

Key Patent Cases and Trends of the Past Year

James Isbester

SFIPLA Annual Meeting, Sept 21-23, 2018

SFIPLA



Overview

- Supreme Court Hyperactivity
- Remedies
- Section 101
- Section 102
- Equitable Defenses
- PTAB Issues
- FRAND Update

Supreme Court Hyperactivity

1. *SCA Hygiene Products v. First Quality Baby Products, LLC*, 137 S.Ct. 954 (2017)
2. *Impression Products, Inc. v. Lexmark Intern., Inc.*, 137 S.Ct. 1523 (2017)
3. *Life Technologies Corp. v. Promega Corp.*, 137 S.Ct. 734 (2017)
4. *WesternGeco LLC v. ION Geophysical Corp.*, 138 S.Ct. 2129 (2018)
5. *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 137 S.Ct. 1514 (2017)
6. *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, 584 U.S. ____ (2018)
7. *SAS Institute Inc. v. Iancu*, 584 U.S. ____ (2018).

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

- *Petrella v. Metro-Goldwyn-Mayer*, 134 S. Ct. 1962, 1974 (2014), held that laches cannot be used to shorten the three-year copyright limitations period.
- The *en banc* CAFC considered *Petrella* but reaffirmed laches for patent cases.
- The Supreme Court reversed:
 - “By the logic of *Petrella*, we infer that [35 U.S.C. § 286] represents a judgment by Congress that a patentee may recover damages for any infringement.”

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

- *En banc* Federal Circuit overruled on two key exhaustion points:
 - No Post-Sale Restrictions: Patent exhaustion is a fundamental restriction on the patentee’s rights, rather than an issue of “authority” that a patentee can manipulate. Thus, use restrictions cannot be enforced via patent infringement claims – once sold, the items pass outside the patent monopoly.
 - Foreign Exhaustion Applies: Sales abroad will trigger exhaustion just as domestic sales do – “restrictions and location are irrelevant; what matters is the patentee’s decision to make a sale.”

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

- Offshore ***contributory*** infringement under § 271(f)(2): can be supported by a ***single*** component “especially made or especially adapted for use in the invention and not a staple article or commodity.”
- Offshore ***inducement*** under § 271(f)(1): “a substantial portion of the components of a patented invention” refers to a quantitative, not qualitative, assessment of the components in the patented invention.

§ 271(f)

- § 271(f)(1):

Whoever 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***, where such components are uncombined in whole or in part, 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 if such combination occurred within the United States, shall be liable as an infringer.

- § 271(f)(2):

Whoever without authority supplies or causes to be supplied in or from the United States ***any component of a patented invention*** that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

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

- § 284 permits an award of lost **foreign** profits with respect to infringement under § 271(f)(2)
 - “[T]he focus of § 284, in a case involving infringement under § 271(f)(2), is on the act of exporting components from the United States. ...The conduct in this case that is relevant to that focus clearly occurred in the United States....”
 - “In reaching this holding, we do not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases.”

TC Heartland LLC v. Kraft Foods Group Brands LLC, **No. 16-341**

- The former venue rule:
 - 28 USC § 1400(b): a corporation may be sued for patent infringement “where the defendant resides....”
 - *VE Holding*: a corporation resides for venue purposes wherever it is subject to personal jurisdiction – which is governed by the state “long arm statute”
- The Supreme Court reversed:
 - § 1400(b) controls venue in patent infringement actions and is not to be supplemented by the statute governing “[v]enue generally.”
 - A corporation “resides” only where it is incorporated.
 - Venue lies either a) in the state of incorporation, or b) “where the defendant has committed acts of infringement and has a regular and established place of business.”

***In re Cray Inc.*, 871 F.3d 1355 (2017)**

- What is a “regular and established place of business?”
- Three general requirements:
 - (1) There must be a “physical, geographical location in the district from which the business of the defendant is carried out.”
 - (2) The physical location of a defendant in the district must have “sufficient permanence” in the district.
 - (3) There must be a “physical place, of business, of the defendant.”
- The residence of two sales executives in the district was insufficient for venue under § 1400(b).

***In re Micron Technology, Inc.*, 875 F.3d 1091 (2017)**

- Has everyone waived their venue objections? Or was *TC Heartland* a change in the law?
- *TC Heartland* was a change in the law; venue objections not necessarily waived.
 - “The venue objection was not available until the Supreme Court decided *TC Heartland* because, before then, it would have been improper, given controlling precedent, for the district court to dismiss or to transfer for lack of venue an action filed against a non-resident corporate defendant subject to personal jurisdiction, based on the precedent in *V.E. Holding*.”

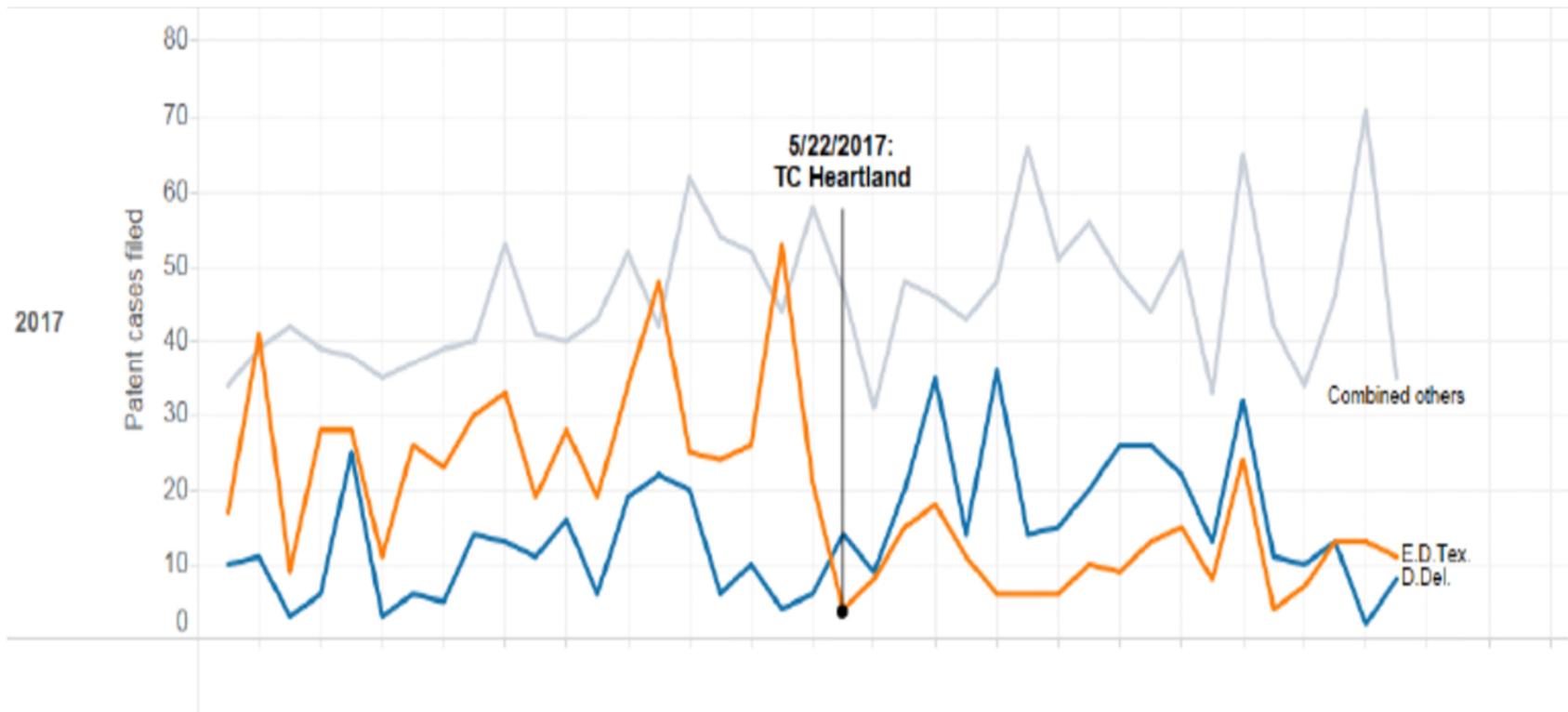
***In re Micron Technology, Inc.*, 875 F.3d 1091 (2017)**

- But are venue objections necessarily preserved?
- No – defendant’s conduct may give rise to a waiver
 - “We think it clear that, apart from Rule 12(g)(2) and (h)(1)(A), district courts have authority to find forfeiture of a venue objection. . . . And exercise of the authority certainly may rest on sound determinations of untimeliness or consent.”
 - “[W]e have denied mandamus . . . in several cases involving venue objections based on *TC Heartland* that were presented close to trial.... We also note a scenario that presents at least an obvious starting point for a claim of forfeiture ...: a defendant’s tactical wait-and-see....”

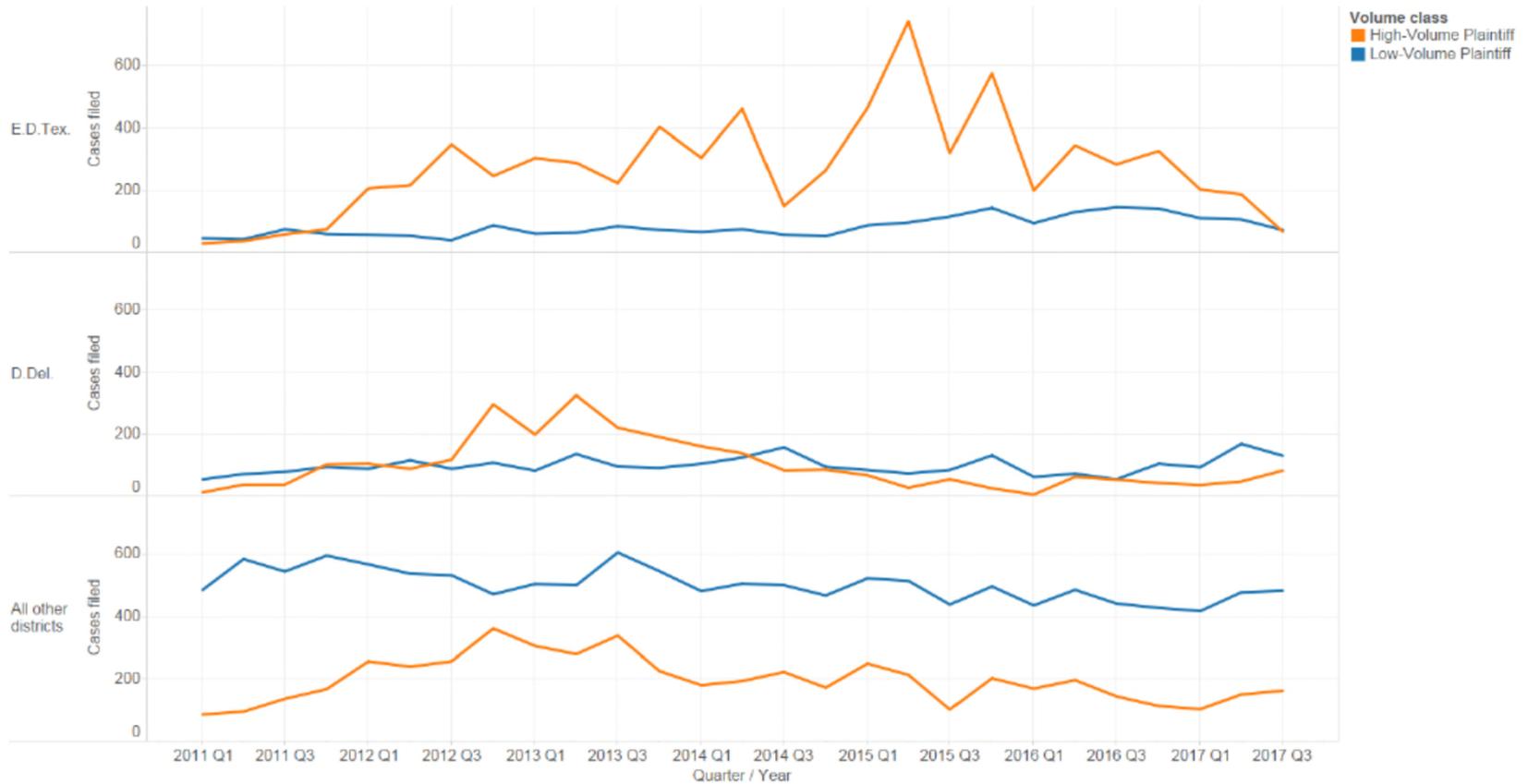
***In re: ZTE (USA) Inc.*, 890 F.3d 1008 (Fed. Cir. 2018)**

- Who bears burden of proof with respect to venue?
 - “[U]pon motion by the Defendant challenging venue in a patent case, the *Plaintiff* bears the burden of establishing proper venue”
- Vacating district court’s order denying defendant’s motion to dismiss for improper venue
 - Order was incorrectly based on finding that ZTE USA failed to show it did not have a regular and established place of business in E.D. Tex.
 - “[T]he district court is instructed to reconsider ZTE USA's motion to dismiss consistent with this order, placing the burden of persuasion on the propriety of venue on [plaintiff]”

TC Heartland Impact



TC Heartland Impact



Source: Lexmachina.com

Oil States Energy Services, LLC v. Greene's Energy Group, LLC, 584 U.S. _____ (2018)

- *Held:* The Patent Office giveth, so the Patent Office may taketh away – IPRs are not an unconstitutional taking of property

***SAS Institute Inc. v. Iancu*, 584 U.S. _____ (2018)**

- *Held*: The petitioner for *inter partes* review is entitled to control the scope of the petition. Hence, the Board may not partially institute and partially deny institution of review on an IPR petition offering multiple grounds or directed against multiple claims.

Remedies

1. *Octane Fitness* is finally starting to have an effect.
2. The Federal Circuit is finally offering guidance as to what is permissible in showing damages, as opposed to what is merely impermissible.
3. *Halo* has increased availability and frequency of enhanced damages – but only modestly.
4. Injunction analysis turns on the competitive position between the parties and a clarified “causal nexus” test.

Attorneys Fees: *AdjustaCam, LLC v. Newegg, Inc.*, 861 F.3d 1353 (2017)

- Adjustacam, a “high volume” plaintiff, dismissed its claims against Newegg before SJ briefing. The lower court failed to find an exceptional case, both before and after remand following *Octane Fitness*.
- Reversed – J. Gilstrap failed to follow the mandate and clearly erred in assessing exceptional case status.
 - “AdjustaCam’s suit became baseless after the district court’s *Markman* order.”
 - Plaintiff employed unreasonable litigation tactics, including asserting nuisance-value damages against many defendants and settling for widely varied royalty rates.

Attorneys Fees: *Rothschild Conn'd Devices Innov., LLC v. Guardian Prot'n Servs., Inc.*, 858 F.3d 1383 (2017)

- After suit was filed, defendant ADS sent a Rule 11 letter explaining the patent was anticipated. ADS ultimately won a motion to dismiss on Section 101 grounds. ADS sought and was denied fees.
- Reversed – abuse of discretion to deny exceptional case and fee award.
 - Rothschild did not adequately address the Rule 11 letter arguments and made only conclusory assertions in response that “willfully” ignored the prior art.
 - Rothschild showed a pattern of vexatious litigation – asserting its patent in 58 cases “against technologies ranging from video cameras to coffeemakers to heat pumps” and settling far below defense costs.
- Concurrence by J. Mayer additionally reasoned that the Section 101 problem was so plain it also justified a fee award.

Attorneys Fees: *Inventor Holdings, LLC v. Bed Bath & Beyond, Inc.*, 876 F.3d 1372 (2017)

- Dist. Ct granted judgment on the pleadings (*Alice*)
- Dist. Ct. granted attorney fees.
- Affirmed:
 - “[T]he district court acted within the scope of its discretion in finding this case to be exceptional based on the weakness of [plaintiff] IH’s § 101 arguments and the need to deter similarly weak arguments in the future.”
 - “*Alice* was a significant change in the law as applied to the facts of this particular case,” and it was “IH’s responsibility to reassess its case in view of new controlling law.”

Attorneys Fees: *Checkpoint Systems, Inc. v. All-Tag Security S.A.*, 858 F.3d 1371 (2017)

- After remand following *Octane Fitness/Highmark*, district court found the case exceptional and awarded fees for a second time.
- Reversed:
 - As to motivation, enforcement of the right to exclude against a competitor is not improper.
 - Two opinions of infringement, finding of infringement on the Swiss counterpart patent, and motion for summary judgment of infringement denied. Those facts show the case was not exceptional.

Measuring Damages: *Mentor Graphics Corporation v. EVE-USA, Inc.*, 851 F.3d 1275 (2017)

- Jury awarded lost profits under the *Panduit* test
- Defendant and *amici* argued for an apportionment test as a second step in lost profits analysis.
- Held: apportionment is not required:
 - “when the *Panduit* factors are met, they incorporate into their very analysis the value properly attributed to the patented feature.”

Measuring Damages: *Asetek Danmark A/S v. CMI USA Inc.*, 852 F.3d 1352 (2017)

- Jury award a 14.5% royalty, based on the patentee's per unit profit margin and an injunction issued.
- Held: a reasonable royalty can be based upon patentee's marginal profit:
 - “Negotiating for a per unit payment equal to its per-unit profit can be a logical approach for a patent owner that is uncertain of how many sales might be lost by granting the license at issue or is just using its own experience to place a value on the right to use the technology at issue.”
 - Note: the patentee's expert also considered all GP factors and had a solid, comparable license agreement
- Quaere: so how is such a royalty different from lost profits?

Measuring Damages: *Prism Technologies LLC v. Sprint Spectrum L.P.*, 849 F.3d 1360 (2017)

- Held: a settlement reached in the course of litigation over the same patents and comparable products is probative of value
- But – relying upon settlement agreements can raise FRE 403 issues.

Measuring Damages: *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.* (Fed. Cir. July 3, 2018)

- Damages award reversed because evidence presented by plaintiff insufficient as a matter of law to invoke EMV rule
 - “[T]he entire market value rule is appropriate only when the patented feature is the sole driver of customer demand or substantially creates the value of the component parts.”
 - “[E]vidence in the record that other features are important and are highlighted by the respective parties” and that “there is no question that ... there are other valuable features.”
 - Without proof that these features “did not affect consumer demand,” plaintiff “did not meet its burden to show that the patented feature was the sole driver of consumer demand, i.e., that it alone motivated consumers to buy the accused products.”

Enhanced Damages: *Arctic Cat Inc. v. Bombardier Inc.*, 876 F.3d 1350 (2017)

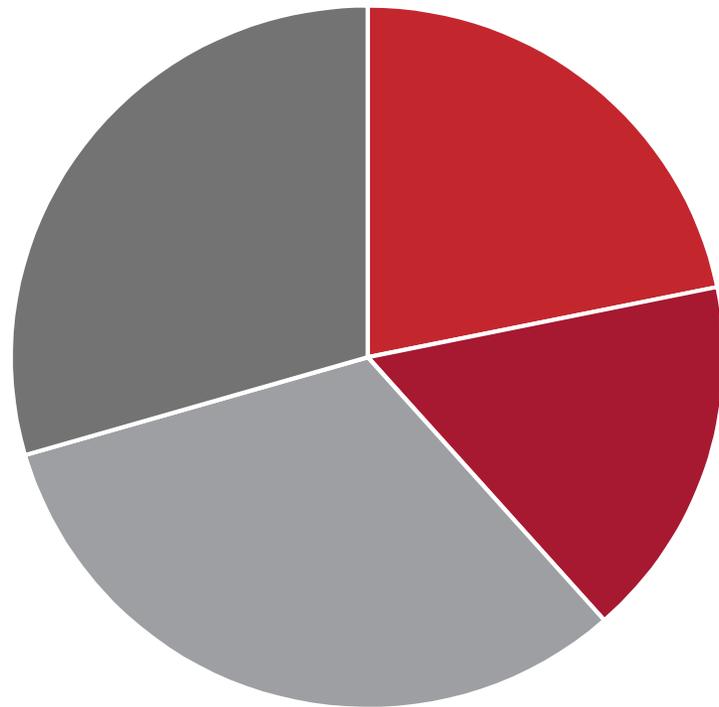
- Jury returned verdict in patentee’s favor, and trial court trebled damages and denied motion to vacate judgment
- Willfulness finding affirmed
 - “[Defendant] knew about the patents before they issued, conducted only a cursory analysis of the patents, waited years before seeking advice of qualified and competent counsel, and unsuccessfully tried to buy the asserted patents through a third party”

Enhanced Damages: *Polara Eng'g Inc. v. Campbell Co.* (Fed. Cir. July 10, 2018)

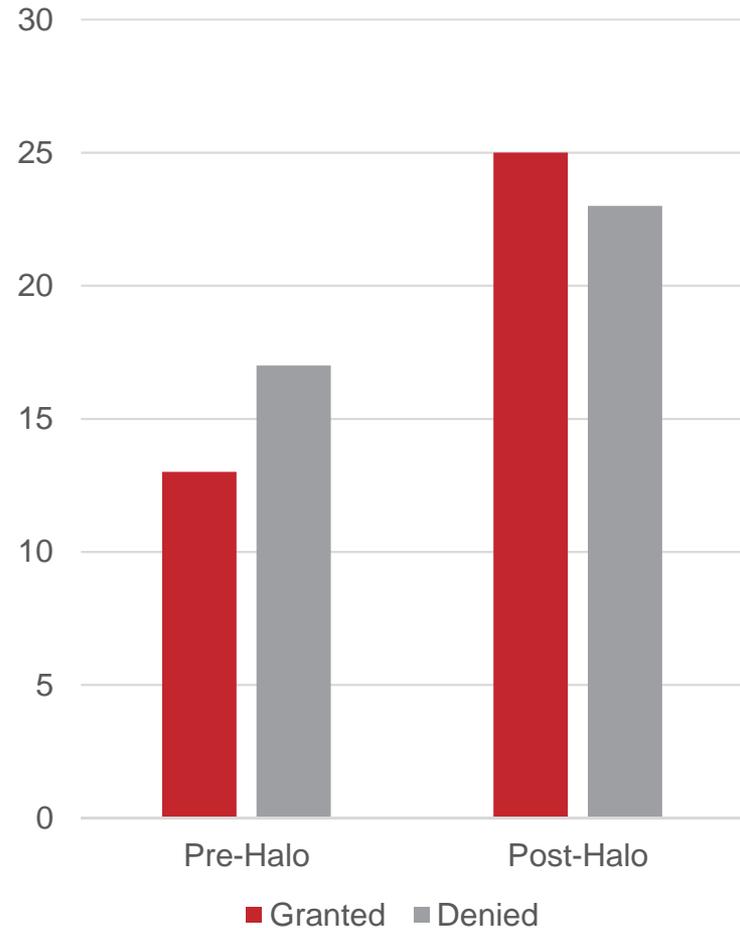
- Jury verdict of willful infringement affirmed:
 - Undisputed defendant was aware of patent, and developed its product to compete with patentee's product
 - Jury was entitled to *not* credit testimony of defendant's president that he received "a clean bill of health" and "got the go" from his own "IP attorneys" in absence of any documentary or third-party evidence showing defendant received an opinion of counsel that the asserted claims were invalid and/or not infringed
 - The only written opinion of counsel was limited to a non-asserted claim
- But enhanced damages award was not "adequately explain[ed]"

Enhanced Damages: More successful motions for enhanced damages

(397 cases pre; 462 cases post)



- Pre-Halo Denied
- Pre-Halo Granted
- Post-Halo Denied
- Post-Halo Granted

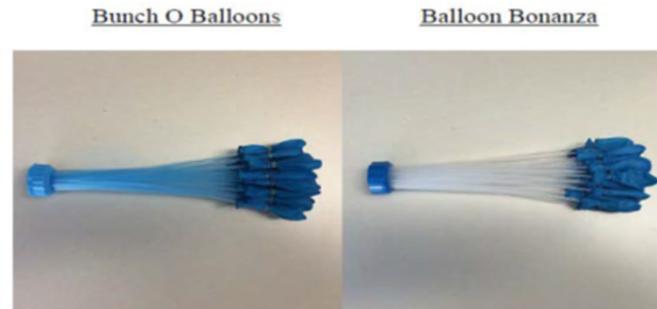


Injunctions: Actual Competition is the Touchstone

- *Metalcraft of Mayville, Inc. v. The Toro Company*, 848 F.3d 1358 (2017)
 - The district court preliminarily enjoined Toro from selling infringing lawnmowers with platform suspension systems.
 - As to irreparable harm, the district court correctly found that the patentee could lose lifelong customers due to customer preferences for buying from one manufacturer and the related ecosystem effects.
- *Nichia Corporation v. Everlight Americas, Inc.*, 855 F.3d 1328 (2017)
 - Affirming district court's denial of an injunction based on no irreparable harm.
 - While small area of possible competition, there was an absence of actual competition. Patentee's extensive licensing also weighed against harm.

Injunctions: Actual Competition is the Touchstone

- *Tinnus Enterprises, LLC v. Telebrands Corp.*, 846 F.3d 1190 (2017)
 - PI affirmed, despite presence of pending IPR. Further, it is not error to rely on evidence of market harm generated before the patent issues.



- *Mylan Institutional LLC v. Aurobindo Pharma Ltd.*, 857 F.3d 858 (2017).
 - PI affirmed in light of a causal nexus between the infringement and the harm to the patentee of allowing the product to be marketed.

Section 101

1. What constitutes patent-eligible material?
2. When can an *Alice* challenge be brought?

Continued Section 101 Uncertainty?

“I shall not today attempt further to define ... [hard-core pornography], and perhaps I could never succeed in intelligibly doing so. But *I know it when I see it...*” J. Stewart.

<i>Miller Obscenity Test</i>	<i>Alice Patentability Test</i>
Does the work appeal to the prurient interest	Whether the claims are directed to patent-ineligible concepts
Whether the work depicts, in a patently offensive way, sexual conduct defined by state law	Whether the claims are abstract, cover business methods, or describe laws of nature
Whether the work, taken as a whole, lacks serious literary, artistic, political, or scientific value	Whether the claim as a whole reflects an “inventive concept” that adds “significantly more” than the ineligible concept itself

Continued Section 101 Uncertainty?

- *Amdocs (Israel) Ltd. v. Openet Telecom, Inc.*, explained that the “method” of applying *Alice* was to compare the claims to prior cases and determine if they are close to or far from claims that had passed muster under Section 101.
- Recent push back on *Alice* impact, but there remains no rigorous way to assess whether claims are abstract and have inventive contribution, or not.

***Berkheimer v. HP Inc.*, 881 F.3d 1360 (2018)**

- *Held*: Section 101 analysis generally requires factual analysis and therefore cannot be done on a motion to dismiss
- “While patent eligibility is ultimately a question of law, the district court erred in concluding there are no underlying factual questions to the § 101 inquiry. Whether something is well-understood, routine, and conventional to a skilled artisan at the time of the patent is a factual determination. Whether a particular technology is well-understood, routine, and conventional goes beyond what was simply known in the prior art.”

Aatrix Software, Inc. v. Green Shades Software, Inc., **882 F.3d 1121 (Fed. Cir. 2018)**

- *Held:* Patent ineligibility cannot be properly adjudicated at Rule 12(b)(6) stage
 - “[P]atent eligibility can be determined at the Rule 12(b)(6) stage ... only when there are no factual allegations that, taken as true, prevent resolving the eligibility question as a matter of law.”
 - “There are concrete allegations in the [proposed] amended complaint that individual elements and the claimed combination are not well-understood, routine, or conventional activity. There are also concrete allegations regarding the claimed combination's improvement to the functioning of the computer.”

Voter Verified, Inc. v. Election Sys. & Software LLC, **887 F.3d 1376 (Fed. Cir. 2018)**

- Affirming district court's dismissal of complaint under Rule 12(b)(6), holding patent claims directed to patent-ineligible subject matter and thus invalid under § 101
- *Held*: “The factual allegations here, taken as true, do not prevent a § 101 determination at the Rule 12(b)(6) stage.”
 - “[T]he claims as a whole are drawn to the concept of voting, verifying the vote, and submitting the vote for tabulation.”
 - “[T]here is no inventive concept in the claims sufficient to transform them into patent-eligible subject matter. Neither party disputes that the claims recite the use of general purpose computers that carry out the abstract idea.”
- *see also, SAP Am., Inc. v. Investpic, LLC*, 890 F.3d 1016 (Fed. Cir. 2018)

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

- Claims directed to providing computer security by scanning a downloadable and attaching the results of that scan to the downloadable itself were patent-eligible under § 101 and **Step 2**.
- Affirmed – the “behavior-based” virus scan described in the specification constitutes an improvement in computer functionality.
 - “...‘virus screening is well-known and constitutes an abstract idea.’...Here the claimed method does a good deal more.”
 - The “method of claim 1 employs a new kind of file that enables a computer security system to do things it could not do before.”

Core Wireless Licensing S.A.R.L. v. LG Electronics, Inc., 880 F.3d 1356 (2018)

- *Held:* Claims are patent-eligible (judgment affirmed).
- The claim is for “a specific manner of displaying a limited set of information to the user, rather than using conventional user interface methods to display a generic index on a computer. Like the improved systems claimed in *Enfish*, *Thales*, *Visual Memory*, and *Finjan*, these claims recite a specific improvement over prior systems, resulting in an improved user interface for electronic devices.”

Section 102

01 Communique Lab., Inc. v. Citrix Sys., Inc., 889 F.3d 735 (Fed. Cir. 2018)

- How to use the “we practice the prior art” defense:
- Jury found asserted claims were valid, but not infringed
- Federal Circuit affirmed:
 - Defendant’s defense: if the patentee attempted to expand the scope of the asserted claims to include the accused product, then the claims would be invalid in light of prior art
 - A litigant is not precluded from arguing that if a claim term is broadly interpreted to read on the accused product, then the same broad construction will read on the prior art
 - Further, Defendant’s arguments were not prejudicial in view of “careful” jury instructions regarding the proper comparisons with respect to the separate issues of infringement and invalidity

***The Medicines Company v. Hospira, Inc.*, 881 F.3d 1347 (2018)**

- Is the on-sale bar triggered by a distribution agreement where the orders were subject to written acceptance and confirmation by the purchaser?
 - Yes, the agreement was an offer for sale because it obligated the seller to meet the purchase order.
- The fact that this was a “distribution agreement” did not exempt the agreement from being a “commercial offer for sale”.
 - “Where the supplier has title to the patented product or process, the supplier receives blanket authority to market the product or disclose the process for manufacturing the product to others, or the transaction is a sale of product at full market value, even a transfer of product to the inventor may constitute a commercial sale under § 102(b). The focus must be on the commercial character of the transaction, not solely on the identity of the participants.”

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

- Post-AIA Section 102 bars patenting inventions “in public use, on sale, or otherwise available to the public....”
- Held: “[A]fter the AIA, if the existence of the sale is public, the details of the invention need not be publicly disclosed in the terms of sale.”
- *En banc* petition denied because the “AIA did not change longstanding precedent governing the on-sale bar.”

Equitable Defenses

Gilead Scis., Inc. v. Merck & Co., 888 F.3d 1231 (Fed. Cir. 2018)

- Patentee Merck won \$200 million jury verdict.
- Gilead won bench trial on defense of unclean hands rendering patent unenforceable
- *Held*: No clear error in district court’s findings
 - Merck in-house patent attorney received information about Gilead development work in violation of firewall
 - Merck in-house patent attorney then continued to prosecute asserted patent, and subsequently amended claims to specifically target Gilead compound after Gilead’s patent application on the same published
 - At trial, the Merck in-house patent attorney gave false testimony – denying he had received information
 - “In these circumstances, we see no error in the district court's determination that the [] misconduct ... was immediately and necessarily related to the equity of Merck's obtaining enforcement of its patent in this litigation.”

***John Bean Techs. Corp. v. Morris & Assocs., Inc.*, 887 F.3d 1322 (Fed. Cir. 2018)**

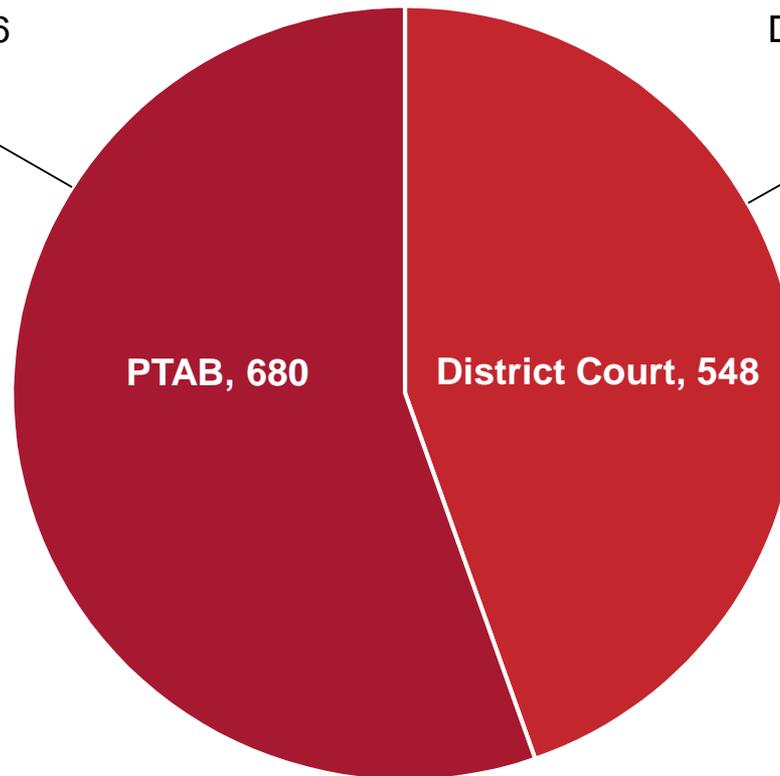
- Pre-reexamination conduct cannot be a basis for equitable estoppel where asserted claims were substantively narrowed during reexamination
 - “This case presents an unusual situation where the district court has found that equitable estoppel bars an infringement action based on activity prior to the issuance of the asserted reexamination claims.”
 - Prior threats and letter regarding infringement and validity of claims in original patent—sent more than 10 years before patentee filed *ex parte* reexamination
 - At the time of the letter, patentee could not have engaged in misleading conduct or silence with respect to the *reexamined* claims
 - “Our resolution of this matter lies in the principles undergirding the issuance of reexamination claims” (e.g., “If the reexamined claims contain substantive changes to the original claims, then the patentee is only entitled to damages for the period after the reexamination certificate issues”)

PTAB Issues

Federal Circuit Appeals – 2017

Increase of 25% from 2016

Decrease of 2% from 2016



Federal Circuit Review of IPRs

- Application of Estoppel (*Shaw*)
- Potentially Appealable Aspects of Institution Decisions (*Wi-Fi One*)
- Motions to Amend (*In re Aqua Products*)
- Explain yourself (*In re Van Os, Personal Web*)
- Be careful with anticipation rejections (*Chudik*)
- You are not bound by DCt litigation (*Noven*)
- You have to consider secondary considerations, even if you never accept them (*Torrent*)

***Wi-Fi One, LLC v. Broadcom Corp.*, 878 F.3d 1364 (2018) (en banc)**

- Whether the bar on judicial review of institution decisions under 35 U.S.C. § 314(d) applies to time-bar determinations made under 35 U.S.C. § 315(b).
- “[N]atural reading of the statute limits the reach of § 314(d) to the determination by the Director whether to institute IPR as set forth in § 314.”
- “In contrast, § 315(b) controls the Director’s authority to institute IPR that is unrelated to the Director’s preliminary patentability assessment or the Director’s discretion not to initiate an IPR even if the threshold ‘reasonable likelihood’ is present.”

Adequate Explanations

- Under the APA, review of the PTAB decisions is limited to the four corners of the decision. That requires the PTAB to adequately explain its findings.
- The best chance of success on appeal is to play for remand
 - *Rovalma, S.A. v. Bohler-Edelstahl GmbH & Co. KG*, 856 F.3d 1019 (2017) (remanding for explanation of obviousness findings);
 - *Personal Web Technologies, LLC v. Apple, Inc.*, 848 F.3d 987 (2017) (PTAB failed to adequately explain how the two references disclosed all elements, as well as in describing why there was motivation to combine).

Anticipation Problems at the PTAB

- Several cases have found no substantial evidence for the PTAB's anticipation findings or misuse of inherency doctrine.
 - *In re Chudik*, 851 F.3d 1365 (2017) – prior art would have to be distorted from its obvious design to anticipate and thus no substantial evidence supported the PTAB's anticipation finding.
 - *Nidec Motor Corporation v. Zhongshan Broad Ocean Motor Co. Ltd*, 851 F.3d 1270 (2017) – no substantial evidence supported the PTAB's anticipation finding where the reference did not disclose a required claim element and the PTAB misapplied inherency law.
 - *Honeywell Int'l Inc. v. Mexichem*, No. 2016-1996 (Aug. 1, 2017) (PTAB misused inherency doctrine in the context of an obviousness rejection).

***Novartis AG v. Noven Pharmaceuticals Inc.*, 853 F.3d 1289 (2017)**

- PTAB invalidated patents previously upheld after trial and appeal.
- “[T]he prior decisions in *Watson* and *Noven D. Del.* did not bind the PTAB.”
- Affirmed because substantial evidence supports the PTAB’s finding of motivation to modify.

Ultratec, Inc. v. CaptionCall, LLC, **872 F.3d 1267 (2017)**

- PTAB did not allow Patent Owner to impeach Petitioner's expert with expert's trial testimony from the parallel litigation.
- Five months after a jury award of \$44.1 million, the PTAB found the claims unpatentable.
- Vacated and Remanded – Board abused discretion in refusing to admit & consider testimony.
 - Patentee satisfied all requirements for allowing it to file a motion to admit the expert's trial testimony. The evidence could not have been obtained earlier and the Patentee emailed the Board requesting authorization to supplement the record.
 - The Board lacked the information necessary to decide whether or not to admit the testimony, as it did not read the testimony

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

- As a matter of first impression, the court addressed whether statements in an IPR can be used to find prosecution disclaimer.
- IPR statements can be so used, even if they are merely made in a preliminary response before the Board issued its institution decision.

FRAND Case Law Analysis and Calculations

FRAND Enforcement – Validity Rate: District Court and Patent Office

District Court	
SEP Patents	71
SEPs held invalid	8
Validity Rate - District Court	89%
PTAB Validity Rate	
Final PTAB Decisions	4432
PTAB Decision - Unpatentable	1749
Validity Rate – PTAB	61%
Average Validity Rate	75%

Sources:

- Rose, Matthew G., “Between a Rock and a Hard Place”: Unwired Planet v. Huawei and the Dangerous Implications of Worldwide FRAND Licenses, August 2017, available at <http://s3.amazonaws.com/cdn.orrick.com/files/eCompetitionsAugust2017.pdf> (summarizing invalidity of SEPs in district court)
- PTAB Statistics (not SEP specific) - <https://www.uspto.gov/patents-application-process/patent-trial-and-appeal-board/statistics>

FRAND Enforcement – Success Rate:

SEPs that have been found not invalid by the United States District Courts/Patent Office and have not been withdrawn or dismissed have only been successfully enforced 28% of the time.

District Court	
SEP Patents – Asserted, Not Invalid	63
Asserted/Valid Patents, Not Withdrawn or Dismissed	29
Total Findings of Infringement (and Validity)	8
Infringement Rate (Not Withdrawn/Invalid)	28%

Sources:

- Rose, Matthew G., “Between a Rock and a Hard Place”: Unwired Planet v. Huawei and the Dangerous Implications of Worldwide FRAND Licenses, August 2017, available at <http://s3.amazonaws.com/cdn.orrick.com/files/eCompetitionsAugust2017.pdf> (summarizing invalidity of SEPs in district court).

TDA Background

- Top down analysis (“TDA”) seeks to determine a benchmark rate royalty rate
- Used in U.S. cases like *Microsoft v. Motorola*, *In re Innovatio IP Ventures* and *TCL v. Ericsson*, as well as by the U.K. court in *Unwired Planet*.
- Intended to capture “only the value of the underlying technology and not the hold-up value of standardization.” *Innovatio*, 2013 WL 5593609 at *9.
- Two TDA analyses have thus been accepted:
 - A *TCL/Unwired Planet* analysis; and
 - A *Innovatio* analysis.

TDA Approach: *TCL* Model

TCL Background

- *TCL* performed a benchmark TDA analysis whose steps included:
 1. Determine the aggregate royalty for the technology as a whole.
 2. Find the total number of standard essential patents in the standard as a whole.
 3. Find the number of the standard essential patents by the patentee themselves.
 4. Calculate the proportion of the patentee's portfolio of SEPs to the total number of SEPs in the standard and multiply by the determined aggregate royalty of the technology as a whole.

- The formula was:

$$\frac{\textit{Portfolio SEPs}}{\textit{Total Essential SEPs}} * \textit{Aggregate Rate}$$

TCL Background

- Emphasis on a TDA approach versus comparable licenses can be influenced by the procedural posture and evidence available in a case.
 - In *TCL*, the court's task was to resolve a FRAND dispute and the various patent claims were actually stayed.
 - In *Microsoft*, the court was faced with a similar task, but less relevant comparable licenses.
 - By contrast, in *Innovatio*, infringement and essentiality had been established, which resulted in modification of the *Microsoft* approach. *Innovatio* also found both side's proffered licenses were not comparable, thus defaulting to its modified TDA approach.
- Comparable licenses may weigh more heavily in the analysis of an ultimate FRAND rate, especially if the court concludes the comparable is more closely tied to the hypothetical license being negotiated.

TDA Approach: Aggregate Rates

Aggregate rates found by *TCL* and other courts, below, are about half as high as other studies assessing actual aggregate rates.

Source	3G Aggregate	4G Aggregate
<i>Unwired Planet (UK)</i>	5.6%	8.8%
<i>TCL v Ericsson (CD Cal)</i>	5.0%	10%
<i>Samsung v. Apple (Tokyo)</i>	5.0%	
<i>ABI Research</i>	17.5% (no cross license)	35.4% (no cross license)

TDA Approach: Number of *SEPs*

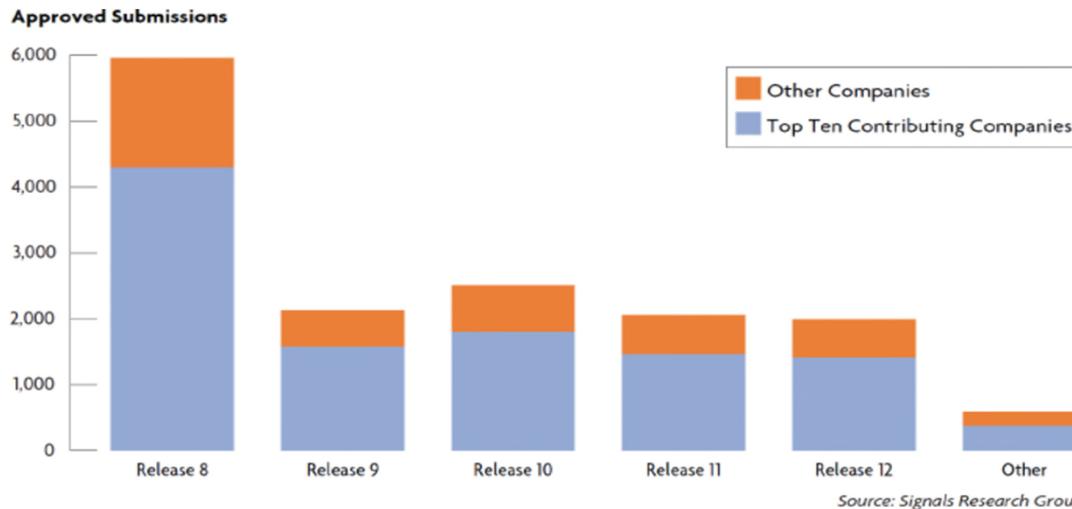
It is established that many “declared” SEPs are, in fact, not essential to the standard.

Source	3G SEPs	4G SEPs
<i>Unwired Planet (UK)</i>	479	800
Unwired Expert	324	355
Huawei's expert	1089	1812
<i>TCL v Ericsson (CD Cal)</i>	953	1481
TCL Expert	1116	1796
<i>Samsung v. Apple (Tokyo)</i>	529	
Average*	653.67	1140.5

*Average of the various court findings regarding SEP numbers.

TDA Approach: *TCL* Model

- As the chart below depicting approved LTE submissions from 2007-2014 shows, various new features are standardized over time:



- The *TCL* court assumed Ericsson will acquire new SEPs at the same proportional rate and thus found constant Ericsson's proportional share of the aggregate royalty additions of patents due to new standardized features and removal of patents through expiration. *TCL*, 2017 WL 6611635, at *19.

TDA Approach: *Innovatio* Model

TDA Approach: *Innovatio* Model

- A weakness of a *TCL/Unwired Planet* type approach is that U.S. courts may reject models in which all SEPs are equally valued.
 - See *Innovatio; Metaswitch Networks Ltd. v. Genband US LLC*, Case No. 2:14-cv-00744, slip op. at 5 (E.D. Tex. March 7, 2015) (excluding top down approach where expert assumed that each portfolio was the same instead of attempting to quantitatively or qualitatively compare a Nortel portfolio to other' portfolios).

TDA Approach: *Innovatio* Model

- Innovatio “merged” the first two Microsoft factors in part by using the chipset as the base. The basic TDA formula was:

$$\begin{aligned} \text{FRAND Royalty} = & \text{Price of Smallest Salable Component} \\ & \times \text{Average Profit Margin per Chip} \times \frac{\text{Contribution of Patent}}{\text{Value of Standard}} \end{aligned}$$

- The last part of the formula still assessed relative value.
 1. First, the court found that there were approximately 3,000 potentially essential 802.11 patents.
 2. Second, it found that Innovatio’s patents were relatively more valuable because (a) they had been confirmed as essential and (b) qualitative technical testimony showed at least moderate importance of Innovatio’s patents compared to alternative technologies or prior art.

TDA Approach: *Innovatio* Model

- The court then adjusted the ratio of *Innovatio*'s share of the 802.11 SEPs by accounting for the higher value of those patents. To do so, the *Innovatio* court:
 - Accepted Dr. Leonard's (the manufacturers' expert) evidence of a 1998 article showing the top 10% of all electronic patents accounted for 84% of the value of all electronic patents.
 - Found that this model better addressed relative patent value as it was not "based solely on the numerical proportionality of *Innovatio*'s patents to all 802.11" SEPs. *Innovatio*, 2013 WL 5593609, at *39.
 - Calculated *Innovatio*'s ratio as:

$$\frac{\text{No. of } \textit{Innovatio} \textit{ SEPs}}{10\% \text{ of all } 802.11 \textit{ SEPs}} * 0.84$$

TDA Approach: *Innovatio* Model

- Hedonic regression is an accepted econometric, revealed preference method of estimating demand or value. It breaks the researched product into constituent characteristics, and estimates the contributory value of each characteristic.
 - Hiller, et al. calculated consumer willingness to pay (“WTP”) for 4G features as \$64, while reporting prior calculations by Sun (2012) that show consumer WTP for 3G is \$41. See Hiller, et al., *Using Aggregate Market Data to Estimate Patent Value*.
 - One could criticize the technique as insufficiently tying consumer WTP to the value of only the patented features of the standards. However, just as Innovatio used the observed chipset price to help infer the value of the 802.11 standard, calculation of WTP similarly allows for the same inference.

TDA Approach: *Innovatio* Model

- The *Innovatio* model is very sensitive to whether a portfolio is classified as “top 10%” so as to receive 84% of the SEP value.
 - *Innovatio* relied on both the finding of actual essentiality and qualitative testimony to classify the portfolio in the top 10%.
 - A finding of actual essentiality and validity for asserted patents likewise supports a higher classification given the minimal resources typically applied to examine whether the universe of SEPs are essential.
 - But, to qualify for the “top 10%,” one must also have some additional qualitative technical testimony explaining why the portfolio falls into the top 10%.

BUA Approach: *Licenses*

License Comparison: Background

- U.S. courts assessing royalties rely heavily on comparable licenses per *Georgia-Pacific* Factor 1.
 - Comparability requires assessing both technical and economic comparability.
 - Technical comparability assess whether similar patents were licensed for similar products.
 - Economic comparability addresses the positions of the patent owner, actual licensee and target licensee.
- Settlements may be used as comparable licenses, but must be adjusted to address the circumstances of the settlement compared to the case. See *Prism Techs. v. Sprint*.

License Comparison: Background

- To assess economic comparability, licenses must be “unpacked” so that the financial aspects of the licenses can be assessed to derive a one-way royalty rate to compare licenses on a common basis.
 - A full unpacking accounts for cross-licenses, lump sum payments, pass-through rights, and other issues.
- Economic comparability also compares the similarities and differences between the licensed firms and the target licensee.

Rate Selection

U.S. Rate Selection

- *Innovatio* simply selected the benchmark rate in setting a FRAND rate.
- *TCL* selected a rate by:
 - Converting the unpacked global rates to a “U.S. rate,” generally by increasing the unpacked rates by 25-20% to account for the stronger U.S. portfolio;
 - Eliminating the “high” and “low” ends of the rates; and
 - Selecting a 4G rate in the middle of the resulting range, and selecting a 3G rate that was 3 times higher than the TDA rates, but still lower than the unpacked comparable rates.

U.S. Rate Selection – Accounting for Multi-Mode

- Blended Rates:
 - Courts may apply the 70:20:10 4G/3G/2G ratio applied by the *Unwired Planet* Court, however there was agreement among the parties for the rate.

Questions?

Speaker Contact Information



A. James Isbester

Kilpatrick Townsend & Stockton LLP
Partner

Two Embarcadero Center, 19th Floor
San Francisco, CA 94111

jisbester@kilpatricktownsend.com

- ANCHORAGE
- ATLANTA
- AUGUSTA
- CHARLOTTE
- DALLAS
- DENVER
- HOUSTON
- LOS ANGELES
- NEW YORK
- RALEIGH
- SAN DIEGO
- SAN FRANCISCO
- SEATTLE
- SHANGHAI
- SILICON VALLEY
- STOCKHOLM
- TOKYO
- WALNUT CREEK
- WASHINGTON D.C.
- WINSTON-SALEM

