

Patent Litigation Trends Impacting the Financial Services Sector

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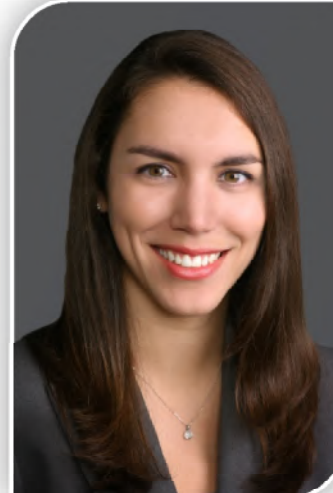
Today's Panelists



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Topics to be Discussed Today

- 35 U.S.C. § 101
- Covered Business Method Patent Review
- *DataTreasury* Litigation
- Recent Federal Cases
- Legislative Update

35 U.S.C. § 101

Inventions patentable. Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

The Emergence of Section 101

- *Bilski v Kappos*, 561 U.S. 593 (2010).
 - Process of **risk hedging** qualified as a patent-ineligible abstract idea.
 - Court declined to bar all business method patents.
- *Mayo Collaborative Services v Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012).
 - Process of **calibrating dosage of a drug** is patent-ineligible law of nature.
- *Alice Corporation Pty. Ltd. v CLS Bank Int'l*, 134 S. Ct. 2347 (2014).
 - “***Bilski* on a computer:**” computerized system of **credit intermediation**.
 - Adding a generic computer qualifies as “conventional.”

The Emergence of Section 101

- The *Mayo/Alice* 2-step framework:
 1. Is the claim directed to a patent-ineligible abstract idea, law of nature, or physical phenomena?
 2. If so, is there something “significantly more” that **“transforms the nature of the claim into a patent-eligible application.”** (A so-called “inventive concept”.)
 - Limiting to a technological environment is not sufficient.
 - “Well-understood, routine, conventional” activity cannot supply the necessary inventive concept.
 - The preemptive effect of the claim is an important check to determine if it contains sufficient limitations.

§ 101 Statistics in Federal Court*



	Total §101 Challenges	Found Invalid	% Invalid
Federal Circuit & District Court Cases	363	247	68.0%
Patents	742	452	60.9%
Claims	20,534	12,821	62.4%

*post-*Alice* through the last week of September, 2016.

Source: <http://www.bilskiblog.com/blog/2016/10/alicesstorm-update-turbulence-and-troubles-.html>.

What to watch for at the Federal Circuit

Four recurring issues that the Court's continue to confront:

1. What qualifies as an “**abstract idea.**”
 - Currently, the approach in lower courts is to put business method patents in plain English and then call it “abstract.”
 - How complex of a concept will qualify as an “abstract idea”?
2. What constitutes “**well-understood, routine, conventional activity**” that is disregarded as “**insignificant postsolution activity**” under *Mayo/Alice*?
 - The term “**routine**” may be critical.
 - The Federal Circuit is likely to hold that the test is distinct from merely “known,” or else Section 101 merges into Sections 102 and 103.
 - In all but the obvious cases (*e.g., Bilski & Alice*), is **expert testimony** necessary?

Further Implications of Section 101 for Financial Services Sector

- *Content Extraction & Transmission v Wells Fargo* (Fed. Cir. Dec. 2014).
- *Shortridge v Foundation Construction* (N.D. Cal. Apr. 14, 2015).
- *Intellectual Ventures* cases 2014 – 2016

Recent § 101 Cases – Patent Eligibility and Limitations

- *Enfish, LLC v Microsoft Corp.*, 822 F.3d 1327 (Fed. Cir. May 12, 2016) – patents related to a “self-referential” database
 - District Court found all claims invalid under § 101 as directed to an abstract idea
 - Federal Circuit reversed, finding that the claims passed the Alice Step One
 - We “see no reason to conclude that all claims directed to improvements in computer-related technology, including those directed to software, are abstract and necessarily analyzed at the second step of *Alice*, nor do we believe that *Alice* so directs. Therefore, we find it relevant to ask whether the claims are directed to an improvement to computer functionality versus being directed to an abstract idea, even at the first step of the *Alice* analysis.”
 - In this case the plain focus of the claims is on an improvement to computer functionality itself, not on economic or other tasks for which a computer is used in its ordinary capacity.

Recent § 101 Cases – Patent Eligibility

- *Bascom Global Internet Svcs. V. AT&T Mobility LLC, et al.*, (Fed. Cir. 2016) Patent for website filtering tool installed at the ISP server that allows for individually customizable filtering settings for each end user
 - Filtering content is an abstract idea
 - However, patent contains an inventive concept
 - “[A]n inventive concept can be found in the non-conventional and non-generic arrangement of known, conventional pieces... The inventive concept described and claimed in the ’606 patent is the installation of a filtering tool at a specific location, remote from the end-users, with customizable filtering features specific to each end user.”

Recent § 101 Cases – Patent Eligibility

- *McRO, Inc. v Bandai Namco Games America Inc., et al.*, 837 F.3d 1299 (Fed. Circ. 2016) The patents relate to automating part of a preexisting 3-D animation method, using by morphing a character’s expression between preset expression models.
 - C.D. Cal found that the patents were unpatentable as too broad: “while the patents do not preempt the field of automatic lip synchronization for computer-generated 3D animation, they do preempt the field of such lip synchronization using a rules-based morph target approach.”
 - On appeal, Federal Circuit found the patents to be patentable.
 - Claimed process uses a combined order of specific rules that elevates the patent above simply using a computer as a tool to automate conventional activity
 - Limitations in claims prevent preemption of all processes for achieving automated lip-synchronization of 3-D characters

Recent § 101 Case – Patent Ineligibility

- *FairWarning IP, LLC v Iatric Systems, Inc.*, Fed. Cir. 2016 – Patent discloses ways to detect fraud and misuse by identifying unusual patterns in users' access of sensitive data
 - Middle District of Florida found the claims were addressed to patent-ineligible subject matter
 - Federal Circuit affirmed, finding that FairWarning's claims “merely implement an old practice in a new environment.”
 - “The claimed rules ask whether accesses of PHI, as reflected in audit log data, are 1) “by a specific user,” 2) “during a pre-determined time interval,” or 3) “in excess of a specific volume.” These are the same questions (though perhaps phrased with different words) that humans in analogous situations detecting fraud have asked for decades, if not centuries. Although FairWarning's claims require the use of a computer, it is this incorporation of a computer, not the claimed rule, that purportedly “improve[s] [the] existing technological process” by allowing the automation of further tasks.”

Recent § 101 Cases – Patent Eligibility

- *Amdocs (Israel) Limited v Openet Telecom, Inc.*, Fed. Cir. 2016 - Patents in suit concern parts of a system (merging data, reporting on collection of network usage information, doing the same for a plurality of network devices, and generating a single record for accounting purposes) designed to solve an accounting and billing problem faced by network service providers
 - E.D. Va. Found the patents ineligible under § 101 as addressed to abstract idea
 - Federal Circuit reversed, finding that even if the patents are directed to an abstract idea, they are patentable because they contain “a sufficient inventive concept.”
 - “In other words, this claim entails an unconventional technological solution (enhancing data in a distributed fashion) to a technological problem (massive record flows which previously required massive databases). The solution requires arguably generic components, including network devices and “gatherers” which “gather” information. However, the claim’s enhancing limitation necessarily requires that these generic components operate in an unconventional manner to achieve an improvement in computer functionality.”

Recent § 101 Cases – Patent Eligibility



- *Rothschild Location Technologies LLC v. Geotab USA, Inc.*, 6-15-cv-00682 (TXED December 5, 2016, Order) (Schroeder, USDJ)
 - The court denied plaintiff's motion to amend an earlier judgment that the asserted claims of plaintiff's GPS patent were invalid for lack of patentable subject matter and rejected plaintiff's argument that *Enfish*, was an intervening change of law.
 - "*Enfish* does not stand for the proposition that improvement to computer functionality is always sufficient to satisfy step one of [Alice]. . . . *Enfish* cautioned against describing claims at a high level of abstraction and untethered from the language of the claims. But in doing so, *Enfish* merely affirmed the existing law that claims are to be considered as a whole in order to evaluate what they are directed toward. That a court should not characterize an invention at too high of a level of abstraction, and should consider as a whole what a claim is directed toward, has previously been articulated in prior § 101 decisions, and does not present a change in the law. . . . [A]t the most, *Enfish* and subsequent cases suggest 'that there is considerable overlap between step one and step two,' but that 'whether the more detailed analysis is undertaken at step one or at step two, the analysis presumably would be based on a generally-accepted and understood definition of, or test for, what an 'abstract idea' encompasses.'"

§ 101 Statistics at the PTAB

Covered Business Method Review

	Trials Instituted	Joinders	Percent Instituted	Denials	Total No. of Institution Decisions
FY13	14	0	82%	3	17
FY14	91	1	75%	30	122
FY15	51	-	69%	23	74

Source: http://www.uspto.gov/sites/default/files/documents/043015_aia_stat_graph.pdf.

Covered Business Method Review

*Jurisdictional Requirement & Recent
Developments*

Covered Business Method Review

- A “covered business method patent” is a patent that:
 - claims a method or corresponding apparatus for performing data processing or other operations,
 - used in the practice, administration, or management of *a financial product or service*,
 - *except* that the term does not include patents for technological inventions. (Unchanged by *Unwired Planet*)

AIA § 18(d)(1); see 37 C.F.R. § 42.301(a).

Covered Business Method Review



- Drafted to encompass patents “claiming activities that are financial in nature, *incidental* to a financial activity or *complementary* to a financial activity.”
- Legislative history indicates that “financial product or service” should be interpreted broadly.
- The Covered Business Method Review is a transitional program that sunsets September 16, 2020.

CBM – *Unwired Planet v. Google* (Fed. Cir.)

- Before *Unwired Planet*, the following claim was found to be CBM-eligible by the PTAB solely because the specification stated that the claimed technology can be used in “other fields, such as industry, banking, insurance, etc . . .”

1. A method for processing of data that is to be protected, comprising:

storing the data as encrypted data element values (DV) in records (P) in a first database (O-DB), the first database (O-DB) having a table structure with rows and columns, each row representing a record (P) and each combination of a row and a column representing a data element value (DV), in the first database (O-DB) each data element value (DV) is linked to a corresponding data element type (DT);

storing in a second database (IAM-DB) a data element protection catalogue (DPC), which contains each individual data element type (DT) and one or more protection attributes stating processing rules for data element values (DV), which in the first database (O-DB) are linked to the individual data element type (DT);

for each user-initiated measure aiming at processing of a given data element value (DV) in the first database (O-DB), initially producing a calling to the data element protection catalogue for collecting the protection attribute/attributes associated with the corresponding data element type, and

controlling the user’s processing of the given data element value in conformity with the collected protection attribute/attributes.

Informatica Corp v. Protegrity Corp., CBM2015-00021, (PTAB Jun. 1, 2015)

CBM – *Unwired Planet v. Google* (Fed. Cir.)

- Claims at issue in *Unwired Planet* were found to be incidental to a financial product or service by the PTAB.
- These claims related to a method for providing location information for services based on the authorization included in a user’s profile.
- The Federal Circuit criticized the PTAB for relying on the legislative history stating that the “incidental” or complementary” language is not found in the statute and the PTO did not adopt this statement through its rule-making authority.
- The Federal Circuit explained that the proper inquiry is based on the statute itself not to determine whether a claim is incidental or complementary to potential sales resulting from advertising because all patents relate to potential sale of a good or service at some point and it is not enough if “the specification speculates [that] such a potential sale might occur.”

CBM – *Unwired Planet v. Google* (Fed. Cir.)

- *Unwired Planet* aftermath (at the Fed. Cir)
 - Inconsistent with the holding of *Blue Calypso, LLC v. Groupon, Inc.*, 815 F.3d 1331 (Fed. Cir. 2016) where the Federal Circuit relied on the “incidental” or “complementary” language to affirm the PTAB
 - Different panel in *Unwired Planet*
 - Possible *en banc* review to resolve the inconsistent interpretations by the panels

CBM – *Unwired Planet v. Google* (Fed. Cir.)

- *Unwired Planet* aftermath (at the PTAB)
 - Doubt over all the existing CBM proceedings and the ones where Final Written Decision was provided in reliance of the “complementary” or “incidental” standard
 - The PTAB is providing Patent Owners and Petitioners an opportunity to submit 4 page supplemental briefs on why the Patent does not or does qualify for CBM review under *Unwired Planet*. See e.g., CBM2016-00008; CBM2016-00021; and CBM2016-00022.
 - What happens to CBMs instituted under the narrow interpretation but *en banc* review finds support for broader interpretation?

Technological Invention Exception



- The following drafting techniques typically do not render a patent a technological invention:
 - (a) Mere recitation of known technologies, such as computer hardware, communication or computer networks, software, memory, computer-readable storage medium, scanners, display devices or databases, or specialized machines, such as an ATM or point of sale device.
 - (b) Reciting the use of known prior art technology to accomplish a process or method, even if that process or method is novel and non-obvious.
 - (c) Combining prior art structures to achieve the normal, expected, or predictable result of that combination.
- Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,763-64 (Aug. 14, 2012).

CBM – Sunset Provision

- Transitional program scheduled to end September 16, 2020
- PGR provides an option for patent filed on or after March 16, 2013 to challenge patents in the PTAB based on 101, 102, 103, 112, and double patenting but...
 - Broader estoppel as IPRs
 - Can only be filed from 9 months after patent grant or reissue
- No *serious* discussions yet on possibly continuing or extending CBM's beyond sunset date.

DataTreasury Cases

District Court and PTAB History & Recent Developments

DataTreasury History

- Company Background
- The Ballard Patents
- District Court Cases and Reexamination
- Settlements and Licensing

DataTreasury – Company History

- DataTreasury founded by Claudio Ballard in 1998 in Melville, NY.
- In 1999 and 2000, DataTreasury Corporation received two related business method patents covering its check-imaging technology, known as the “Ballard Patents.”

DataTreasury – Patents

- U.S. Patent No. 5,910,988 and U.S. Patent No. 6,032,137 directed to:
 - A system for remote data acquisition, centralized processing and storage of the acquired data.
 - An automated system to manage and store captured electronic and paper transactions from various activities, including banking and consumer applications.
- DataTreasury alleged the patents could read upon check scanning performed by financial institutions.

DataTreasury – Licensing

- In 2002 DataTreasury began its litigation campaign, eventually filing over 20 suits against the largest banks
- In November 2005, banks filed a request for a reexamination of the DataTreasury patents.
- In 2007, the USPTO upheld both of DataTreasury's patents and, further, allowed DataTreasury to claim additional inventions that were disclosed but not claimed in the original applications.
- DataTreasury generated over \$350 mm in licensing revenue following the Reexamination.

DataTreasury – District Court Award

- On March 26, 2010, US Bank, Viewpointe, Clearing House Payments Company and its subsidiary SVPCo found to infringe DataTreasury’s patents.
 - Jury awarded damages of \$26.6 million.
 - Judge doubled damages based on willfulness finding.
 - Total Damages: \$53.2 million.
- On May 28, 2013, DataTreasury filed a second round of lawsuits in the Eastern District of Texas against smaller banks.

DataTreasury – CBM Review

- October 25, 2013
 - Banks filed petition for Post-Grant CBM Review of '988 Patent and '137 Patent.
- April 29, 2014
 - PTAB instituted CBM Review of the '988 and '137 Patents.
- April 29, 2015
 - PTAB issued final decisions invalidating the '988 and '137 Patents.

DataTreasury – CBM Review

- The PTAB found that the claims were eligible for CBM review for being directed to a method for central management, storage and verification of remotely captured paper transactions from checks.
- The PTAB found the claims invalid under §101 for being directed to an abstract idea and not requiring particular apparatus that limit the claim in a meaningful way.
- The PTAB found the claims invalid under §112 for lacking written description for failing to describe “encrypting subsystem identification information.”

DataTreasury – Appeal to Federal Circuit

A technical drawing or blueprint background in the top right corner, featuring various geometric shapes, lines, and circular patterns, typical of engineering or architectural plans.

- Appeal of PTAB decision
- DataTreasury argued no CBM jurisdiction, as they represented “technological innovation” rather than used in the practice of financial product or services
- On October 13, 2016, Fed Cir issued 1-page order affirming PTAB’s decisions invalidating the ’988 and ’137 patents

DataTreasury – Refund to JPMorgan

- On June 2, 2015, U.S. District Judge Michael Schneider (EDTX) awarded JPMorgan Chase (JPMC) a refund of **\$69 million**
- The settlement agreement between JPMC and DataTreasury included MFN clause that entitled JPMC to “any and all favorable terms” if Data Treasury entered into license agreement with any other entity,
- On May 19, 2016, the 5th Circuit affirmed the decision by Judge Schneider
- On November 28, 2016, the Supreme Court denied *cert*

Recent / Relevant Federal Cases

Joint Infringement, Attorney Fees, Willfulness

Joint Infringement

- *Limelight Networks, Inc. v. Akamai Techs.*, 134 S. Ct. 2111 (2014)
 - In 2014, the Supreme Court raised the bar for proving induced infringement of method claims in *Limelight Networks, Inc. v. Akamai Techs., Inc.* There, the Supreme Court held that an accused infringer cannot be liable for inducement unless a single party has directly infringed the patent under 35 U.S.C. §271(a).
- *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 797 F.3d 1020, 1022 (Fed. Cir. 2015)
 - On remand, the Federal Circuit clarified that “where more than one actor is involved in practicing the steps, a court must determine whether the acts of one are attributable to the other such that a single entity is responsible for the infringement.”
 - A single entity is responsible for others’ performance of method steps in two circumstances:
 - 1) the entity directs or controls the performance of others; or
 - 2) where the actors form a “joint enterprise.”

Joint Infringement

- Direct or Control
 - Continue to consider general principles of vicarious liability—actor is liable for direct infringement if acting through an agent or contracts with another to perform one or more steps of method. *BMC Res., Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007)
 - Liability may also exist “when an alleged infringer conditions participation in an activity or receipt of a benefit upon performance of a step or steps of a patented method and establishes the manner or timing of that performance.”
- Joint Enterprise
 - 1) an agreement, express or implied, among the members of the group;
 - 2) a common purpose to be carried out by the group;
 - 3) a community of pecuniary interest in that purpose, among the members; and
 - 4) an equal right to a voice in the direction of the enterprise, which gives an equal right of control.
- All steps must be attributed to single entity for inducement

Joint Infringement (Indemnification)



- Does the infringement claim trigger indemnity obligation?
 - Assess whether patent claims fit within scope of indemnity clause
 - Can be difficult if patented technology is complex and/or complaint is vague about accused functionality
 - Assistance of outside counsel may be required
 - May not be able to properly assess until later in litigation (e.g., after contentions are disclosed)
 - Even after comprehensive assessment, supplier and customer may dispute whether product/service triggers indemnity provision
 - For example, the supplier only practices part of claimed method (in which case “combination” provisions of contract should be kept)
 - Other indemnification agreements / parties may be implicated

Joint Infringement (Indemnification)



- Supplier obligations / Scope of indemnification
 - Conflicts may arise that affect the scope of indemnification
 - Supplier and customer’s substantive positions may differ
 - Thus supplier may need to retain independent counsel and/or simply cover cost of customer representation. Appropriate course of action will depend on:
 - Language of contract and actual scope of supplier obligations
 - State law, ethical considerations, etc.
- Preparation of indemnification clauses/language
 - Consider unique aspects of business relationships and respective interests
 - Preferences re litigation strategy, dispute resolution, etc.

Joint Infringement (Indemnification)

- *Example 1: “Indemnification. Provider agrees at its expense to **defend or settle** any third-party claim **against Customer** and to pay all damages that a court may finally award against Customer (or agreed to by Provider in settlement) **to the extent the claim alleges that the Services** provided to Customer under this Agreement infringe any patent or copyright protected by the laws of the United States, provided that Customer (a) promptly notifies Provider of any such action, (b) gives Provider full authority, information, and assistance to defend such claim, and (c) gives Provider sole control of the defense of such claim and all negotiations for the compromise or settlement of such claim.”*
- Pitfalls:
 - Failing to obtain an indemnification obligation in addition to the defense obligation
 - Limiting indemnity to Services or Software or Materials only
 - **Making notice a prerequisite to indemnity**

Joint Infringement (Indemnification)



- *Example 2: “Indemnification. Provider agrees at its expense to defend or settle any third-party claim against Customer and to pay all damages that a court may finally award against Customer (or agreed to by Provider in settlement) to the extent the claim alleges that the Services provided to Customer under this Agreement **infringe** any **patent or copyright** protected by the **laws of the United States**, provided that Customer (a) promptly notifies Provider of any such action, (b) gives Provider full authority, information, and assistance to defend such claim, and (c) **gives Provider sole control of the defense of such claim and all negotiations for the compromise or settlement of such claim.**”*
- Pitfalls:
 - Failing to include “misappropriated” in an IP infringement indemnity (trade secrets can only be misappropriated, not infringed)
 - Failing to include all IP types in an IP infringement indemnity
 - Limiting an IP infringement indemnity to IP protected in the US
 - **Failing to prevent Provider from settling claims without Customer’s consent (or other limitations on the Provider’s authority)**

Attorney Fees

- *Octane Fitness* redefined the standard for exceptional cases under 35 U.S.C. § 285
 - “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.”
- Before *Octane Fitness*, district courts were bound by the restrictive approach articulated in *Brooks Furniture Mfg.*
 - limited “exceptional” cases to those in which “there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions.”
- *Octane Fitness*
 - Criticized the *Brooks Furniture Mfg.* framework as “overly rigid”
 - Rejected the Federal Circuit’s requirement that patent litigants establish their entitlement to fees under § 285 by clear and convincing evidence

Attorney Fees

- In the two years immediately following *Octane*, the number of motions for attorneys' fees under § 285 has increased by 56% in federal district courts. The percentage of § 285 motions granted also increased, particularly between the year immediately preceding and the year immediately following the *Octane* decision.

All District Courts	4/30/13 - 4/29/14	4/30/14 - 4/29/15	4/30/15 - 4/29/16
Motions Filed	109	170	212
Denied	80	105	128
Granted	15	39	40

Attorney Fees

- Additionally, courts with the most patent heavy dockets (Delaware, the Central District of California, and the Eastern District of Texas) have seen an increase in the percentage of attorneys' fees granted under § 285.

D. Del, C.D. Cal, and E.D. Tex.	4/30/13 - 4/29/14	4/30/14 - 4/29/15	4/30/15 - 4/29/16
Motions Filed	35	50	56
Denied	27	35	32
Granted	3	9	14

Pre-*Halo* Willfulness Standard, *In re Seagate Technology* (Fed. Cir. 2007)

- Two-part test:
 - First, “a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent,” without regard to “[t]he state of mind of the accused infringer.”
 - “[D]etermined by the record developed in the infringement proceedings.”
Objectively reasonable defense to infringement sufficed even if accused infringer unaware at the time.
 - Second, patentee had to show by clear and convincing evidence the risk of infringement “was either known or so obvious that it should have been known to the accused infringer.”
- Only when both steps were satisfied could the district court proceed to consider whether to exercise its discretion to award enhanced damages.
- Bard: (a) objective recklessness was a question of law to be determined by the judge, not jury; (b) subject to de novo review on appeal.

Halo v. Pulse and the Willfulness Standard

- Supreme Court wrote approvingly of Seagate’s approach: – “[R]eflects, in many respects, a sound recognition that enhanced damages are generally appropriate under § 284 only in egregious cases”
- But Seagate’s standard “unduly rigid” by requiring proof of objective recklessness in every case.
 - Could have the effect of “exclud[ing] from discretionary punishment many of the most culpable offenders, such as the ‘wanton and malicious pirate’ who intentionally infringes another’s patent—with no doubts about its validity or any notion of a defense—for no purpose other than to steal the patentee’s business.”
- Awards of enhanced damages “are not to be meted out in a typical infringement case, but are instead designed as a ‘punitive’ or ‘vindictive’ sanction for egregious infringement behavior.
- The sort of conduct warranting enhanced damages has been variously described in our cases as willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate.”

Attorney Fees / Willfulness (Demand Letters)

Practical considerations

- Informal policy for addressing demand letters
 - Consult with outside counsel
 - Consider size/type of company, who sent the letter, etc.
- Due diligence
 - Opinions of legal counsel
 - Conduct early in dispute
- Scope of response
 - Rule 11
 - Attorney fees

Patent Exhaustion Basics

- The Patent Act grants to patent owners an exclusionary right that allows them to prevent others from making, using, selling, offering for sale or importing any patented invention within the United States during the term of the patent.
- Question arises in the context of a patent owner's attempt to control a patented product after an authorized sale:
 - “The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.” *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 625 (2008).

Patent Exhaustion Basics



- The unrestricted sale of a patented article, by or with the authority of the patentee, is said to “exhaust” the patentee’s right to control further sale and use of that article by enforcing the patent under which it was first sold.
- “Under the doctrine of patent exhaustion, the authorized sale of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article.” *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1764 (2013).
 - Thus, when a patentee has disposed of the article via sale of a patented article the buyer is thereafter authorized to engage in activities involving the article, such as resale, that would otherwise be considered infringing in the absence of exhaustion of rights.
 - Furthermore, when a patented device has been lawfully sold in the United States, subsequent purchasers inherit the same immunity under the doctrine of patent exhaustion.

Lexmark Int'l, Inc. v Impression Prods., 816 F.3d 721 (Fed. Cir. 2016), cert granted by *Impression Prods. v Lexmark Int'l, Inc.*, 2016 U.S. LEXIS 7275 (U.S., Dec. 2, 2016) – Factual Background

- Lexmark owns a number of patents that cover toner cartridges and their use.
 - The cartridges at issue were first sold by Lexmark, some abroad and some domestically within the United States. Some of the foreign-sold cartridges and all of the domestically sold cartridges at issue were sold subject to an express single-use/no-resale restriction.
 - Impression Products, Inc. later acquired the cartridges at issue in order to resell them in the United States after a third party physically modified them to enable re-use in violation of the single-use/no-resale restriction.
 - Impression has resold the patented Lexmark cartridges at issue in the United States, and has imported those it acquired abroad.
 - In each case, it has acted without authorization from Lexmark and, for the physically modified cartridges, in violation of the express denial of authorization to engage in resale and reuse.
- Impression's actions constitute patent infringement unless the fact that Lexmark initially sold the cartridges constitutes the grant of authority that makes Impression's later resale and importation non-infringing under the patent exhaustion doctrine.

Lexmark Int'l, Inc. v Impression Prods., 816 F.3d 721 (Fed. Cir. 2016), cert granted by *Impression Prods. v Lexmark Int'l, Inc.*, 2016 U.S. LEXIS 7275 (U.S., Dec. 2, 2016) – Federal Circuit Decision

- The Federal Circuit heard the *Lexmark* case *en banc* to consider whether two prior decisions of the court concerning the patent exhaustion doctrine remain good law after the Supreme Court's more recent decisions (in *Quanta* and *Kirtsaeng*).
 - *Quanta* (2008) – “The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.”
 - *Kirtsaeng* (2013) – Adopted international copyright exhaustion, holding that the first sale doctrine of the Copyright Act trumps a copyright owner's right to bar importation of copies when they were made and sold outside the U.S.
- *Kirtsaeng* was found to be inapplicable.
 - *Kirtsaeng* did not address patent law issues, nor did it address whether a foreign sale should be viewed as conferring authority to engage in otherwise infringing domestic activities.
 - *Kirtsaeng* dealt with the statutory first sale doctrine embodied in the Copyright Act, which entitled owners of copyrighted articles to engage in certain activities without the authority of the copyright holder. As such *Kirtsaeng* has no applicability to patent exhaustion because that there is no comparable provision found in the Patent Act.

Lexmark Int'l, Inc. v Impression Prods., 816 F.3d 721 (Fed. Cir. 2016), cert granted by *Impression Prods. v Lexmark Int'l, Inc.*, 2016 U.S. LEXIS 7275 (U.S., Dec. 2, 2016) – Federal Circuit Decision

- Federal Circuit held that when a patentee sells a patented article under otherwise-proper restrictions on resale and reuse communicated to the buyer at the time of sale, the patentee does not confer authority on the buyer to engage in the prohibited resale or reuse.
 - The patentee does not exhaust its rights to charge the buyer who engages in those acts—or downstream buyers having knowledge of the restrictions—with patent infringement.
 - The Federal Circuit also held that a foreign sale of a U.S. patented article, when made by or with the approval of the U.S. patentee, does not exhaust the patentee's U.S. patent rights in the article sold, even when no reservation of rights accompanies the sale. Loss of U.S. patent rights based on a foreign sale remains a matter of express or implied license.


Legislative Update

Status of Current Pending Legislation

Pending Legislation

- Innovation Act (House)
 - Would bar AIA reviews from being filed by hedge funds seeking to manipulate stock prices by challenging patents, and by those who threaten to challenge patents unless the owner pays them not to, which has been referred to as "reverse patent trolling."
 - The bill would allow patent suits to be filed only where the defendant has its principal place of business or a facility related to the infringement, where the inventor researched or developed the patented invention, or where the plaintiff makes products or has a facility that was not simply set up to create venue.
 - Hearings have been held in the Committee on Small Business and Entrepreneurship.
- Venue Act (Senate)
 - Would restrict patent suits to district courts where the parties are incorporated or where they have physical facilities tied to either the development of the technology-at-issue or alleged infringement. Prevents jurisdiction when the only tie to that court is a telecommuting employee.
 - Parties could still consent to allow a suit where other provisions of the bill would not establish jurisdiction in that court. The bill would also restrict mandamus motions to cases where the lack of an order would cause "irremediable interim harm."
 - Currently referred to the Committee on the Judiciary

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