

Licensing Executives Society

IP Year in Review

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Challenges To The PTAB

- Past:
 - *Cuozzo* (S. Ct.): BRI, Institution Decision Not Appealable
 - *Oil States* (S. Ct.): Article III/Seventh Amendment
 - *SAS* (S. Ct.): Partial Institution Practice
- Current
 - *Arthrex* (CAFC): Appointments Clause
 - *Thryv v. Click-to-Call* (S. Ct.): Appealability of Institution Decisions (time-bar)

APJs' Appointment Unconstitutional: *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 2018-2140 (Fed. Cir. Oct. 31, 2019)

- Question presented:
 - Whether the appointment of PTAB's Administrative Patent Judges (APJs) by the Secretary of Commerce violates the Appointments Clause of the Constitution.
- Background:
 - Arthrex owned a patent covering an assembly for securing knotless sutures.
 - Smith & Nephew filed an IPR petition challenging claims within Arthrex's patent.
 - The PTAB instituted IPR and after trial, issued a decision finding the claims invalid as anticipated.
 - Arthrex did not challenge the Appointments Clause at the PTAB.

APJs' Appointment Unconstitutional: *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 2018-2140 (Fed. Cir. Oct. 31, 2019)

- Holding:
 - Unconstitutional appointment: APJs are “Officers of the United States,” and in light of their rights and responsibilities, APJs are principal officers. Because principal officers must be appointed by the President and confirmed by the Senate, the current structure of the Board violates the Appointments Clause.
 - Remedying the Constitutional violation: the Federal Circuit severed the provision of 35 U.S.C. § 3(c) which applies Title 5 to officers and employees of the USPTO. Title 5 limits APJs' removal *for cause*.
 - PTAB Decision Vacated and Remanded: the PTAB panel that invalidated Arthrex's patent was made up of APJs who were not constitutionally appointed, therefore the Federal Circuit vacated the decision and remanded the case to be heard by a new panel of APJs.

APJs' Appointment Unconstitutional: *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 2018-2140 (Fed. Cir. Oct. 31, 2019)

- Rationale:

- APJs are principal officers:

- (1) APJs have substantial power to issue final decisions, upon which “billions of dollars and the fates of entire industries can ride,” but no presidentially-appointed officer has the power to review, vacate or correct decisions by APJs.
- (2) Both the USPTO Director and Secretary of Commerce lack unrestricted removal authority. APJs can only be removed for cause.

- Remedy that allows for termination without cause renders APJs “inferior officers.”

APJs' Appointment Unconstitutional: *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 2018-2140 (Fed. Cir. Oct. 31, 2019)

- Impact:

- PTO action to ensure the APJs are inferior officers.
- PTO action regarding pending IPRs.
- *Sua sponte* remands from the CAFC: remanded *Uniloc LLC v. Facebook, Inc.*, ___ F.3d ___, Docket 2018-2251 (Fed. Cir. Oct. 31, 2019) (Non-Precedential Order).
- But no automatic remands: must have been raised in opening brief. *See, e.g., Customedia Technologies, LLC v. Dish Network Corp.*, ___ F.3d ___, Docket 2018-2239 (Fed. Cir. Nov. 1, 2019) (Precedential Order).
- Further challenges to remedy. *See, e.g., Kingston Technology Co., Inc. v. Polaris Innovation Ltd.* (Fed. Cir. 2019) (Congress must fix).

APJs' Appointment Unconstitutional: *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 2018-2140 (Fed. Cir. Oct. 31, 2019)

- Many open questions remain:
 - (1) Breadth? Does this ruling extend to post-grant review and covered business method patent review?
 - (2) Number of IPR re-hearings, procedures for new hearings, etc.?
 - (3) Must parties with pending IPRs file objections to their panel to avoid waiver?

The On-Sale Bar and Secret Sales: *Helsinn Healthcare SA v. Teva Pharm. USA Inc.*, 139 S. Ct. 628 (2019)

- Question presented:
 - Whether the sale of an invention to a party who is required to keep the invention confidential qualifies as prior art under the on-sale bar of 35 U.S.C. § 102(a)(1).
- Background:
 - Helsinn owned patents covering a treatment for chemotherapy-induced nausea.
 - In April 2001, Helsinn had entered into two agreements with MGI: a license and a supply and purchase agreement, granting MGI the right to distribute, promote, market, and sell in the US.
 - The agreements required MGI to keep proprietary information confidential.
 - In January 2003, Helsinn filed a provisional application.
 - In 2011, Teva sought FDA permission to market a generic version.
 - In May 2013, Helsinn filed a patent application (the '219 Patent) claiming priority to the 2003 provisional application.

The On-Sale Bar and Secret Sales: *Helsinn Healthcare SA v. Teva Pharm. USA Inc.*, 139 S. Ct. 628 (2019)

- Helsinn sued Teva for infringement, but Teva argued that the '219 Patent was invalid under the on-sale bar of the AIA.
 - The on-sale bar of the AIA provides: “A person shall be entitled to a patent unless ... the claimed invention was patented, described in a printed publication, or in public use, **on sale**, or otherwise available to the public before the effective filing date of the claimed invention.” 35 U.S.C. § 102(a)(1) (emphasis added).
- The district court rejected Teva’s argument.
 - The district court reasoned that by adding the phrase “**or otherwise available to the public before the effective filing date of the claimed invention[,]**” the AIA now required that the sale or offer in question must make the invention *available to the public* in order for the on-sale bar to apply.

The On-Sale Bar and Secret Sales: *Helsinn Healthcare SA v. Teva Pharm. USA Inc.*, 139 S. Ct. 628 (2019)

- The Federal Circuit reversed:
 - The sale was public, even if the invention itself was not.
 - The legislative history of the AIA did not suggest any change to the meaning of “on sale.”
 - The details of the invention need not be publicly disclosed to trigger the on-sale bar.

The On-Sale Bar and Secret Sales: *Helsinn Healthcare SA v. Teva Pharm. USA Inc.*, 139 S. Ct. 628 (2019)

- Holding: Affirmed.
 - “A commercial sale to a third party who is required to keep the invention confidential may place the invention ‘on sale’ under § 102(a).”
- Rationale:
 - Every patent statute since 1836 had included an on-sale bar.
 - The invention need only be “the subject of a commercial offer for sale” and “ready for patenting.” *Pfaff v. Wells Electronics, Inc.*, 119 S. Ct. 304 (1998).
 - Against this settled pre-AIA precedent, Congress adopted the Court’s prior construction of “on sale” when it reenacted the same “on sale” language in the AIA. The “catchall phrase” added by the AIA did not overturn that “settled body of law.”

Trademark Infringement Damages: *Romag Fasteners, Inc. v. Fossil, Inc.*, (No. 18-1233)

- Question presented:
 - Is willful infringement a prerequisite to an award of an infringer's profits for a violation of 15 U.S.C. § 1125(a)?
- Background:
 - A 2014 jury verdict found that Fossil's use of counterfeit Romag components infringed Romag's trademark for magnetic snap fasteners used in purses and wallets, in violation of § 1125(a) (false designation of origin).
 - 15 U.S.C. § 1117 provides:
 - "When a violation of any right of the registrant of a mark registered in the [PTO], a **violation under section 1125(a)** or (d) of this title, or a willful violation under section 1125(c) of this title, **shall have been established in any civil action** arising under this chapter, the **plaintiff shall be entitled**, subject to the provisions of sections 1111 and 1114 of this title, and **subject to the principles of equity, to recover (1) defendant's profits**, (2) any damages sustained by the plaintiff, and (3) the costs of the action." 15 U.S.C. § 1117(a) (emphases added).
 - The jury found that Fossil acted "in callous disregard" for Romag's trademark rights, but in response to a special interrogatory, the jury found that Romag had not "proved by a preponderance of the evidence that Defendants' trademark infringement was willful."
 - The jury made advisory awards under two different rationales: unjust enrichment and to deter future trademark infringement.
 - Following a bench trial on equitable defenses and remedies, the district court held that "Romag is not entitled to any award of profits as a result of Plaintiff's failure to prove that Fossil's trademark infringement was willful."

Trademark Infringement Damages: *Romag Fasteners, Inc. v. Fossil, Inc.*, (No. 18-1233)

- Romag’s Arguments:
 - (1) There is no willfulness requirement per the plain text of § 1117(a).
 - The statute requires only a “violation” of section 1125(a) to recover an award of an infringer’s profits.
 - For a violation of § 1125(c) (trademark dilution), however, the statute does require a “willful violation.” This “deliberate drafting choice must have meaning.”
 - Throughout the statute, Congress made clear when a culpable mental state was a prerequisite to recovery.
 - (2) The statute’s clause, “subject to the principles of equity,” does not incorporate a willfulness requirement; rather, Supreme Court precedent supports the conclusion that equity in IP cases is an inherently flexible doctrine.
 - (3) A willfulness requirement is in direct conflict with the dual purposes of the Lanham Act: “protecting the public from deception and protecting mark holders’ investment in their businesses’ goodwill.”
- Fossil’s response:
 - (1) Text of § 1117(a) – “subject to the principles of equity” – incorporates traditional limits on equitable relief.
 - The current statute is merely a continuation of the interpretation of its predecessor statute: the 1905 Trade-Mark Act.
 - (2) Traditional principles of equity in historical trademark cases require willfulness for a profits award.
 - (3) Romag’s interpretation is bad policy: risk of a windfall award to a plaintiff who had not been harmed, and whom the defendant had not intended to harm.

Trademark Infringement Damages: *Romag Fasteners, Inc. v. Fossil, Inc.*, (No. 18-1233).

- Policy arguments put forth by parties and various *amici curiae* briefs:
 - The ABA, the INTA, the AIPLA and the IPLAC – all support the flexible approach urged by Romag: no willfulness prerequisite to recover profits.
 - A willfulness requirement would dilute trademark protection. An award of profits can mean the difference between a meaningful recovery for trademark infringement and none at all.
 - Willfulness requirement would “create perverse incentives for manufacturers to avoid monitoring their supply chains.”
 - The IPO and Intellectual Property Law Professors (15 law school professors) support Fossil:
 - Without willfulness as a requirement, the law would incentivize plaintiffs to engage in abusive litigation practices, “leveraging the powerful threat of massive remedies to force costly settlements of meritless cases.”
 - Trademark law is based on strict liability – so without willfulness prerequisite, plaintiffs could recover profits from even “innocent infringers.”
 - Profit disgorgement is more appropriate in cases of bad faith where deterrence is the main objective.

Copyrightability of Software and Fair Use in the Digital Age: *Google LLC v. Oracle America, Inc.*, (No. 18-956)

- Questions presented:
 - (1) Whether copyright protection extends to a software interface;
 - (2) Whether Google’s use of a software interface in the context of creating a new computer program constitutes fair use.
- Background:
 - When Google implemented the Android OS, it wrote its own version of Java, but to allow developers to write their own programs for Android, Google copied Java APIs (application programming interfaces).
 - The API declarations encompass 11,500 lines of declaring code, which are specifications that effectively allow programs to communicate with each other.
 - Section 102(b) of the Copyright Act: copyright does not extend to “any idea, procedure, process, system, **method of operation**, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.” 17 U.S.C. § 102(b) (emphasis added).
 - Section 107 further provides that “the **fair use** of a copyrighted work ... is **not an infringement of copyright.**” 17 U.S.C. § 107 (emphases added).
- Trial #1 in 2012: district court ruled APIs are not copyrightable because they represent a command structure, or method of operation, that could not be written any other way.
 - Judge Alsup: where “there is only one way to declare a given method functionality, [so that] everyone using that function must write that specific line of code in the same way,” that coding language cannot be subject to copyright.
- Appeal #1: the Federal Circuit disagreed with the lower court’s ruling and remanded the case for a second trial on whether Google’s copying was a fair use.
- Trial #2 in 2016: jury found that Google’s use constituted fair use, therefore no infringement.
- Appeal #2: the Federal Circuit set aside the jury’s verdict and held that Google’s use was not fair use as a matter of law.

Copyrightability of Software and Fair Use in the Digital Age: *Google LLC v. Oracle America, Inc.*, (No. 18-956)

- Google’s cert petition, granted in November 2019, argues:
 - (1) The Java API declarations are uncopyrightable “methods of operation” under § 102(b) because the APIs simply instruct developers on how to access the prewritten methods to perform tasks carried out by the implementing code.
 - (2) The Federal Circuit misapplied the merger doctrine: copying aspects of the Java API declarations was essential for developers to create applications for the Android platform using the free Java language.
 - (3) Even if APIs can be copyrighted, Google’s use was fair. Google had to use the standard Java structure in order to run Java on Android OS.
- Oracle argues:
 - Google’s copying is the “epitome” of copyright infringement; no precedent that copying this volume of code into a competing work is fair.
 - The next Oracle will not invest as heavily in a venture like Java if any competitor can freely copy its work to compete directly against it.
 - Google’s interoperability argument fails since Google conceded that it purposefully made its platform incompatible with Oracle’s.
- Impact – precedent will affect software makers globally; both sides warn of chilling effect
 - Google and amici argue that APIs are purely practical, rather than proprietary expressions of originality.
 - Open APIs are the key to competition and progress in both hardware and software development – modern computers and the Internet could not have developed without open APIs.
 - Consumers can switch platforms and services freely and find software they need regardless of what browser or OS they use.
 - Oracle argues that only robust copyright protections foster innovation.
 - The fact that the code serves a function does not preclude its copyrightability.
 - Having invested substantial resources to create a program popular with both platform developers and app programmers, why should Oracle “be required to let a competitor copy its code so that it can co-opt the fan base to create its own best-selling sequel[?]”

Section 101: Is there any clarity in sight?

- Computer-related patents rise and fall on *Alice* Step-One:
 - In only two out of 50-plus decisions where a panel held a computer-related patent to be directed to an abstract idea at step one, has the panel then determined in step two that the claim elements, “individually and as an ordered combination,” amounted to an “inventive concept.”
- SCOTUS had denied cert on all post-*Alice* petitions seeking further clarification of the patent-eligibility standards.
 - As of June 14, 2019, the Court had denied cert in 43 such petitions.
 - Statistic cited by former USPTO director Todd Dickinson in testimony to Congress on why amendments to section 101 are needed.

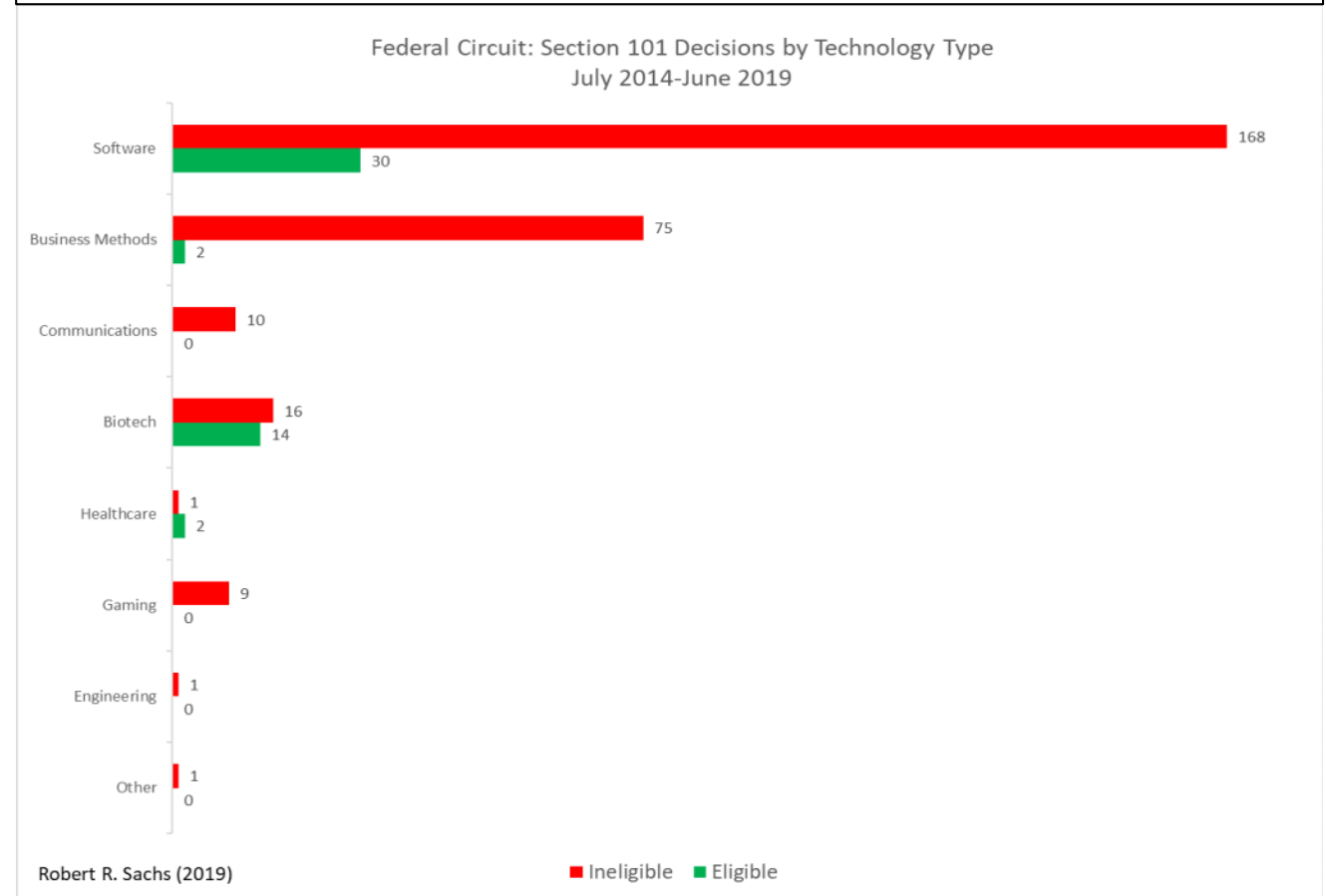
Section 101: Is there any clarity in sight?

- On the software patent front, there are at least two pending petitions: *ChargePoint* (system for connecting electronic charging stations) and *Trading Technologies* (interactive graphical user interfaces for electronic trading). Opposition briefs haven't been filed yet.
- SCOTUS asked SG's Office to weigh in on *Berkheimer* and *Hikma v. Vanda*.
 - SG's Office filed briefs last week; recommended against granting cert in both.

Repeated pleas from the Federal Circuit to fix “incoherent” *abstract ideas* jurisprudence

- Judge Plager, concurring in part & dissenting in part in *Interval Licensing LLC v. AOL, Inc.* (Fed. Cir. 2018), wrote:
 - “The law ... renders it near impossible to know with any certainty whether the invention is or is not patent eligible.”
 - The requirement for an 'inventive concept' “provided no discernable boundaries for decision-making in specific cases, resulting in an incoherent legal rule that led to arbitrary outcomes.”
 - “The legitimate expectations of the innovation community, as well as basic notions of fairness and due process, compel us to address this § 101 conundrum.”
- Judge Linn, dissenting in *Smart Systems Innovations, LLC v. Chicago Trans-t Authority* (Fed. Cir. 2017), wrote:
 - “[T]he abstract idea exception is almost impossible to apply consistently and coherently ...”
 - The *Alice* test is “indeterminate and often leads to arbitrary results,” and as a consequence, “it can strike down claims covering meritorious inventions not because they attempt to appropriate a basic building block of scientific or technological work, but simply because they seemingly fail the Supreme Court’s test.”
- Judge Lourie, concurring in *Berkheimer v. HP, Inc.* (Fed. Cir. 2018), wrote that “the law needs clarification by higher authority, perhaps by Congress, to work its way out of what so many in the innovation field consider are § 101 problems.”

5 Years of Federal Circuit § 101 Decisions: ineligible subject matter found in 85% of litigated software patents



One Hope: *Athena Diagnostics v. Mayo Collaborative Services, LLC*, 915 F.3d 743 (Fed. Cir. 2019); *reh'g and reh'g en banc denied*, 927 F.3d 1333 (Fed. Cir. 2019), *petition for cert. filed* (U.S. October 1, 2019) (No. 19-430)

- Question presented by Athena's Cert Petition, filed in October 2019:
 - Whether a new and specific method of diagnosing a medical condition is patent-eligible subject matter, where the method detects a molecule never previously linked to the condition using novel man-made molecules and a series of specific chemical steps never previously performed.
- Background:
 - February 2019: the Federal Circuit invalidated Athena's patent claims for detecting antibodies in mammals using labeled epitopes of MuSK (a muscle-specific receptor protein).
 - The Federal Circuit conceded that "prior to [this] discovery, no disease had been associated with MuSK," but nonetheless ruled that "the claimed advance was only in the discovery of a natural law, and [] the additional recited steps only apply conventional techniques to detect that natural law."
 - Athena argues that labeled MuSK does not occur in nature, so the method is not directed to a "natural law."
- A fractured *en banc* decision in July 2019: 8 separate opinions concurring or dissenting, but all seeking guidance and agreeing the current framework is inadequate.
 - The court denied *en banc* review and was divided 7-5 on § 101 eligibility.
 - All 12 active Federal Circuit judges voted, with 8 writing separately, to tell the Supreme Court or Congress to change or overrule patent eligibility for medical diagnostics.

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