Recent U.S. Court Decisions And Developments Affecting Licensing

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Defendants may try to avoid being sued for patent infringement in a district by closing their offices in that district so they have no physical presence there and venue is improper. In determining whether such a district is an appropriate venue for patent infringement litigation, courts may consider whether the alleged infringement occurred in the district and whether suit was filed within a reasonable time. Thus, a patent owner who unreasonably delays in filing a patent infringement suit may lose the ability to sue a defendant in a district where the defendant had a physical presence at the time of infringement, but no longer has a physical presence.

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I. Agreements

MACOM v. Infineon

1. A Patent Licensee's Infringing Activity Outside a Licensed Field of Use Does Not Breach the License

Summary

A patent license agreement with a field of use provision limiting the scope of the licensed activity did not contractually obligate the licensee to refrain from acting outside the scope of the field of use. As a result, a licensee's infringing activity outside the scope of the field of use did not breach the license agreement, and a patent licensor was preliminarily enjoined from treating a license agreement as terminated by a material breach.

Patent license agreements may limit the scope of licensed activities to a certain field of use for the patented technology. In a recent case, the Federal Circuit considered whether a field of use provision imposed a contractual obligation on the licensee to refrain from acting outside the defined field of use.

Background

MACOM sold their GaN semiconductor patents to Infineon and received a license back to practice the patents in a defined "Field of Use" and exclusively practice the patents in an "Exclusive Field." Infineon later accused MACOM of breaching the agreement by making and selling products outside the Field of Use of the license agreement and terminated the agreement, claiming that MACOM's activity was a material breach of the agreement.

MACOM admitted its activity infringed the licensed patents, but claimed its sales were minimal and that any breach had been cured. It then asked a court to declare that the license agreement was wrongly terminated and remained in effect, and to enjoin Infineon from treating the license agreement as being terminated. The court granted a preliminary injunction ordering that the license agreement remain in full force.

The *MACOM* Decision

On appeal, Infineon argued that a preliminary injunction was not warranted because MACOM's activity breached the following license agreement provision and the implied covenant of good faith and fair dealing:

[Infineon] hereby grants to [MACOM] the following: a) a worldwide, royalty-free, fully paid exclusive license in the Field of Use only, with the right to sublicense in the Field of Use only, to use the Licensed Patents to design, develop, make, have made, use, offer to sell, sell and service Products.

The Federal Circuit disagreed, finding that this lan-

guage simply conveys a license to MACOM, which is a promise by the licensor not to sue and nothing more. The language does not suggest a promise or obligation of MACOM to not exceed the field of use. Nor does the implied covenant of good faith and fair dealing impose such an express obligation.

The Federal Circuit also found that MACOM would be irreparably harmed without a preliminary injunction. If the agreement were terminated, MACOM would lose its exclusive license to practice the licensed patents in the Exclusive Field, and lose sales from customers who purchase MACOM's products because such products were exclusively available from MACOM.

Although the license agreement did not affirmatively preclude and would not be materially breached by MACOM operating outside the Field of Use, Infineon could still sue MACOM for patent infringement for unlicensed infringing activity outside the Field of Use.

Strategy and Conclusion

Including a provision that affirmatively precludes a licensee from operating outside the licensed field of use may be helpful in establishing a contractual right to terminate a license agreement if licensee operates outside the field of use and to sue for breach of contract, rather than merely relying on rights to sue for patent infringement.

Further Information

The *MACOM* decision can be found here:

https://tinyurl.com/ya7s97gm

Advanced Video. v. HTC Corporation

2. Employer Lacks Right to Sue for Patent Infringement When Employment Agreement Fails to Assign Employee Inventions

Summary

An employer lacked standing to sue for patent infringement because the employment agreement with the inventor simply provided an obligation to assign in the future, rather than an assignment that is effective without further action. Similarly, the agreement's quitclaim and trust provisions did not rectify the situation because they did not effect a transfer or create standing to sue.

To have standing to sue for patent infringement in the United States, a plaintiff generally must have received an assignment from all of the inventors. If any inventor has not transferred its rights to the plaintiff or has not joined in the litigation, the patent infringement suit may not proceed.

The Federal Circuit recently considered whether an employment agreement with one of the patent's inventors transferred adequate rights to create standing to sue for patent infringement.

Background

Advanced Video Technologies LLC sued a number of defendants for infringing a patent on a video codec. The patent lists three inventors who worked for Infochips Systems Inc. when they created the invention. Only two of the inventors assigned their interests in the patent to Advanced Video, so there was a question as to whether the rights of the third inventor were transferred to Advanced Video so that Advanced Video had standing to sue for patent infringement.

Advanced Video maintained that it obtained the third inventor's interests in the patent through a series of transfers, including an alleged transfer under provisions of a January 1992 employment agreement between the third inventor and Infochips that was in place before the patent application was filed.

Advanced Video relied on three provisions of the employment agreement to support its position that it had obtained sufficient rights from the third inventor to have standing to sue for patent infringement: 1) a "will assign" provision; 2) a trust provision; and 3) a quitclaim provision:

"I agree that I will promptly make full written disclosure to the Company, **will hold in trust** for the sole right and benefit of the Company, and **will assign** to the Company all my right, title, and interest in and to any and all inventions…

I hereby waive and **quitclaim** to the Company any and all claims, of any nature whatsoever, which I now or may hereafter have infringement [sic] of any patents, copyrights, or mask work rights resulting from any such application assigned hereunder to the Company."

The trial court ruled that these provisions did not transfer the inventor's ownership rights in the asserted patent to Advanced Video and, because the inventor was not a party to the suit, dismissed the case for lack of standing.

The Federal Circuit Decision on Appeal

On appeal, the Federal Circuit rejected Advanced Video's claim to ownership under all three provisions of the employment agreement.

The "will assign" language provided an obligation to assign but did not create an immediate assignment. The trust provision provided evidence that an immediate assignment did not occur, because an inventor could not immediately assign patent rights and at the same time hold them in trust.

Similarly, the "will hold in trust" provision did not create an immediate trust under California law in which the employer received legal title to the patent rights of the inventor. Even if the IP interests were immediately placed in trust, it would not follow that the interests were ever transferred out of trust in favor of the employer. And even if Advanced Video were the benefi-

ciary of the trust, under California law, the legal title and right to sue is owned by the trustee, so a beneficiary, who is not the real party in interest, may not sue in the name of the trust, and has no title or ownership interest in the trust.

Lastly, although the quitclaim provision waived the inventor's interest in any patent rights that she assigned under the agreement, because no patent rights were ever assigned, this provision was inapplicable.

A concurring opinion by one judge agreed that, under applicable precedents, the case must be dismissed because Advanced Video did not have full ownership of the asserted patent, but argued that non-consenting co-inventors should be able to be joined involuntarily to infringement suits under Federal rules allowing for the involuntary joinder of necessary parties. The concurring opinion argued that not allowing such involuntary joinder prevents a patent co-owner from seeking a remedy for patent infringement to which they are entitled where a co-owner refuses to join an infringement suit.

A dissenting opinion by one judge argued that the co-inventor never had ownership of the patent and therefore Advanced Video did not need to acquire any ownership interest from the co-inventor. The dissent argued that the "detailed and thorough" terms of the employment agreement placed all inventions under the ownership of the employer. Along with the "will assign," trust, and quitclaim provisions, the dissent pointed to provisions of the employment agreement providing that invention records are the property of the company, that the employee has an obligation to assist in obtaining patents, and providing for action by the company in the absence of the employee's signature on patent documents. The dissent stated that the majority's decision to dismiss the case was not supported "under any view of any law."

Strategy and Conclusion

General terms of employment agreements that contain provisions relating to transferring IP rights, but which do not actually transfer those rights, may prevent the beneficiary or intended owner of those IP rights from asserting them in litigation until the title of those IP rights are transferred to the intended owner. This case illustrates the value of having employment agreements that automatically assign any inventions and resulting patents of their employees to the employer, so the employer has legal title to the patents and standing to sue for patent infringement, rather than merely create obligations to assign inventions in the future, so the employer has equitable title and the right to obtain legal title, but does not have standing to sue for patent infringement until legal title is acquired.

Further Information

The *Advanced Video* decision can be found here: *https://tinyurl.com/y7o55w3n.*

II. Ability to Sue and Be Sued

Galderma Labs. L.P. v. Teva Pharm. USA, Inc.

3. ANDA Filer May Not Be Sued for Patent Infringement in Texas Based on Its Future Intent to Market Accused Products in Texas

Summary

In determining where patent infringement actions may be brought against ANDA filers, a Texas court declined to follow the ruling in a Delaware court decision. Instead, it strictly interpreted the venue statute, finding that venue for a patent infringement lawsuit is proper in a district where a defendant "has committed" acts of infringement and not where the ANDA filer intends to market the accused product in the future.

Under the venue statute, a defendant may only be sued in a district where it "resides," or, alternatively, where it committed acts of infringement and has a regular and established place of business. In *Galderma Labs. L.P. v. Teva Pharm. USA, Inc.*, a Texas court declined to find an act of infringement occurs wherever an ANDA filer intends to market the accused product.

Background

The Hatch-Waxman Act establishes that filing an Abbreviated New Drug Application (ANDA) and accompanying certification (paragraph IV certification) is an "artificial" act of infringement that opens the door for (i) the patent owner to pursue litigation or (ii) the generic manufacturer to pursue declaratory judgment relief.

Teva USA submitted an ANDA seeking approval to manufacture, use, and sell a generic drug for treating rosacea. In response, Galderma, the patent owner, filed suit in the Northern District of Texas against Teva USA and Teva Israel. Both Teva USA and Teva Israel moved to dismiss the litigation.

Teva USA argued that the Northern District of Texas was not a proper venue for the litigation because it was incorporated in Delaware, prepared its ANDA in New Jersey, and submitted the ANDA to the FDA in Maryland. Teva Israel argued that Galderma failed to state a claim upon which relief could be granted because the allegations in Galderma's complaint failed to establish that Teva Israel was responsible for the alleged infringement.

Relying on the Federal Circuit's precedential decision in *In re Cray, Inc.*, which clarified the venue analysis, the Texas court allowed limited discovery relevant to Teva's motions on venue and then held oral argument on the issue. After considering all the evidence, the court granted both Teva USA and Teva Israel's motions to dismiss the litigation.

The *Galderma* Decision

Because Teva USA was incorporated in Delaware and therefore "resides" there, the Northern District of Tex-

as would be a proper venue for litigation only if Teva USA (a) committed acts of infringement in the district and (b) has a regular and established place of business there. Galderma urged the court to follow a Delaware court decision which found the filing of an ANDA and the ANDA filer's intent to market the products in the district where a patent infringement litigation was brought constituted an act of infringement in that district, making district a proper venue for the litigation.

The Texas court declined to follow the Delaware court decision, noting that the Federal Circuit's recent decision in *In re Cray, Inc.* struck down a patent venue test that was "not sufficiently tethered" to the statutory language. The Texas court also declined to find that Teva USA had committed an act of infringement in Texas when submitting its ANDA paragraph IV challenge to Galderma's patents. While Galderma resided in the Northern District of Texas, venue is not based on the plaintiff's residence, and Galderma failed to carry its burden to show an act of infringement occurred in the district. Ultimately, the court concluded Teva USA had no regular and established place of business in the Northern District of Texas.

As an additional and alternative basis to grant Teva USA's motion to dismiss, the court also analyzed whether venue was proper under Section 1400(b). Again relying on *In re Cray, Inc.*, the court explained the Federal Circuit clarified that Section 1400(b) imposes three requirements: (1) there must be a physical place in the district; (2) it must be a regular and established place of business; and (3) it must be the place of the defendant.

While Galderma argued that Teva USA employed dozens of people who live and work in the district, all but two were actually employed by a subsidiary of Teva USA. As the court explained, so long as the two entities maintain formal corporate separateness, presence of a separate corporate subsidiary in the district cannot be imputed to the parent for venue purposes. Further, while two employees who reside in the district were employed by Teva USA, there was no evidence that (1) Teva USA conditioned their employment on their residence, (2) the employees maintained inventories in their homes or distributed Teva-branded drugs to customers; or (3) Teva USA owned, leased, or rented their homes, or otherwise held their homes out as the company's place of business.

The court also rejected Galderma's arguments that Teva USA's recent activities created venue because venue is determined based on facts that existed at the time the complaint was filed. Further, revenue that Teva USA's received from a network of authorized distributors in the district did not establish a physical presence in a district.

In addition to granting Teva USA's motion to dismiss the litigation for failing to establish that the Texas court was a proper venue, the court also found that Galderma failed to establish Teva Israel was responsible for the alleged infringement. Galderma's allegations in the complaint were lumped together against all the defendants and were not specific to Teva Israel. However, the court permitted Galderma to amend its allegations in the complaint to correct to address these deficiencies

Strategy and Conclusion

This case provides guidance on the requirements for determining where ANDA filers may be sued for patent infringement Hatch-Waxman litigation and the possible significance of where an ANDA is prepared and filed. Courts may permit limited discovery on facts relating to venue issues before determining where suit may be brought.

Further Information

The *Galderma* opinion can be found here:
https://tinyurl.com/yan6gl7g.

ParkerVision Inc. v. Apple Inc.

4. Unreasonable Delay in Filing Patent Infringement Litigation May Prevent Suit in a District Where Defendants Have Ceased to Have a Physical Presence

Summary

Defendants may try to avoid being sued for patent infringement in a district by closing their offices in that district so they have no physical presence there and venue is improper. In determining whether such a district is an appropriate venue for patent infringement litigation, courts may consider whether the alleged infringement occurred in the district and whether suit was filed within a reasonable time. Thus, a patent owner who unreasonably delays in filing a patent infringement suit may lose the ability to sue a defendant in a district where the defendant had a physical presence at the time of infringement, but no longer has a physical presence.

Background

ParkerVision sued nine defendants for patent infringement in December of 2015 and amended its complaint two days later. As the case progressed, ParkerVision dismissed its claims against seven of the defendants, and the two remaining defendants (Apple and Qualcomm) challenged venue, Apple through a motion to dismiss for improper venue and Qualcomm through a motion to transfer to the Southern District of California.

When the magistrate judge presiding over the motions recommended the judge deny those motions, Qualcomm objected, contending the magistrate erred in denying the transfer because Qualcomm

had no regular and established place of business in the district when the suit was filed, and because the magistrate gave too much weight to ParkerVision's choice of forum.

After *de novo* review, the Court adopted the magistrate's recommendations not to transfer the case.

The *ParkerVision* Decision

The parties agreed that Qualcomm did not "reside" in Florida under the *TC Heartland* test because it was a Delaware corporation with its principal place of business in California. Therefore, the Court focused its analysis on a second basis for venue in Florida—a defendant with a "regular and established place of business" that is a physical place in the district.

Closing an Office Prior to the Lawsuit

Prior to the filing the complaint, Qualcomm maintained offices in Florida. But it closed one of the offices in 2014 and the other in November of 2015. So Qualcomm argued Florida was an improper venue for litigation because Qualcomm had no physical place of business in Florida at the time of the complaint.

The Federal Circuit had not recently addressed whether an office that was closed prior to the filing of the complaint constitutes a "regular and established place of business" sufficient to satisfy the venue statute, so the Court looked at precedent from other courts and districts. It concluded that venue is proper if a defendant had a regular and established place of business at the time the cause of action accrued, and a lawsuit was subsequently filed within a reasonable time. While another case found a 21-month delay in filing suit to be unreasonable, in this case, ParkerVision sued Qualcomm within weeks of Qualcomm closing its doors, which the Court found to be reasonable.

Location of Alleged Acts of Infringement

Next the Court analyzed whether ParkerVision alleged acts of infringement in the district sufficient to establish venue in the district under § 1400(b). In its complaint, ParkerVision claimed "Qualcomm directly or through its subsidiaries or intermediaries makes, uses, offers for sale, sells, imports, advertises, makes available, and/or markets products in the United States, the State of Florida, and the Middle District of Florida that infringe one or more claims" of the asserted patents. Qualcomm submitted an affidavit from its senior legal counsel stating that the basis for the alleged infringement occurred either in the Southern District of California or overseas. The Court found that Qualcomm's affidavit did not override the allegations in the complaint and adopted the magistrate's finding that ParkerVision's allegations satisfy the "acts of infringement" requirement of § 1400(b).

Convenience of the Witness

Transfer under § 1404(a) is based on convenience of the witnesses and in the interest of justice. The magistrate denied the motion to transfer the litigation from Florida, noting that it was ParkerVision's chosen forum because it had previously sued Qualcomm in the Middle District of Florida, ParkerVision resided there, and the inventions claimed in the asserted patents were conceived and reduced to practice in that district. The magistrate also commented on the financial resources of the parties, noting Qualcomm's ability to compel its employees to travel to the Middle District of Florida if necessary.

Qualcomm argued that the magistrate placed too much weight on such factors. But the Court disagreed and denied the motion to transfer, finding that the parties were in equal footing regarding the convenience of the witnesses and transferring the case would merely shift the burden from ParkerVision to Qualcomm.

Strategy and Conclusion

Defendants may try to avoid being sued for patent infringement in a district by closing their offices in that district so they have no physical presence there and venue is improper. A patent owner who unreasonably delays in filing a patent infringement suit may lose the ability to sue a defendant for patent infringement in a district where a defendant had a physical presence at the time of infringement, but no longer has a physical presence. No hard-and-fast rule has been set by the courts and the question of reasonableness may depend on the specific facts of the case. However, at least one court has found that a delay of 21 months was not reasonable, and another found that a delay of a few weeks was reasonable.

Further Information

The ParkerVision opinion can be found here:

https://tinyurl.com/ybr4botp.

III. Patent Enforcement and Enforceability ***Momenta v. Amphastar***

5. Failing to Comply with a Standard Setting Organization's Policies May Prevent a Patent Owner from Enforcing Its Patents

Summary

Standard-setting organizations may require participants in the standard-setting process to disclose patents in which they have an interest. Failing to do so could prevent a participant from enforcing its patents under the doctrines of waiver and estoppel.

Background

Two days after Amphastar received FDA approval to market a generic version of Momenta's pharmaceutical Lovenox, Momenta sued Amphastar for infringing a patent directed to the manufacture of the pharmaceutical. A jury found the patent infringed but invalid and

unenforceable because the patent owner was estopped from enforcing the patent.

Momenta participated on an advisory panel for the United States Pharmacopeia (USP), a scientific standard-setting organization, which began looking for test compounds with specific properties. Momenta did not disclose the patent at issue to USP, and during litigation, Amphastar argued that caused the patent to become unenforceable under the doctrines of waiver and estoppel.

The *Momenta* Decision

The court noted that a patent owner who breached a duty to disclose patent information to a standard-setting organization may have implied waiving its right to enforce the patent or may be estopped from enforcing the patent.

Duty to Disclose Patents

Determining whether a duty to disclose exists involves a two-step process: (1) evaluating whether the policies from the standard-setting organization unambiguously impose such a duty; and (2) if the policies are ambiguous, evaluating whether the participants in the standard-setting organization understood those policies to impose a duty.

USP's policies (1) required participants to disclose all employment, professional organizations, and memberships, (2) barred individuals involved in expert committees from voting on matters in which they have a financial interest, and (3) required participants from disclosing "other professional or financial interest" that would result in the "appearance of a conflict of interest."

The court found USP's policies ambiguous and found that because Momenta's employees had already disclosed Momenta as a place of employment, they did not have to also disclose it as "**other** professional or financial interest." Nonetheless, the language regarding the "appearance of a conflict of interest" was broad enough to include disclosure of interests in intellectual property.

Turning to the participants' understanding of USP's policies, and, after evaluating the witnesses' credibility who testified on this issue, the court accepted one witness's testimony that the policy required disclosure. Momenta then argued that disclosure was not required because the test set forth in the patent was not mandatory under the standard. Relying in part on the jury infringement verdict, the court disagreed because use of the patented method might be necessary to comply with the standard.

Scope of the Equitable Remedy

In the standard-setting context, a remedy should apply to products that comply with the standard and have an obvious connection with the asserted patent. So Momenta could not enforce the patent against procedures that complied with the standard but was not necessarily prevented from enforcing the patent against procedures that did not comply with the standard.

Equitable Estoppel

If the accused infringer is prejudiced by reasonably inferring that the participant will not enforce its patents, the participant may be equitably estopped from enforcing its patents. In the standard-setting context, a participant who fails to comply with the standard setting organization's duty to disclose patent information may be found to have indicated that it would not enforce such patents.

Here, the court found Momenta engaged in such misconduct. Determining Amphastar's witnesses were more credible, the jury and court found that Amphastar relied on the standard to develop its processes and invest in new products, and it would be prejudiced if Momenta were permitted to enforce its patent claims against such new products. So Momenta was estopped from enforcing the patent against Amphastar's procedures that complied with the standard.

Strategy and Conclusion

Patent holders who participate in standard-setting organizations and violate policies and procedures regarding disclosure of information about intellectual property may be prevented from enforcing such intellectual property under the doctrines of estoppel and waiver.

Further Information

The Momenta opinion can be found here:

https://tinyurl.com/y9frw4zq.

Audio MPEG v. Dell

6. Evidence of Extensive Licensing Is Relevant and Admissible in a Patent Infringement Suit

Summary

A Virginia court declined to exclude evidence that the patents asserted in a patent infringement action had been previously licensed to over 1000 licensees because such evidence was relevant to commercial success and validity, reasonable royalty damages, willful infringement by the accused infringer, and good conduct by the patent owner.

Background

Audio MPEG sued Dell for infringing patents on MP3 audio compression.

Dell attempted to prevent Audio MPEG from offering evidence that the patents had been licensed by over 1000 companies, arguing that such evidence would confuse a jury and was not relevant to the issues in the patent litigation. Audio MPEG countered

that the number of licenses was relevant, and that it only wished to present evidence about the most analogous 43 licensees.

The *Audio MPEG* Decision

The court found the number of licensees relevant, ruling that evidence is relevant if "it has any tendency to make a fact more or less probable than it would be without the evidence; and the fact is of consequence in determining the action."

First, the number of licenses was relevant to establishing a proper damage award of "a reasonable royalty for the use made of the invention by the infringer" so the number of licenses was relevant to an established royalty for the patented technology.

Second, the number of licenses was relevant to showing commercial success—objective evidence that the patented technology was not obvious.

Third, an extensive patent licensing program may show awareness of the patents and be relevant to proving that the infringement was willful and that punitive damages should be awarded.

Finally, the number of licenses was relevant to establishing that Audio MPEG was a good corporate citizen. Audio MPEG contended that Dell would paint it as especially litigious. To rebut this assertion, Audio MPEG wanted to show that its extensive licensing program generally avoided litigation.

The court dismissed Dell's argument that each license required a mini-trial to determine comparability to a hypothetical license at-issue in the suit, finding that such analysis is not required where the patents are covered under an established licensing program. It also held that the comparability of the licenses in the program to the hypothetical license in the case was a matter of weight, not admissibility.

However, the court did rule that licenses resulting from litigation settlement would not be admitted into evidence because of the many unique considerations surrounding individual litigations. And while the court agreed that evidence showing the number of licenses was relevant, it limited how Audio MPEG could use this evidence in its case, noting that evidence may only be shown to the finder of fact if its probative value is not substantially outweighed by such considerations as unfair prejudice, undue delay, or the needless presentation of cumulative evidence. Accordingly, the court limited Audio MPEG to using two witnesses to testify about the 1000 licenses and to only introduce exhibits relating to licenses from the 43 licensees most analogous to the case against Dell.

Strategy and Conclusion

Where a patent owner has an established licensing program, courts may allow it to present evidence regarding the program in suits against accused infringers without individually analyzing how analogous each license in the program is to the case being litigated.

Further Information

The *Audio MPEG* opinion can be found here: *https://tinyurl.com/yajgfjpr.*

IV. PTO Validity Challenges

Wi-Fi One, LLC v. Broadcom Corp.

7. Some Decisions by the Patent Office to Institute IPR Validity Challenges May Be Appealed to the Federal Circuit

Summary

A split decision of the U.S. Court of Appeals for the Federal Circuit determined that decisions by the Patent Office to institute IPR validity challenges may be appealed to the Federal Circuit when such decisions relate to the timing of the petitions. This ruling reversed the decision of an earlier panel and distinguished statutory language that Patent Office decisions on whether to institute an inter partes review "shall be final and nonappealable."

Inter partes review (IPR) is a trial proceeding before the Patent Trial and Appeal Board (Board) intended to be a cost-effective alternative to litigation for challenging patent validity. The IPR proceeding was introduced by the America Invents Act (AIA) and may be used to challenge the validity of any patent regardless of when it issued. However, if a complaint for patent infringement has been filed, the petition requesting the review must be filed within one year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with the complaint.

Decisions of the Board on whether to institute proceedings are typically final and not subject to appeal. However, in *Wi-Fi One, LLC v. Broadcom Corp.*, the U.S. Court of Appeals for the Federal Circuit sitting en banc (*i.e.*, the full court) determined that decisions by the Board to institute IPR validity challenges may be appealed when such decisions relate to the timing of the petitions, rather than on the substantive merits.

Background

Broadcom filed petitions requesting that the Patent Office institute inter partes review of patents owned by Wi-Fi One, LLC. Wi-Fi argued that the Board lacked authority to institute IPR because the previous owner of the patents served a complaint on defendants in privity with Broadcom more than one year before Broadcom filed the IPR petitions.

The Board instituted IPR and issued Final Written Decisions finding the challenged patent claims unpatentable. The Board also determined that Wi-Fi had not

shown that Broadcom, the IPR petitioner, was in privity with the defendants in the infringement action, and, therefore, the IPR petitions were not barred based on the time that had passed. Wi-Fi appealed the Final Written Decisions, arguing that the Federal Circuit should reverse or vacate the Board's ruling.

A three-judge panel of the Federal Circuit rejected Wi-Fi's arguments, concluding that the precedent of earlier cases provided that such rulings could not be appealed. Wi-Fi petitioned for rehearing by the full court.

The *Wi-Fi One* Decision

In reviewing the decision of the panel, the Federal Circuit, sitting *en banc*, considered whether Board decisions relating to the one-year time bar are unappealable based on the AIA statutory provision that "[t]he determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable."

The majority opinion of the court explained that there is a "strong presumption" favoring judicial review that will be abdicated only when "Congress provides a 'clear and convincing' indication that it intends to prohibit review." Viewing the statutory language of the AIA, the legislative history, and the statutory scheme as a whole, the court found no clear and convincing indication. In addition, the court found the natural reading of the statutory language, which provides that "[t] he determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable," is limited to "determinations that are focused on the patentability merits of particular claims." In contrast, the court found that time bar determinations are unrelated to the "Director's preliminary patentability assessment or the Director's discretion not to initiate an IPR."

The majority further stated that this reading of the overall statutory scheme is consistent with the Supreme Court's *Cuozzo Speed Tech.* decision, which held that judicial review is not available where "a patent holder merely challenged the Patent Office's determin[ation] that the information presented in the petition . . . shows that there is a reasonable likelihood of success with respect to at least 1 of the claims challenged" or when "a patent holder grounds its claim in a statute closely related to that decision to institute." The majority found that whether a petitioner complied with the statutory time bar requirements is not such a determination. The court, therefore, held that time-bar determinations are reviewable on appeal from the Board to the Federal Circuit.

A separate concurring opinion by members of the court stated that "the issue presented for *en banc* rehearing is much simpler than the majority's analysis implies." The time bar "has nothing to do with the substantive adequacy of the petition and is directed, instead, to the Director's authority to act." Allowing judicial review of erroneous determinations by the patent office as to whether the time bar applies would prevent the agency from acting outside its statutory limits.

A separate dissenting opinion by members of the court disagreed with the majority's narrow reading of the statute, arguing that the plain language of the statute bars judicial review of the Board's decision to institute and, "absent persuasive indications to the contrary," Congress "says what it means and means what it says." The dissent also contended that the majority decision was contrary to Supreme Court precedent.

Strategy and Conclusion

While the *Wi-Fi One* decision focused on the appealability of time-bar issues, some commentators have expressed the view that petitioners in future cases may attempt to argue that the rationale of the *Wi-Fi One* decision should be extended so that Board decisions on other issues may be reviewed on appeal to the Federal Circuit.

Further Information

The *Wi-Fi One* opinion can be found here: *https://tinyurl.com/y98ehofc.*

Arthrex, Inc. v. Smith & Nephew, Inc., Arthrocare Corp.

8. Disclaiming or Cancelling Patent Claims During an IPR Validity Challenge May Impact Related Patent Applications

Summary

When a patent owner attempts to resolve an IPR validity challenge at the patent office by disclaiming or cancelling some of its patent claims either before or after institution of IPR proceedings, the patent office may enter an adverse judgment that precludes the patent owner from obtaining claims that are not patentably distinct from the disclaimed or cancelled claims.

Background

Petitioners Smith & Nephew Inc. and Arthrocare Corp. filed an IPR petition in the U.S. Patent and Trademark Office, challenging the validity of certain claims of one of Arthrex's patents.

In response, Arthrex disclaimed the challenged patent claims and argued that an IPR proceeding should not be instituted on disclaimed claims.

Arthrex tried to minimize the impact of this disclaimer by stating that it was not requesting an adverse judgment by filing its disclaimer. However, the patent office rules state that "[c]ancellation or disclaimer of a claim such that the party has no remaining claim in the trial" is considered a request for an adverse judgment. 37 C.F.R. §42.73(b).

As a result, the Patent Office Board disagreed with Arthrex's position and entered an adverse judgement against Arthrex, precluding Arthrex "from taking action inconsistent with the adverse judgment, including obtaining in any patent… [a] claim that is not patentably distinct from a finally refused or canceled claim." The resulting estoppel affected Arthrex's two continuation patent applications, which were pending at the time and subsequently issued as patents, as well as a recently filed continuation application.

Arthrex appealed and the petitioners moved to dismiss, arguing the Patent Office Board had not issued a final written decision and thus, there was no appellate subject matter jurisdiction.

The Federal Circuit denied the motion to dismiss and heard two issues on appeal: 1) whether an adverse judgment is a final appealable judgment and 2) whether the board properly entered adverse judgment pursuant to 37 C.F.R. §42.73(b).

The *Arthrex* Decision by the Federal Circuit

Regarding the issue of appealability, the Federal Circuit found that the Patent Office Board's entry of an adverse judgment was a final and appealable decision because it terminated the IPR proceeding at the U.S. Patent and Trademark Office. The Federal Circuit has jurisdiction over an appeal from "a decision" of the Board "with respect to" IPRs under 28 U.S.C. §1295, so the Board's decision to enter adverse judgment was a decision with respect to the IPR of the patent at issue and was also a final decision because it terminated the IPR proceeding. A prior decision of the Federal Circuit finding that non-institution decisions are not appealable did not squarely address the issue in this case and therefore was not persuasive in the outcome in this case.

As to the issue of judgment entry, Arthrex did not contend the PTO does not have the authority to adopt a regulation providing for estoppel on cancellation of claims. Therefore, the Federal Circuit left that question for another day, answering solely the question of whether the Board properly entered an adverse judgment under 37 C.F.R. §42.73(b).

Relying on the language of the rule, which gives the Board the authority to construe a patent owner's action as a request for an adverse judgment, the Federal Circuit rejected Arthrex's argument that the regulation was not applicable because it specifically stated it did not request an adverse judgment.

Arthrex then relied on the language of the rule that refers to cancellation of claims "in the trial," to argue the rule should only apply if an IPR proceeding has been instituted. The Federal Circuit rejected that argument as well, explaining that the PTO rules defined proceedings as a trial or a preliminary proceeding, which begins with the filing of a petition.

Thus, the court found the Patent Office Board properly entered an adverse judgement here, where the patent owner cancels all claims after an IPR petition was filed but before an institution decision.

Strategy and Conclusion

While a patent owner may disclaim or cancel claims to resolve an IPR petition or proceeding, such an action may result in an adverse judgment impacting pending applications or potential future patent application with claims that are not patentably distinct from the disclaimed or cancelled claims, and preventing such claims from being prosecuted or asserted.

Further Information

The *Arthrex* opinion can be found here: *https://tinyurl.com/yarbycu8.*

V. Damages

Exmark Manufacturing v. Briggs and Stratton

9. The Entire Market Value of a Product May Be Used as a Base for Calculating Royalties Without Showing that the Inventive Features Drove Market Demand

Summary

The Federal Circuit permitted a damages expert to use the entire market value of an accused lawn mower—the sales price of the mower—as a base for calculating royalties when the inventive features appear in only one component, concluding that the entire market value of a product may be used as a royalty base so long as the ultimate reasonable royalty award is based on the incremental value that the patented invention adds to the end product.

A reasonable royalty for patent infringement damages is often calculated by defining an appropriate royalty base and an appropriate royalty rate to apply to the royalty base. When a product has several components, some courts have permitted patent owners to use the value of the entire product as a royalty base only if they could show that the component with the inventive features drove demand for the whole product. Otherwise, those courts have required the patent owners to base the royalty on the value of the component with the inventive features rather than the whole product.

In *Exmark Manufacturing v. Briggs and Stratton*, the Federal Circuit determined that the entire value of a lawn mower could be the royalty base for patent infringement damages, even though the improvement was a baffle feature in only one component of the lawn mower. And it appears to have reached this conclusion

without requiring the patent owner to show that the component with the inventive features drove demand.

Background

Exmark Manufacturing and Briggs & Stratton Power Products Group are competitors in the high-end commercial lawn mower industry.

Exmark sued Briggs and Stratton for infringing a patent claim on a lawn mower having improved flow control baffles—structures under the mower deck that direct air flow and grass clippings during operation.

Exmark's damages expert arrived at a 5% royalty rate for the inventive feature, taking into account the value of the inventive feature and the conventional features, and using the market value of the lawn mower—the sales price of the mower—as the royalty base. Based on the calculations using this royalty rate and royalty base, and a finding of willful infringement warranting enhanced damages, a jury awarded Exmark $24,280,330 in damages.

Briggs and Stratton asked for a new trial on damages, arguing that Exmark's damages expert improperly defined the royalty base as the sales price of the accused mowers, instead of using the market value of the inventive component—the flow control baffles.

The trial court refused to grant a new trial on damages, and Briggs and Stratton appealed the trial court decision to the Federal Circuit.

The Federal Circuit Decision on Appeal

On appeal, Briggs and Stratton argued that the royalty base to be used in the royalty calculation needed to be the component with the improvements and that therefore the royalty base should have been the sales price of the baffles, and not the sales price of the entire lawn mower.

The Federal Circuit disagreed and noted that the entire lawn mower could be used as the royalty base so long as Exmark "adequately and reliably apportion" the royalty rate to reflect the value added by the inventive features rather than merely reflecting the value of the improved and conventional features. The court observed:

(1) Apportionment can be addressed in a variety of ways, including "by careful selection of the royalty base to reflect the value added by the patented feature [or]…by adjustment of the royalty rate so as to discount the value of a product's non-patented features; or by a combination thereof. …So long as Exmark adequately and reliably apportions between the improved and conventional features of the accused mower, using the accused mower as a royalty base and apportioning through the royalty rate is an acceptable methodology."

(2) "The essential requirement is that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product."

(3) Using the well-known *Georgia Pacific* factors to determine reasonable royalty damages takes account of the importance of the inventive contribution in determining the royalty rate that would have emerged from a hypothetical negotiation between the parties before the infringement began.

(4) Using the accused lawn mower sales amount as the royalty base was particularly appropriate in this case because the asserted patent claim was actually directed to a lawn mower as a whole. It recited a lawn mower including both inventive and conventional features. Therefore it is not the baffle that infringes the claim, but the entire accused mower, leaving no unpatented or non-infringing features of the accused mowers.

(5) Exmark's use of the entire accused lawn mower sales amount as the royalty base was consistent with the realities of real-world bargaining reflective of a hypothetical negotiation, particularly in licensing where "sophisticated parties routinely enter into license agreements that base the value of the patented inventions as a percentage of the commercial products' sales price."

Strategy and Conclusion

When the inventive part of a patented invention is found in just one component of a larger product, some courts have not allowed the patent owner to use the sales price of the entire product as the royalty base unless the inventive component drives demand for the product. Thus, absent this demand, such courts have required the patent owner to use the patented component as the royalty base. This case demonstrates, however, that so long as the proposed royalty accounts for the incremental value that the patented invention adds to the end product, the market value of the entire product may be the royalty base for calculating damages for infringement, even when the inventive feature appears in one component of a multicomponent product.

Further Information

The *Exmark* decision can be found here: *https://tinyurl.com/y9t68ghe.*