on what issues remains to be seen. But the increased number of requests, designations in 2016, results in 2016, and proposed rules indicate the potential for greater use of this procedure in the future. The positive impacts of the program are already being seen, and respondents are likely to push for more use of the program in years to come.

## Section 101 Decisions at the ITC

Section 101 was a hot issue at the ITC this year, much as it was in the federal courts. Since *Alice* was decided more than two years ago, the ITC has issued a total of eight decisions relating to patent-eligible subject matter under Section 101. All but one of those decisions issued in 2016.

### The 994 Investigation

As discussed above, the 994 Investigation marked the first time a Section 101 issue has been decided as part of the 100-day program. Unlike many of the other decisions discussed below decided on motions for summary determination, the decision on Section 101 in the 994 Investigation came after a full hearing, including fact and expert testimony. After the hearing, ALJ Shaw issued an initial determination, finding the '433 patent invalid as directed to patent-ineligible subject matter. Specifically, the ALJ found that the claims were directed to the abstract idea of using hierarchical categories to access content. As to the second *Alice* step, the ALJ addressed each of the claims and determined that they did not recite an inventive concept. Rather, the ALJ found that “there is no indication that the inventors went beyond anything routine and ordinary in claiming the application of known organization methods to the standard functions of portable music players and similar devices. The dependent claims do not recite additional structural elements. The dependent claims simply add further limitations based on known features of the ‘technological environment’ of portable media players, such as the

creation of playlists, to the abstract idea.” The ALJ further found that asserted claims implicated preemption concerns.

It is worth noting that after the parties presented their positions on claim construction, ALJ Shaw held that construing the claims was not necessary to decide the Section 101 issue. Nevertheless, the ALJ construed the sole term identified by the parties, finding a clear disclaimer and adopting the construction of the respondents, intervenor, and staff.

### The 963 and 973 Investigations

There were nine patents at issue in the 963 and 973 Investigations between AliphCom, Inc. d/b/a Jawbone and Fitbit, Inc., eight of which were subject to motions for summary determination under Section 101. In a first motion for summary determination filed on January 8, 2016, Fitbit argued that three of Jawbone’s six asserted patents were invalid as directed to patent-ineligible subject matter under Section 101. One of the patents was withdrawn from the investigation before ALJ Lord issued a decision on Fitbit’s motion. On March 3, 2016, ALJ Lord issued an initial determination granting Fitbit’s motion for summary determination with respect to the two remaining patents subject to the motion. ALJ Lord first held that no presumption of eligibility applies to Section 101. ALJ Lord then applied the *Alice* test and found that each of the claims of the two patents were directed to abstract ideas and did not disclose an inventive step. The Commission affirmed the initial determination, but commented that “the law remains unsettled as to whether the presumption of patent validity under 35 U.S.C. § 282 applies to subject

matter eligibility challenges under 35 U.S.C. § 101.”

Following the ALJ’s initial determination, on March 16, 2016, Fitbit filed a second motion for summary determination that two of the remaining patents were also invalid under Section 101. Both patents were related to another that had been found invalid under Section 101 in the earlier initial determination. ALJ Lord again granted Fitbit’s motion, finding both additional patents invalid under Section 101. The Commission decided not to review the initial determination. The sixth and final patent was withdrawn from the 963 Investigation. Consequently, the hearing focused exclusively on trade secret claims and did not include patent claims.

With respect to the 973 Investigation, on May 23, 2016, Jawbone filed a motion for summary determination that the three asserted Fitbit patents were invalid under Section 101. After the prehearing briefing was filed, on July 19, 2016, ALJ Pender issued an initial determination granting Fitbit’s motion, finding all three patents invalid under Section 101 and terminating the investigation. On September 7, 2016, the Commission decided to review the initial determination as to two of the three patents. The Commission found that summary determination was not proper. Specifically, it found that the parties disputed what was conventional at the time of the invention and the initial determination did not view the evidence in the light most favorable to Fitbit. The Commission remanded the investigation to the ALJ for a hearing as to two patents and decided not to review the summary determination as to the third patent. An evidentiary hearing including the issue

on remand has been set for March 3-10, 2017.

**The 972 Investigation**

Complainants Diebold Self-Service Systems and Diebold, Incorporated filed a complaint against HS Global, Inc., Nautilus Hyosung America, Inc., and Nautilus Hyosung Inc. alleging infringement of six patents. On April 22, 2016, Nautilus filed a motion for summary determination that the claims of one of the patents were invalid under Section 101. On June 28, 2016, ALJ Lord issued an initial determination granting the motion. The Commission decided not to review the initial determination.

**The 947 Investigation**

Complainant Cree, Inc. filed a complaint against Feit Electric Company, Inc., Feit Electric Company, Inc. (China), Unity Microelectronics, Inc., and Unity Opto Technology Co., Ltd. alleging infringement of eight patents. The respondents challenged two of the asserted patents based on invalidity under Section 101. In the initial determination, ALJ McNamara found that the respondents had failed to prove by clear and convincing evidence that the claims were invalid under Section 101 and that the claims were directed to solving a technical problem.

**The 944 Investigation**

In the 944 Investigation, Cisco Systems, Inc. asserted six patents against Arista Networks, Inc. On July 9, 2015, Arista filed a motion for summary determination that the claims of one of the patents were invalid under Section 101. ALJ Shaw issued an order denying Arista’s motion on July 29, 2015. In the order, ALJ Shaw found that there was an issue of material

fact as to the scope of the claims, and the claims had yet to be construed. ALJ Shaw therefore found that Arista had failed to show that it was entitled to summary determination as a matter of law.

Arista asserted during the hearing that three of the six patents were invalid under Section 101, including the patent that had been the subject of the motion for summary determination. In the initial determination, ALJ Shaw held that the claims were patent-eligible. ALJ Shaw held that the claims of one of the patents were “directed to a specific thing . . . and not an abstract idea” and the “patent claims describe not only the desired functionality, but also a specific and non-generic arrangement of components within a particular type of device to carry out that functionality within the device, thereby improving the device.” ALJ Shaw further held that the other two patents were directed to a specific device configured in a specific way and that “[t]hese physical devices and structures are the opposite of an idea, having no particular concrete or tangible form.” In addition, ALJ Shaw held that the patents covered an inventive concept that solved a problem in the art. The Commission affirmed the initial determination as to the two patents and did not reach the issue as to the first patent in view of a finding of assignor estoppel.

**Overlap Between the ITC and the PTAB**

Regarding the effects of concurrent proceedings at the ITC and the PTAB, this year the ITC addressed both the impact of institution of an *inter partes* review (IPR) by the PTAB early in an investigation and the impact of a final written decision on the remedy phase of an investigation. The

decisions indicate that in both situations the ITC is unlikely to alter investigation schedules or substantive determinations based upon PTAB proceedings.

In the 983 Investigation, the PTAB instituted review of two of the three asserted patents more than two weeks before the ITC complaint was filed. Following institution of the investigation, the respondents filed a motion to stay pending review of the patents by the PTAB. The ALJ considered the following factors in deciding the motion: “(1) the state of discovery and the hearing date; (2) whether a stay will simplify the issues and hearing of the case; (3) the undue prejudice or clear tactical disadvantage to any party; (4) the stage of the PTO proceedings; and (5) the efficient use of Commission resources.”

In denying the motion, the ALJ found that the status of the IPR proceedings did not provide a reason to stay the investigation because there was time to integrate any insights from the PTAB before the issuance of the initial determination. The hearing at the ITC was scheduled for September 8-13, 2016, and the final written decisions were scheduled to issue in November 2016, six months before the target date. The ALJ further found that the IPR proceedings did not necessarily simplify the issues, as the PTAB applied a different claim construction standard, the PTAB could not consider indefiniteness under 35 U.S.C. § 112, and the respondents indicated an intention to advance prior art devices as part of the ITC investigation, which could not be considered by the PTAB. In addition, the ALJ found that the respondents may gain a tactical advantage from a stay. Finally, the ALJ found that the two proceedings were “not truly parallel because this investigation involves numerous other

issues separate from the IPRs,” including one patent not subject to the IPR proceedings.

In the 939 Investigation, a final written decision from the PTAB issued after the final initial determination, but before the Commission issued its decision. The final written decision found certain claims subject to the investigation invalid. The Commission requested additional briefing regarding the effect of the final written decisions on the Commission’s final determination. In addressing the impact of the final written decision on the ITC investigation, the Commission found that the respondent had failed to meet the burden for applying issue preclusion and did not provide arguments related to any of the four factors for issue preclusion. The Commission further commented that issue preclusion did not apply because the ITC and the PTAB apply different standards. The Commission also declined to adopt the logic applied by the PTAB because the respondent had failed to meet its burden of proof for invalidity at the ITC and the arguments between the two proceedings were not identical. The Commission therefore found a violation of Section 337 and issued a limited exclusion order, as well as cease and desist orders. In view of the PTAB proceedings, however, the Commission exercised its discretion and suspended the enforcement of the remedial orders directed to the patent that was the subject of the PTAB’s final written decision finding certain claims invalid.

### **Federal Circuit Decisions Addressing ITC Jurisdiction of Electronic Transmissions**

Under Section 337, the ITC has jurisdiction over unfair acts involving the

importation of “articles.” In 2014, the Commission addressed its jurisdictional authority under Section 337, finding it had jurisdiction over electronically imported data. In 2015, the Federal Circuit reversed the Commission.<sup>37</sup> The issue on appeal was whether “articles” include digital data. The Federal Circuit found that “articles” in Section 337 refers to “material things” and does not include the transmission of digital data.

The Federal Circuit first analyzed contemporaneous dictionary definitions and determined that the term “articles” is limited to a “material thing.” The Federal Circuit then analyzed use of the term “articles” within Section 337 and found that such use reinforced its determination that “articles” means “material things.” Finally, the Federal Circuit also looked at the Tariff Act in its entirety as well as the legislative history, and determined that each supported its conclusion that “articles” is limited to “material things.” Judge Newman dissented, arguing that the purpose of Section 337 was to protect against every type of unfair competition arising from importation. Judge Newman also claimed that the majority’s opinion conflicts with decisions from the U.S. Supreme Court, the Federal Circuit, and the ITC.

The ITC and intervenor Align Technology, Inc. requested rehearing *en banc*. On March 31, 2016, the Federal Circuit denied the request for rehearing.<sup>38</sup> Judge Newman again dissented, expanding on her position that the Federal Circuit’s decision conflicts with decisions from multiple courts and agencies. Judge Newman also argued that “Section 337 does not depend on the mode of importation; it depends on whether the

imported goods infringe a patent or copyright or trademark or design.” In Judge Newman’s view, the statute was not limited by the time of enactment, but was meant to cover later-discovered technologies. The concurrence addressed these arguments, finding that the fact that Congress has not acted to expand the ITC’s jurisdiction supported the majority’s decision, not the dissent, and viewed it as the responsibility of Congress to change the statute if the intent was to cover electronic transmissions.

Neither the ITC nor Align filed a petition for writ of certiorari, effectively eliminating the possibility of overturning the Federal Circuit’s decision judicially. At this point, Congress must amend the statute in order for the ITC to have jurisdiction over electronic transmissions.

### **The ITC Beyond Patents**

In addition to patent infringement, Section 337 investigations cover a variety of unfair acts, including trademark infringement, copyright infringement, trade secret misappropriation, unfair competition, false advertising, or other unfair acts. While patent infringement alone remains the most frequently alleged unfair act, 2016 saw an increase in the number of investigations based solely on trade secret misappropriation, the number of investigations including other unfair acts in addition to patent infringement, and the number of investigations including multiple allegations of unfair acts where patent infringement is not alleged.<sup>39</sup>

An example of this recent trend is the 963 Investigation in which Jawbone accused Fitbit of infringing six patents and further alleged trade secret misappropriation. As discussed above, ALJ Lord

granted Fitbit's motions for summary determination as to four of the six patents, finding them directed to patent-ineligible subject matter and invalid under Section 101. The remaining two patents were withdrawn. As a result, the hearing proceeded exclusively on the trade secret misappropriation allegations. ALJ Lord ultimately found no violation of Section 337 based on the finding that Jawbone had not demonstrated trade secret misappropriation. Jawbone has appealed.

The scope of the ITC's jurisdiction over trade secret misappropriation claims is currently being challenged by petition for writ of certiorari to the U.S. Supreme Court. In 2011, the Federal Circuit held the ITC has jurisdiction over allegations of trade secret misappropriation that occur outside of the United States if it protects domestic industries from injuries in the U.S. market arising out of that unfair competition.<sup>40</sup> In *TianRui*, the Federal Circuit found that "the foreign 'unfair' activity at issue in this case is relevant only to the extent that it results in the importation of goods into this country causing domestic injury." In other words, the Federal Circuit found that the ITC does not regulate foreign conduct, but foreign conduct may be used as a predicate for determining a violation under Section 337 and providing a domestic remedy.

The *TianRui* holding is being challenged at the Supreme Court by Sino Legend (Zhangjiagang) Chemical Co., Ltd. (Sino Legend).<sup>41</sup> By way of background, SI Group, Inc. brought multiple actions in China against Sino Legend, alleging trade secret misappropriation, none of which resulted in a finding of trade secret misappropriation. While certain of those actions were pending, SI Group filed

a complaint with the ITC, which was instituted on June 26, 2013. The ALJ issued an initial determination finding trade secret misappropriation and injury to domestic industry. Based on the Federal Circuit's holding in *TianRui*, the ALJ held that it had subject matter jurisdiction. The Commission affirmed in part, including the finding of subject matter jurisdiction. The Federal Circuit issued a summary affirmance and denied a request for rehearing.

On September 30, 2016, Sino Legend filed its petition for writ of certiorari with the U.S. Supreme Court. In its petition for writ, Sino Legend argued that the ITC lacks jurisdiction over misappropriation of trade secrets that occurs entirely abroad and that the Federal Circuit's holding in *TianRui* is inconsistent with the Supreme Court's rulings on extraterritorial application of federal statutes. Sino Legend further argued that this issue has important practical consequences, including whether the ITC's findings may contradict the findings of foreign courts and whether the ITC may adjudicate any issue that qualifies as an unfair business practice anywhere such act may occur. On November 1, 2016, the Trade Remedy and Investigation Bureau of the Ministry of the Commerce of the People's Republic of China filed an amicus brief.

On December 6, 2016, the ITC and Acting Solicitor General (Federal Respondent), as well as SI Group, filed opposition briefs. Federal Respondent argued that *TianRui* was correctly decided and that the object of Section 337 is importation and injury. Accordingly, Section 337 does not seek to regulate unfair competition generally, but only in connection with importation and injury to a domestic industry. Federal Respondent

further argued that this case is a poor vehicle for deciding this issue because: (1) the Federal Circuit did not issue a written decision and the affirmance may have rested on ground independent of *TianRui*, and (2) the question presented is not of great ongoing significance since the ITC only rarely considers trade secret misappropriation and the Defend Trade Secrets Act of 2016, which expressly applies to conduct occurring outside of the United States, provides an alternative avenue for redress. Federal Respondent also disagreed with Sino Legend's arguments that the ITC may expand the scope of its jurisdiction to include other areas of practices as unfair business practice and that this case raises foreign policy risks.

The Supreme Court should issue a decision on Sino Legend's petition for writ in early 2017.

## Statistical Review of 2016 at the ITC

The ITC provides statistical information relating to Section 337 investigations each year.<sup>42</sup> This section analyzes those statistics. In 2016, the ITC saw an increase in the number of investigations, including the number of new complaints and ancillary proceedings (79), the number of completed investigations and ancillary proceedings (64), and the number of active investigations (117) compared with recent previous years. Patents continue to dominate the type of alleged unfair act, but 2016 saw a slight increase in the number of investigations based upon trade secret misappropriation or on multiple types of unfair acts. In addition, the type of accused product is changing; there was a decrease in certain high-tech fields, such as integrated

circuits and LCD/TVs, and an increase in pharmaceuticals and medical devices. The below chart shows the types of accused products included in new filings.

With respect to the number of patents per investigation, over 40 percent of the investigations involved only one to two patents, followed by three or four patents (31 percent). Investigations involving five or more patents represent less than 30

percent of the investigations. The number of respondents per investigation also decreased in 2016; nearly 70 percent of investigations involved fewer than five respondents.

Only about 35 percent of the filed investigations reached final resolution. Almost 50 percent are resolved through settlement or consent orders, and the complaints are withdrawn in another 17

percent of filed investigations. For new investigations, roughly 25 percent include the delegation of public interest factors to the ALJ. For those investigations that go through final resolution, nearly 70 percent result in a finding of a violation. The average pendency for an investigation is 10.8 months—and that figure increases to 15.8 months for an investigation decided on the merits.

**Types of Accused Products in New Filings by Fiscal Year (Percent of Total Cases Filed) (Updated Annually)<sup>43</sup>**

| Product Type                             | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|------|------|------|------|------|------|------|------|
| Automotive/Manufacturing/Transportation  | 7    | 5    | 4    | 4    | 8    | 11   | 9    | 11   |
| Chemical compositions                    | 2    | 0    | 1    | 2    | 2    | 2    | 0    | 3    |
| Computer and telecommunications products | 17   | 19   | 25   | 27   | 35   | 27   | 27   | 23   |
| Consumer electronics products            | 10   | 12   | 15   | 18   | 4    | 6    | 9    | 4    |
| Integrated circuits                      | 12   | 14   | 6    | 16   | 2    | 5    | 5    | 1    |
| LCD/TV                                   | 7    | 14   | 17   | 4    | 0    | 5    | 5    | 0    |
| Lighting products                        | 7    | 3    | 5    | 2    | 5    | 2    | 2    | 1    |
| Memory products                          | 7    | 3    | 5    | 0    | 2    | 6    | 0    | 1    |
| Pharmaceuticals and medical devices      | 7    | 2    | 5    | 5    | 15   | 12   | 5    | 16   |
| Printing products                        | 5    | 9    | 4    | 2    | 0    | 2    | 6    | 1    |
| Small consumer items                     | 5    | 3    | 8    | 10   | 8    | 16   | 9    | 4    |
| Other                                    | 14   | 16   | 5    | 10   | 19   | 6    | 23   | 35   |

## Awards of Fees After *Octane Fitness*

With the U.S. Supreme Court's landmark decisions in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*<sup>44</sup> and *Highmark Inc. v. Allcare Health Management System, Inc.*,<sup>45</sup> parties have increasingly relied on the threat of attorneys' fee awards to deter litigation. In this section, we discuss the current state of fee jurisprudence and strategies for teeing up a successful fee motion.

### Key Statutes and Rules

There are four usual grounds for obtaining attorneys' fees at district court in a patent case: (1) 35 U.S.C. § 285; (2) 28 U.S.C. § 1927; (3) Fed. R. Civ. P. 11; and (4) inherent power.

Section 285 is the only statute specific to patent cases, and it provides the lowest threshold for obtaining fees. The statute merely states: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." Given the lower threshold, many fee motions rely exclusively or primarily on Section 285 to obtain fees. Indeed, fee awards in patent cases using other bases are comparatively infrequent.

Section 1927 applies a higher standard to both parties and their attorneys: "Any attorney or other person . . . who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys' fees reasonably incurred because of such conduct."

Rule 11 provides a potential basis for fees if a party files or argues a position that is "presented for any improper purpose," is

not warranted by law, or lacks evidentiary support. Rule 11 provides a 21-day safe harbor to allow the other side to withdraw or correct its actions to avoid a Rule 11 motion.

A court may also award fees under inherent power or authority when a losing party has acted in bad faith, vexatiously, wantonly, or for oppressive reasons.<sup>46</sup>

On appeal, litigants can also obtain fees under Fed. R. App. P. 38, though such cases are uncommon. The last decision finding an appeal to be frivolous in a patent case was in 2009.<sup>47</sup>

### Key Cases

In two unanimous decisions—*Octane Fitness* and *Highmark*—the Supreme Court ostensibly lowered the standards for granting and reviewing attorneys' fees under Section 285, overturning the rigid standard of *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*<sup>48</sup> Under *Brooks Furniture*, the Federal Circuit had applied *de novo* review in requiring clear and convincing evidence that a case either: (1) involve litigation-related misconduct or (2) be both "objectively baseless" and "brought in subjective bad faith."

In *Octane Fitness*, the Supreme Court held that an "exceptional" case "is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." Citing copyright law, the court enumerated a list of "nonexclusive" factors that could

be addressed, including "frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence." The Court also held that the clear and convincing evidence standard was not justified and that patent litigation has always been governed by a preponderance of the evidence standard. In *Highmark*, the Supreme Court held that the appropriate standard of review was abuse of discretion.

### The Effect of *Octane Fitness* and *Highmark*

*Octane Fitness* and *Highmark* have resulted in an increased number of attorneys' fees motions and grants. Data shows that in the two-and-a-half years since *Octane Fitness*, there have been 519 decisions regarding motions for attorneys' fees under Section 285.<sup>49</sup> In these decisions, attorneys' fees were granted 109 times and denied 215 times. In comparison, in the two-and-a-half years prior to *Octane Fitness*, there were 267 decisions regarding fees, and attorneys' fees were granted 44 times and denied 115 times. From January 2008 until the issuance of *Octane Fitness*, there were 750 decisions in total, and attorneys' fees were granted 114 times and denied 273 times.<sup>50</sup> In aggregate, the number of motions filed per year has nearly doubled, while the grant rate has increased slightly from 16.5 percent to 21 percent.

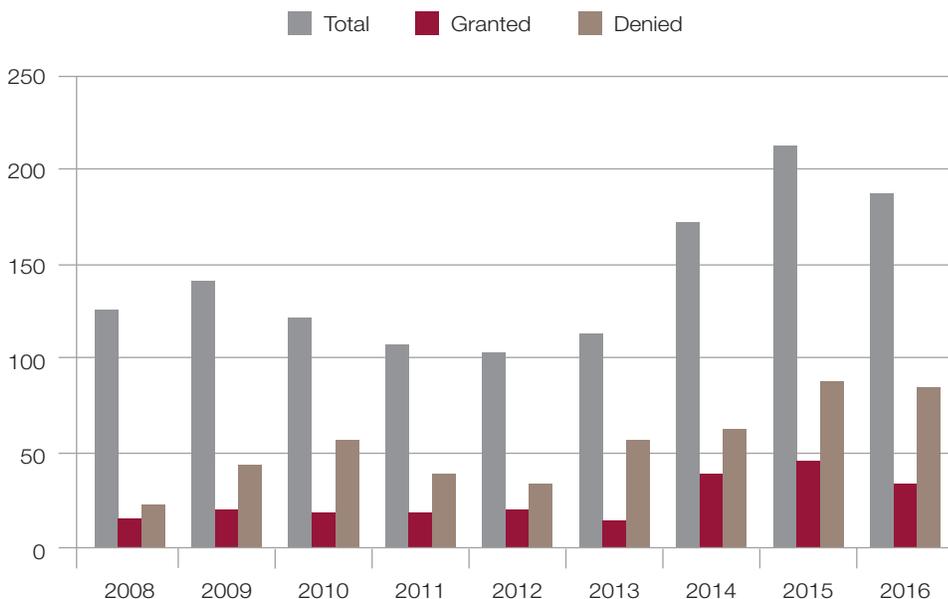
It is difficult to discern whether any meaningful increase in the overall grant

rate has resulted from *Octane Fitness* and *Highmark*. The rate of grants had already been increasing year over year. The grant rate did increase substantially between 2013 and 2014, when the Supreme Court decided *Octane Fitness* and *Highmark*, but the grant rate has been falling in recent years, perhaps reverting to the mean following the initial spike.

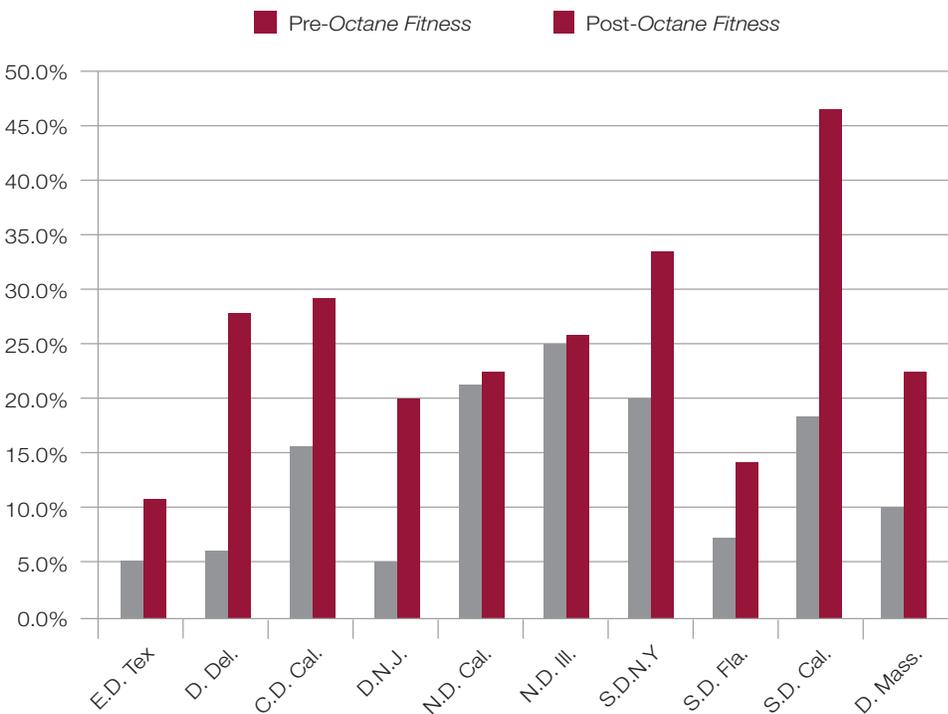
Aggregate statistics might not tell the entire story. When broken down on a district-by-district basis, the statistics show that, in many districts, the odds of success on fee motions have increased after *Octane Fitness*. For example, in the Eastern District of Texas, the odds of success have more than doubled from 5.1 percent to 11.1 percent. In the District of Delaware, the odds of success have more than quadrupled from 6.1 percent to 28 percent. And in the Southern District of California, the odds of success have jumped from 18.2 percent to 46.7 percent. Many districts, including the Northern District of California and the Northern District of Illinois, have seen little effect on their overall grant rates as a result of *Octane Fitness*, which has caused the national grant rate to remain steadier. The below chart indicates the extent to which the success rate varies by district. After *Octane Fitness*, movants are much more likely to see a fee motion granted in any of the top 10 patent districts, other than the Eastern District of Texas. In fact, litigants are on average more than twice as likely to win a fee motion in any such district compared to the Eastern District of Texas.

Nonetheless, fee grants still tend to be relatively rare on an overall basis, especially when compared to the sheer

### Orders Regarding Section 285



### Grant Rate of Section 285 Motions by District



number of patent cases that are filed each year. This is likely because post-*Octane Fitness* courts have noted that the default “American Rule” still does not allow for fee-shifting, unlike the “English Rule.”<sup>51</sup> As the Federal Circuit recently warned, “fees are not awarded solely because one party’s position did not prevail.”<sup>52</sup> For example, fees are not awarded just because an asserted patent is not infringed and invalid.<sup>53</sup> Rather, cases meriting fee awards under the exceptional standard are still “rare” and typically involve “egregious facts.”<sup>54</sup> Indeed, the Federal Circuit has even explained that “the district court must consider whether the case was litigated in an unreasonable manner as part of its exceptional case determination, and that district courts can turn to [its] pre-*Octane Fitness* case law for guidance.”<sup>55</sup>

For example, the Federal Circuit affirmed a denial of fees in *SFA Sys., LLC v. Newegg Inc.*, stating that the plaintiff’s claim construction and indefiniteness positions “did not stand out” since there was some chance of success and explaining that it is the “substantive strength of the party’s litigating position” that is relevant to an exceptional case determination, not the correctness or eventual success of that position.<sup>56</sup>

The court also found that the plaintiff’s litigation strategy was not unreasonable where (1) the plaintiff dismissed its claims once it was faced with the prospect of a trial in which the merits of its claims would be tested; (2) the plaintiff sued many defendants for infringement of the same patents; and (3) the plaintiff frequently settled with defendants for relatively small amounts.<sup>57</sup>

In contrast, fees were granted in *Kilopass Tech. Inc. v. Sidense Corp.* where the plaintiff’s case was objectively baseless and exceptionally weak.<sup>58</sup> There, the plaintiff had obtained an opinion from one counsel that there was no literal infringement and an incomplete opinion from a different counsel as to infringement under the doctrine of equivalents. Additionally, the plaintiff litigated the action in an unreasonable manner by failing to conduct an adequate pre-filing investigation, shifting its theories of infringement late in the litigation and without following the proper procedures for amendment of contentions, and engaging in gamesmanship. Thus, the court concluded that the case stood out from others.

Likewise, an award of fees was affirmed in *Lumen View Tech. LLC v. Findthebest.com Inc.*,<sup>59</sup> where there was egregious conduct or bad faith. In *Lumen View*, a Southern District of New York court found that the plaintiff’s infringement case was frivolous and unreasonable because its allegations of infringement were ill-supported due to its proposed claim constructions. As the judge explained, “[n]o reasonable litigant could have expected success on the merits in [plaintiff’s] patent infringement lawsuit against [defendant] because the [asserted] patent claimed a bilateral matchmaking process requiring multiple parties to input preference information, while [defendant’s] feature utilizes the preference data of only one party.”

### Strategies for Fee Motions

Courts take into consideration whether—when it became apparent that a case may be exceptional—the requesting party sent a letter to put opposing counsel on notice

and to create a record of any subsequent bad conduct to bolster the case for fees. Although the law no longer requires bad faith, any documented bad acts make fee motions much more likely to win. For example, in *Lumen View*, the court took into account the fact that defense counsel had sent a letter explaining that the defendant’s accused functionality did not use the claimed process, yet the plaintiff “proceeded with an obviously baseless lawsuit, failing to point to any specific way in which [defendant] infringed the patent.” This also extends to requesting fees under statutes and rules other than Section 285, which have more difficult standards to meet. Parties planning to seek fees should be certain that the letter goes to all potential parties and their counsel and to resend the letter when there is a change of counsel.<sup>60</sup>

The timing of a fee motion is also important. Fed. R. Civ. P. 54 requires filing a fee motion within two weeks of the entry of judgment, and appeals do not extend the time to file. After two weeks, Rule 54 precludes the ability to win fees in the interest of judicial finality and certainty.<sup>61</sup> Most local rules match this timing, but some do not. For example, the District of Delaware has a local rule that allows up to 21 days in settled cases to file a motion for fees. It is possible to extend this deadline, but extensions are generally only allowed pursuant to a stipulation or motion filed within the two-week deadline.

Note also that the judgment must be in the fee movant’s favor. Although fees are not granted just for winning, fees are only granted to prevailing parties. Parties that have not won anything on the merits are not entitled to fees by motion to the

court.<sup>62</sup> This does not require litigating through trial, but does require winning something, such as a motion to dismiss or a motion for summary judgment.

In addition to Fed. R. Civ. P. 54's requirement of stating "the amount sought" or "a fair estimate of it," local rules often have detailed requirements for fee motions. For example, the Northern District of California's Civil Local Rule 54-5 requires meeting and conferring in advance of filing, "a statement of the services rendered by each person for whose services fees are claimed together with a summary of the time spent by

each person," "a statement describing the manner in which time records were maintained," and "a brief description of relevant qualifications and experience and a statement of the customary hourly charges of each such person or of comparable prevailing hourly rates or other indication of value of the services." Such requirements may present sensitivities relating to the disclosure of the precise amount of fees requested, billing arrangements, hourly rates, timesheets, or internal firm procedures. Local law and rules may allow for the filing of such documents under seal or providing them only for *in camera* review.

For example, Civil Local Rule 54-5 states: "Depending on the circumstances, the Court may require production of an abstract of or the contemporary time records for inspection, including *in camera* inspection, as the Judge deems appropriate . . ." It remains to be seen whether the increase in attorneys' fees motions and grants in the wake of the Supreme Court's *Octane Fitness* and *Highmark* decisions will continue in the coming years. Regardless, litigants can implement the above strategies to best position themselves and increase the odds for potential fee awards.

## Other Recent Developments in Patent Litigation

### 2016 Key Decisions in Patent Litigation

In addition to developments in 2016 in Section 101 jurisprudence, at the ITC, and in the award of attorneys' fees, the U.S. Supreme Court and the Federal Circuit have issued the below impactful decisions.

#### **Patent Exhaustion**

In a decision that is now pending at the Supreme Court, on February 12, 2016, the Federal Circuit upheld limits to the patent exhaustion doctrine, in *Lexmark International, Inc. v. Impression Products, Inc.*<sup>63</sup> despite recent Supreme Court decisions questioning the same. The Federal Circuit relied on the language of the Patent Act and Federal Circuit case law to confirm that (1) a patentee

that sells a patented article with resale/reuse restrictions does not forfeit its rights to charge the buyer that engages in restricted infringing acts, and (2) a patentee that approves foreign sales—even without a reservation of rights—does not exhaust its U.S. patent rights.

Patent exhaustion—also referred to as the "first sale" doctrine—is an affirmative defense that acts as a limit on the patent owner's statutory right to control what purchasers can do with an article embodying a patented invention after its first authorized sale. In other words, once a patented good is sold with the permission of a patent owner, no suit for infringement can be brought as to that article's use or resale. The basic doctrine of patent exhaustion has been available as a defense since at least the mid-19th century, but has evolved over time. In

*Mallinckrodt, Inc. v. Medipart, Inc.*,<sup>64</sup> the Federal Circuit held that a patentee, when selling a patented article subject to a lawful and clearly communicated single-use/no-resale restriction, does not exhaust its rights and give downstream buyers the resale/reuse authority that has been expressly denied. In *Jazz Photo Corp. v. International Trade Comm'n*,<sup>65</sup> the Federal Circuit held that when a U.S. patentee merely sells or authorizes the sale of a U.S.-patented article abroad, such action does not authorize the buyer to also import the article for sale and use in the U.S., which are infringing acts in the absence of patentee-conferred authority. Finally, in *Quanta Computer, Inc. v. LG Electronics, Inc.*,<sup>66</sup> the Supreme Court found exhaustion where a license agreement broadly authorized a licensee to sell the patented article without restriction despite contrary conditions

included in a master agreement, and also held that the doctrine encompasses the sale of incomplete articles that “substantially embody” a patented system or method. The recent *Lexmark* decision is the latest confirmation of the limits of patent exhaustion defense.

Lexmark International, Inc. owns patents covering toner cartridges and the use of those cartridges, and makes “first sales” of those cartridges domestically and abroad to resellers and end users. Lexmark sells two types of cartridges: full-price “regular cartridges” that are not subject to resale/reuse restrictions—they can be refilled when empty and resold—and discounted “return program cartridges” that are subject to no-resale/single-use restrictions—they include a microchip that monitors toner levels and prevents refills. Third parties hack the microchip technology that restricts refills of the discounted return program cartridges and sell them to resellers—including Impression Products, Inc.—for use in Lexmark printers. In 2010, Lexmark sued Impression for direct and contributory infringement under 35 U.S.C. § 271, alleging that Impression acquired hacked cartridges and sold/imported the cartridges into the United States. Impression disputed liability on the ground that Lexmark had exhausted its U.S. patent rights in the cartridges by its initial sales. Although the return program cartridges were sold with use restrictions, the district court held that “those post-sale use restrictions do not prevent patent rights from being exhausted given that the initial sales were authorized and unrestricted.” The district court concluded that the Supreme Court’s decision in *Quanta* “overruled” the Federal Circuit’s decision in *Mallinckrodt* “sub silentio.” Accordingly, the district court dismissed

Lexmark’s infringement claims regarding the return program cartridges sold in the United States. However, the district court held that patent exhaustion did not apply to the cartridges first sold abroad, and found Impression to have infringed where it hacked and refilled return program cartridges initially sold abroad. Impression appealed, and Lexmark cross-appealed, to the Federal Circuit.

Acknowledging that patent infringement is limited to “whoever without authority makes, uses, offers to sell, or sells any patented invention,” the Federal Circuit concluded that the patentee preserves its rights to sue for infringement when “[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.” In short, the court found that *Mallinckrodt* was not disrupted by *Quanta*, and concluded that a “first sale” does not exhaust patent rights when the patentee has restricted the buyer’s post-sale use. Accordingly, the clearly communicated refill restrictions that Lexmark placed on purchases of the return program cartridges saved Lexmark from exhausting its patent rights through those sales. The court also upheld *Jazz Photo*, finding that U.S. rights are not waived, “either conclusively or presumptively, simply by virtue of a foreign sale.”

The Supreme Court granted Impression’s petition for certiorari on December 2, 2016, and its decision will affect the future scope of the patent exhaustion doctrine. Responding to a request by the Supreme Court, the U.S. solicitor general disputed the Federal Circuit’s decision, arguing that allowing a patent holder to bypass the

exhaustion doctrine by placing specific restrictions on how a buyer can use or resell a patented product is contrary to Supreme Court precedent and that the Federal Circuit was wrong to hold that an overseas sale never exhausts U.S. patent rights in a patented product. Until the Supreme Court weighs in, patent owners seeking to avoid exhaustion of their U.S. patent rights through sales should consider imposing clearly communicated post-sale restrictions on purchasers, both in their own product sales and in licensing arrangements by requiring licensees to likewise communicate restrictions on purchasers. Buyers should consider negotiating licenses from sellers that clearly set forth the right to use, resell, or import to avoid unintended infringement disputes. The content and communication of post-sale restrictions also present an open question. Finally, limits on the patent exhaustion doctrine could raise patent misuse concerns. Though also not at issue in *Lexmark*, the Federal Circuit specifically noted that a particular restriction may give rise to a patent-misuse defense, constitute an antitrust violation, or exceed the scope of the Patent Act’s express grant of exclusive rights over patented articles.

### **Willfulness**

On June 13, 2016, the Supreme Court set forth a new standard for awarding enhanced damages in patent infringement cases, in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*<sup>67</sup> In its decision, the court unanimously rejected the Federal Circuit’s two-prong *Seagate* test for enhanced damages under 35 U.S.C. § 284 as “unduly rigid” and inconsistent with the text of Section 284. The Court also clarified the standard of proof and standard of review related to enhanced

damages determinations. By striking down the Federal Circuit's *Seagate* framework and allowing district courts to evoke the statutory discretion intended by Congress, the court potentially opened the door to increased treble-damage awards for willful patent infringement.

Pursuant to Section 284, "the court may increase the damages up to three times the amount found or assessed" for patent infringement. While the Federal Circuit has always held that damages may only be enhanced where infringement is willful, in 2007, the court adopted a heightened two-part test for determining when a district court may use its discretion in awarding enhanced damages.<sup>68</sup> Specifically, the *Seagate* test required that, in order to show willful infringement, a patentee must show by clear and convincing evidence that (1) "the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent," and (2) the risk of infringement "was either known or so obvious that it should have been known to the accused infringer." As a result, enhanced damages could not be awarded if a defendant presented an objectively reasonable defense of noninfringement or invalidity, even if the defense proved unsuccessful at trial.

In 2007, petitioner Halo Electronics, Inc. sued respondents Pulse Electronics, Inc. and Pulse Electronics Corporation. Halo alleged that Pulse infringed its patents directed to electronic packages containing transformers designed to be mounted to the surface of circuit boards. The jury found that Pulse had infringed Halo's patents and that there was a high probability that Pulse had done so willfully. Nevertheless, the district court

declined to award enhanced damages because Pulse presented a defense that "was not objectively baseless, or a sham." The Federal Circuit affirmed and Halo petitioned for certiorari. In a separate lawsuit in 2010, petitioners Stryker Corporation, Stryker Puerto Rico, Ltd., and Stryker Sales Corporation sued respondents Zimmer, Inc. and Zimmer Surgical, Inc. Stryker alleged that Zimmer infringed Stryker's patents covering pulsed lavage devices that are used to clean tissue during surgery. The jury found Zimmer liable for \$70 million for having willfully infringed Stryker's patents. Having heard testimony that Zimmer "all-but instructed its design team to copy Stryker's products," the district court found that treble damages were appropriate under Section 284. The Federal Circuit affirmed the judgment of infringement but vacated the award of treble damages, and Stryker petitioned for certiorari. The Supreme Court granted Halo's and Stryker's petitions for certiorari and consolidated the cases.

Relying on the plain language of Section 284 and nearly two centuries of enhanced damages jurisprudence, the Supreme Court rejected *Seagate*'s "objectively reckless" standard and the accompanying standard of appellate review. Specifically, the Court explained that the *Seagate* test was inconsistent with the congressional intent of Section 284 for at least three reasons: (1) culpability was assessed at the time of litigation rather than infringement; (2) the standard of proof for showing enhanced damages was too high; and (3) the appellate standard of review was too cumbersome. First, the Court explained that culpability is typically measured against the knowledge of the act at the time of the challenged conduct,

rather than via post-hoc attorney argument. Accordingly, under *Seagate*, one "who plunders a patent—infringing it without any reason to suppose his conduct is arguably defensible—can nevertheless escape [liability] solely on the strength of his attorney's ingenuity." The Court determined that permitting an infringer to dodge enhanced damages for reasons not contemplated at the time of infringement is erroneous. Second, the Court explained that *Seagate* inappropriately requires the patentee to prove enhanced damages by clear and convincing evidence, rather than the preponderance of the evidence standard typically applied in patent infringement litigation. Third, the Court explained that *Seagate* erroneously required "trifurcated appellate review," i.e., (a) de novo review for objective recklessness, (b) substantial evidence for subjective knowledge, and (c) abuse of discretion for the ultimate question of enhanced damages. In overturning *Seagate*, the Supreme Court declined to replace the Federal Circuit's test with a specific analytical framework and instead explained that there is no precise rule or formula for awarding damages under Section 284. Rather, the Court held that enhanced damages are to be applied at the discretion of the district court, and the Federal Circuit is to review those decisions for an abuse of discretion. The Court also lowered the burden of proof from clear and convincing evidence to a preponderance of the evidence for proving enhanced damages.

By eliminating the bright-line rule developed by the Federal Circuit, the Supreme Court's ruling could make enhanced damages easier to obtain and to uphold on appeal. However, the *Halo Electronics* decision leaves much

open to the district court's discretion. For example, going forward, district courts will need to determine whether cases that are less than "egregious" warrant enhanced damages. Additionally, district courts will need to determine the proper role of freedom-to-operate opinions in deciding whether an infringer's conduct was "willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate." Accordingly, with the focus now on an alleged infringer's subjective intent, there may be an increased number of situations where clients will consider obtaining an opinion letter from counsel for the purpose of reducing the risk of enhanced damages for patent infringement.

### **Damages**

On December 6, 2016, the Supreme Court addressed in *Samsung Electronics Co. v. Apple Inc.*<sup>69</sup> whether design patent damages should be apportioned to only the infringing component or cover the total profit from a multicomponent device. In its much-anticipated decision, the court unanimously reversed the Federal Circuit's affirmation of Apple's \$399 million design patent damages jury award. According to the decision, the Federal Circuit erred in holding that under 35 U.S.C. § 289 damages could be awarded based only on the multicomponent end product sold to the consumer.

Section 289 provides that damages for the infringement of a U.S. design patent shall be the total profit from an "article of manufacture" to which the patented design, or a colorable imitation thereof, has been applied. Assessing damages under Section 289 involves two steps: (1) identifying the relevant "article of

manufacture," and (2) calculating the infringer's total profit from that "article of manufacture."

The courtroom battle between longtime competitors Apple Inc. and Samsung Electronics Co. began in 2011 when Apple sued Samsung for copying the look and feel of Apple's iPhones and iPads. Among the asserted intellectual property were three design patents that protected the distinctive face of Apple's iPhone, including the rectangular front face, rounded corners, raised rim, and the grid of colored icons. In August 2012, a California jury found that Samsung released a series of smartphones that infringed Apple's design patents and awarded Apple damages that ultimately amounted to \$399 million—Samsung's total profit from the sale of the infringing smartphones. On appeal, the Federal Circuit affirmed the damages award based on its interpretation of Section 289, holding that the relevant "article of manufacture" was the entire infringing product sold to a consumer (e.g., Samsung's smartphone) and not an infringing component of the smartphone (i.e., the smartphone's screen or case).

The Supreme Court reversed and remanded, holding that "[t]he term 'article of manufacture,' as used in § 289, encompasses both a product sold to a consumer and a component of that product." The Court observed that its expansive reading of "article of manufacture" to include components is consistent with dictionary definitions and other sections of the patent statute—namely 35 U.S.C. § 171(a), which permits design patents for designs extending to a component of a multicomponent product, and Section 101, which permits utility

patents for, among other things, parts of a machine. The Supreme Court explicitly declined to resolve whether, for each of the Apple design patents in question, the relevant "article of manufacture" is the entire phone or a particular component thereof, leaving any remaining issues for the lower courts to address on remand.

By allowing that damages for a design patent may be less than the entire product, the Court's decision could result in lower exposure for design patent infringement. District courts will now need to consider and determine how to apportion profit to particular components that constitute the "article of manufacture." Commentators have also raised concerns that the decision may incentivize copycat commerce, where potential infringers no longer risk losing the entire profit made from an infringing product.

### **Upcoming Cases to Watch**

Three pending cases with the potential to change the patent litigation landscape have been granted certiorari by the Supreme Court for decision this term.

#### **Export of Components**

The Supreme Court has agreed to consider whether the export of a single component can constitute a "substantial portion" within the meaning of 35 U.S.C. § 271(f)(1), in *Life Technologies Corporation, et al. v. Promega Corporation*.<sup>70</sup> The relevant statutory provision, which governs U.S. manufacturers that supply components of patented inventions for use abroad, provides that "[w]hoever without authority supplies or causes to be supplied in or from the United States all or a substantial

portion of the components of a patented invention . . . in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent . . . shall be liable as an infringer.”

Promega Corporation owns and licenses patents that relate to amplifying regions (loci) of DNA containing short terminal repeats (STRs). Promega’s patents claim multicomponent kits for amplifying STR loci, one component of which is an enzyme known as a polymerase. Life Technologies Corporation also manufactures kits for amplifying STR loci. In the United States, LifeTech manufactures only the polymerase component and then ships the polymerase to the United Kingdom, where its kits are assembled and sold worldwide. In 2010, Promega sued LifeTech for infringement of five patents under Section 271(a) and (f)(1). After a jury found that LifeTech infringed Promega’s patents based on worldwide sales of LifeTech’s accused STR kits, the district court vacated the jury award and held that LifeTech did not infringe, in part, because LifeTech supplied only a single component from the United States, where the statute requires the supply of at least two components to satisfy the “substantial portion of the components.”

The Federal Circuit reversed the district court’s decision, finding instead that the “substantial portion of the components” element of Section 271(f)(1) does not require at least two components to be supplied from the United States. Relying on the ordinary meaning of “substantial” and Supreme Court precedent, the Federal Circuit concluded that the supply of a single component of a patented

invention cannot be categorically excluded from the scope of Section 271(f)(1).

The Supreme Court granted LifeTech’s petition for certiorari. Oral argument was heard on December 6, 2016.

### **Laches**

The Supreme Court has agreed to consider whether and to what extent the defense of laches may bar a claim for patent infringement brought within the six-year statutory period under 35 U.S.C. § 286, in *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*.<sup>71</sup> Originating from the English Courts of Equity and existing in the U.S. court system since its founding, the doctrine of laches operates to bar claims by those whose unreasonable delay in bringing suit results in prejudice to the defendant. The Patent Act of 1897 enacted the six-year window for past damages in patent suits that we know today as Section 286. But it was not until 1992 that the Federal Circuit properly addressed whether or not laches is a valid defense in patent infringement: in *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*,<sup>72</sup> the court upheld the defense to patent infringement even where the express statute of limitations applies.

SCA Hygiene Products Aktiebolag produces adult incontinence products, as does First Quality Baby Products, LLC. In 2003, SCA notified First Quality that it believed First Quality was infringing one of its patents, which First Quality disputed. The companies ceased communication on the issue but, in 2004, SCA requested the reexamination of its patent by the U.S. Patent and Trademark Office (USPTO), and in 2007, the USPTO determined that

the patent was valid. In 2010, SCA sued First Quality for patent infringement. First Quality moved for summary judgment because SCA had unreasonably delayed litigation from 2007 to 2010, and the district court granted the motion even though the length of the alleged delay was less than the six-year statutory period.

On appeal, a heavily divided Federal Circuit affirmed *en banc* the district court’s opinion regarding the unreasonable delay. The court reasoned that SCA should have been able to proceed with litigation after the reexamination and that they had not provided evidence to justify the delay. To reach its conclusion, the court considered the language of Section 286, its legislative history, and commentary by one of the draftspersons of the 1952 Patent Act. The court also distinguished the Supreme Court’s decision in *Petrella v. Metro-Goldwyn-Mayer*,<sup>73</sup> which found laches inapplicable to copyright cases.

The Supreme Court granted SCA’s petition for certiorari and may decide the fate of the laches defense in patent infringement cases. In light of the *Petrella* decision, many predict that the Supreme Court will reject the applicability of laches in patent cases.

### **Venue**

The Supreme Court has recently agreed to consider potential restrictions on where patent lawsuits can be filed, in *TC Heartland LLC v. Kraft Food Brands Group LLC*.<sup>74</sup> The scope of patent litigation venue is codified in 28 U.S.C. § 1400(b) and limits venue to judicial districts “where the defendant resides, or where the defendant has committed acts

of infringement and has a regular and established place of business.” Although the Supreme Court held that Section 1400(b) is the sole and exclusive provision controlling venue in patent infringement actions, in *Fourco Glass Co. v. Transmirra Products Corp.*,<sup>75</sup> the Federal Circuit later found that *Fourco Glass* had been implicitly overruled by the 1988 amendment to 28 U.S.C. § 1391 that expanded the definition of residency “[f]or purposes of venue under this chapter” to include “any judicial district in which such defendant is subject to the court’s personal jurisdiction.”<sup>76</sup>

In 2014, Kraft Food Brands Group LLC sued TC Heartland LLC, a liquid sweetener company, in the District of Delaware for allegedly infringing three Kraft patents covering concentrated liquid dispensers. TC Heartland sought to have the case transferred to the Southern District of Indiana, where it is incorporated

and based; Kraft is incorporated in Delaware and based in Illinois.

Upon the denial of its motion by the district court, TC Heartland turned to the Federal Circuit, arguing that certain amendments to Section 1391 included in the Federal Courts Jurisdiction and Venue Clarification Act of 2011 effectively overruled *VE Holding*. The 2011 amendments, in relevant part, replaced the phrase “[f]or purposes of venue under this chapter” with “[f]or all venue purposes.” The 2011 act also introduced a new Section 1391(a) entitled “Applicability of section.” Section 1391(a) now states, in relevant part, that “this section shall govern the venue of all civil actions brought in district courts of the United States[.]” In its decision, the Federal Circuit soundly rejected TC Heartland’s argument about the effect of the 2011 act, and added that the statute was in fact “a broadening of the

applicability of the definition of corporate residence, not a narrowing.”

The Supreme Court granted TC Heartland’s petition for certiorari, and the court’s decision could have wide-ranging implications. While TC Heartland’s arguments are couched in terms of statutory interpretation and legal precedent, the issue of forum shopping is central to the dispute. Because Section 1400(b) does not define corporate residence, if the Supreme Court finds that the 2011 amendments to Section 1391 do not apply to Section 1400(b), plaintiffs in patent infringement actions would likely be able to file suit only in a state in which corporate defendants are incorporated or based. In other words, the decision could threaten patent owners’ ability to seek out favorable courts and could effectively bar the majority of patent suits from some of the most active forums, such as the Eastern District of Texas.

## About WSGR's Patent Litigation Practice

Wilson Sonsini Goodrich & Rosati's patent litigation practice is national in scope, with our attorneys having litigated patent disputes throughout the United States. We have particular experience representing clients before judicial districts with patent-intensive dockets, including the Northern District of California and the Eastern District of Texas. We have also handled scores of patent disputes before administrative tribunals such as the International Trade Commission and the U.S. Patent and Trademark Office's Patent Trial and Appeal Board (PTAB).

With nearly 100 IP litigators and over 65 attorneys admitted to the Patent Bar, WSGR has the experience and resources to represent clients when related patent disputes are being heard in multiple jurisdictions, including parallel proceedings underway in courts and tribunals inside and outside the U.S.

Our patent litigation practice has received national recognition in recent years, including consistent Top 20 rankings in *Corporate Counsel's* Patent Litigation Survey based on the number of patent

disputes handled by the firm. WSGR has also been named to *The National Law Journal's* "IP Hot List," which recognizes 20 firms that have "demonstrated creative strategies for litigation, patent prosecution, licensing, and other transaction work." In addition, WSGR was ranked among the top 15 percent of all law firms for IP litigation in the *BTL Litigation Outlook 2017* report, based on client feedback from in-depth interviews with corporate counsel at the world's largest companies.

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**To view the complete listing of endnotes for this report, please visit**  
<https://www.wsg.com/WSGR/Display.aspx?SectionName=practice/2016-patent-litigation-yir.htm>.

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