

IP Litigation In 2019: Key Developments From 2018 And Predictions For The New Year



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Patents

- Damages: After a period of restricting patent owner damages, two important cases signal flexibility on new damage theories.
- *Exmark Mfg. Co. Inc. v. Briggs & Stratton Power Prod. Grp., LLC*, 879 F.3d 1332 (Fed. Cir. 2018).
- *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018).

Federal Circuit Signals a Greater Flexibility for Apportioning Damages

- Previous apportionment standard – Smallest Saleable Unit (*VirnetX*) and Entire Market Value Rule (*Uniloc*)
 - "[I]t is the exception, not the rule, that damages may be based upon the value of the multi-component product."
 - "A patentee may assess damages based on the entire market value of the accused product *only where* the patented feature creates the basis for customer demand or substantially creates the value of the component parts."

Exmark Mfg. Co. v. Briggs & Stratton Power Products Group, LLC

- Claims directed to "lawnmower," but novelty was only in "flow-control baffle," a small portion of overall product.
- CAFC holds it was proper for sales of the entire lawnmower to be the royalty base as long as the rate was properly adjusted.

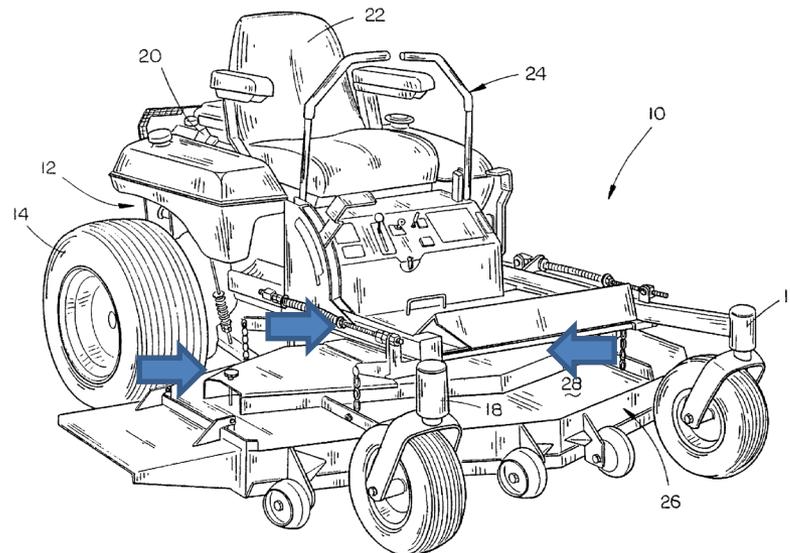


FIG. 1

Exmark Mfg. Co. v. Briggs & Stratton Power Products Group, LLC

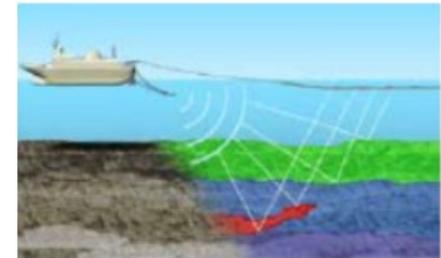
- “We have held that apportionment can be addressed in a variety of ways, including ‘by careful selection of the royalty base to reflect the value added by the patented feature [or] ... by adjustment of the royalty rate so as to discount the value of a product’s non-patented features; or by a combination thereof.’ So long as Exmark adequately and reliably apportions between the improved and conventional features of the accused mower, using the accused mower as a royalty base and apportioning through the royalty rate is an acceptable methodology. . . . It was proper for sales of the entire lawnmower to be the royalty base as long as the rate was properly adjusted.”

Exmark Mfg. Co. v. Briggs & Stratton Power Products Group, LLC

- “Using the accused lawn mower sales as the royalty base is particularly appropriate in this case because the asserted claim is, in fact, directed to the lawn mower as a whole. The preamble of claim 1 recites a ‘multiblade lawn mower.’”

WesternGeco LLC v. ION Geophysical Corp.

- WesternGeco sued for infringement under 35 U.S.C. § 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.”
- Jury awarded WesternGeco over \$94 MM in lost profits damages based on lost contracts for work outside US.



WesternGeco LLC v. ION Geophysical Corp.

- 7-2 Decision by Thomas
- Extraterritorial effect of a US statute is based on a 2-Step analysis:
 - Step One: Whether the presumption against extraterritoriality has been rebutted in that the text provides a “clear indication of an extraterritorial application.”
 - Step Two: If the presumption has not been rebutted, the “whether the case involves a domestic application of the statute.”
- Under Step Two, “Section 271(f)(2) focuses on domestic conduct. . . . § 271(f) vindicates domestic interests: It was a direct response to a gap in our patent law, and reaches components that are manufactured in the United States but assembled overseas.”

WesternGeco LLC v. ION Geophysical Corp.

- “In sum, the focus of § 284, in a case involving infringement under § 271(f)(2), is on the act of exporting components from the United States. In other words, the domestic infringement is ‘the objec[t] of the statute’s solicitude’ in this context. The conduct in this case that is relevant to that focus clearly occurred in the United States, as it was ION’s domestic act of supplying the components that infringed WesternGeco’s patents. Thus, the lost-profits damages that were awarded to WesternGeco were a domestic application of § 284.”

WesternGeco LLC v. ION Geophysical Corp.

- “Taken together, § 271(f)(2) and § 284 allow the patent owner to recover for lost foreign profits. Under § 284, damages are ‘adequate’ to compensate for infringement when they ‘plac[e] [the patent owner] in as good a position as he would have been in’ if the patent had not been infringed. Specifically, a patent owner is entitled to recover the difference between its pecuniary condition after the infringement, and what its condition would have been if the infringement had not occurred. This recovery can include lost profits. And, as we hold today, it can include lost foreign profits when the patent owner proves infringement under § 271(f)(2).”

AIA's Definition of Prior Art

- *Helsinn Healthcare S.A. v. Teva Pharm. USA, Inc.*, No. 17-1229,(U.S. Jan. 22, 2019).
- AIA 35 U.S.C. § 102(a)(1):
 - “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.”
- Does this mean that on sale events must make the claimed invention “available to the public”?

AIA's Definition of Prior Art

- USPTO Concluded “Yes”.
- The USPTO interpreted the AIA as modifying pre-AIA definitions of prior art by requiring any prior art reference to make the claimed invention available to the public, and thus § 102(a)(1) “does not cover secret sales or offers for sale. For example, an activity (such as a sale, offer for sale, or other commercial activity) is secret (non-public) if it is among individuals having an obligation of confidentiality to the inventor.” MPEP § 2152(d).

AIA's Definition of Prior Art

- The petitioner, Helsinn Healthcare S.A., entered into a research financing agreement giving another company the conditional right to purchase drug products that embodied Helsinn's invention. The agreement was made public in an SEC filing and press release, but the agreement did not disclose details of the invention.
- Supreme Court, in unanimous decision written by Thomas, ruled that the AIA did not alter the pre-AIA definition of on sale events.

AIA's Definition of Prior Art

- Court noted prior authority recognizing “private” sales as prior art, including *Pfaff v. Wells Electronics, Inc.*
 - “In light of this settled pre-AIA precedent on the meaning of ‘on sale,’ we presume that when Congress reenacted the same language in the AIA, it adopted the earlier judicial construction of that phrase. predecessor statute (‘on sale’) and, as relevant here, added only a new catchall clause (‘or otherwise available to the public’). . . . The addition of ‘or otherwise available to the public’ is simply not enough of a change for us to conclude that Congress intended to alter the meaning of the reenacted term ‘on sale.’”

PTAB Procedures Continue to Evolve

- Framing Grounds for Challenge
 - SAS
- Finding the Real Party-in-Interest
 - *Click-to-Call; Bennett Regulator*
- Amending Claims
 - *Aqua Products; Pending Rule Changes*
- Claim Construction Standard
 - *New PTAB Rules*
- Equitable Considerations in Institution Denials
 - *Shenzhen Silver Star Intelligent Technology v. iRobot*
 - *NHK Spring Co. Ltd. v. Intri-Plex Technologies Inc.*
- Updated Trial Practice Guide

SAS Institute, Inc. v. Iancu

- 5-4 Decision by Gorsuch
- § 318(a) requires “a final written decision with respect to the patentability of any patent claim challenged by the petitioner[.]”
 - Petitioner, like plaintiff in civil action, “is master of its complaint and normally entitled to judgment on all of the claims it raises, not just those the decisionmaker might wish to address.”
 - “So when §318(a) says the Board’s final written decision ‘shall’ resolve the patentability of ‘any patent claim challenged by the petitioner,’ it means the Board must address every claim the petitioner has challenged.”

Impact of SAS on IPR Strategy

- Broader estoppel potential for petitioners: PTAB will not deny institution on selected grounds (which avoided estoppel under *Shaw Industries*).
 - If full denial of institution, then no estoppel.
 - Any institution will be on all grounds, triggering estoppel.
 - “Reasonably could have raised” standard remains unclear.
- Impacts:
 - Careful selection of grounds by petitioner.
 - Use of Patent Owner Preliminary Response (POPR).
 - Strategic reservation of challenges based on prior art products and public uses for district court litigation.

Claim Amendments

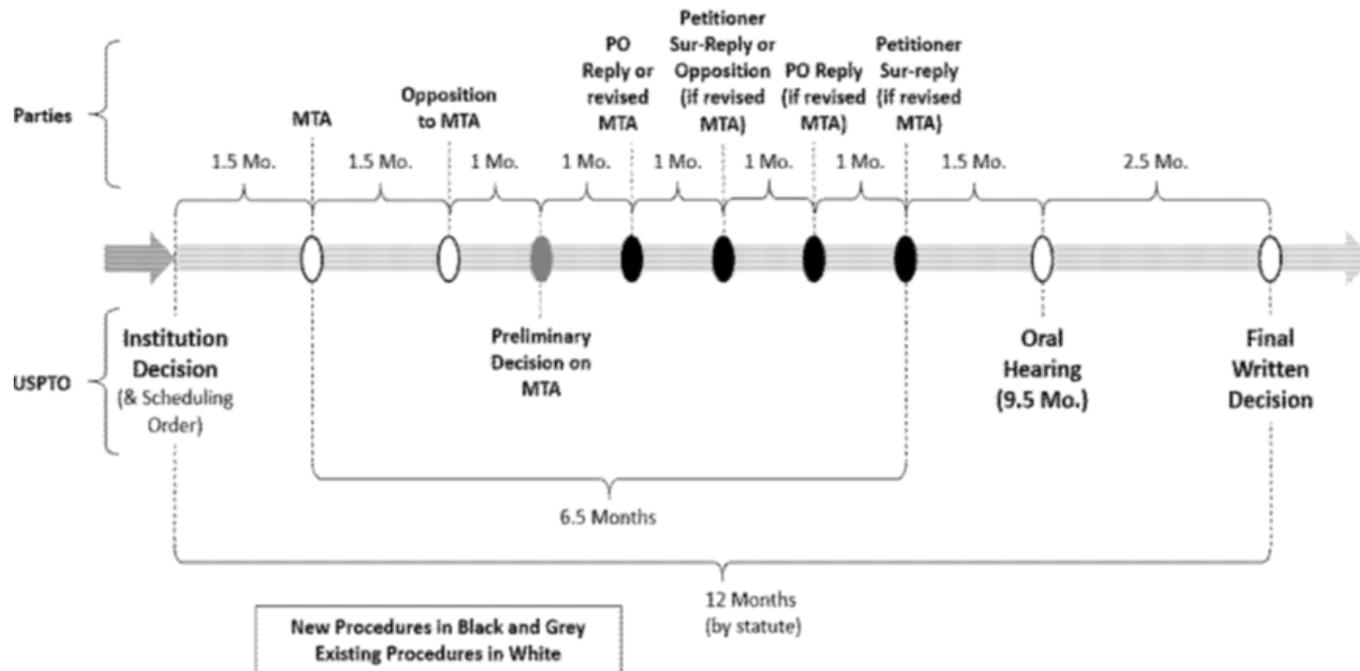
- A patent owner may move to amend claims challenged in an IPR, PGR, or CBM. See 35 U.S.C. § 316(d).
- In practice, however, most patent owner motions to amend have been unsuccessful, and that has contributed to relative disuse of that option.
 - A recent USPTO study reported that patent owners file motions to amend in less than 10 percent of AIA trials, and only five percent of those motions are granted.
- In *Aqua Prod., Inc. v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017)(en banc), the CAFC rejected USPTO's motion to amend procedures, primarily relating to burdens.

Proposed Rule

- USPTO promulgated rule, adopting *Aqua Products*.
- Patent owner may proposed contingent amendment based on grounds in petition.
- PTAB issues “preliminary” decision on amendment request.
 - Patent owner has opportunity to submit revised amendment.
 - Petitioner has right to seek reconsideration.
- Preliminary decision not binding, would be incorporated in FWD.

Proposed Rule

Proposed Timeline for New Motion to Amend Process



Claim Construction

- October 11, 2018, Final Rules for claim construction in IPRs published.
- Adopts district court standard from *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005) (en banc), replacing BRI.
- Applies to all IPRs filed on or after November 9, 2018.
 - “Any prior claim construction determination concerning a term of the claim in a civil action, or a proceeding before the International Trade Commission, that is timely made of record in the inter partes review proceeding will be considered.”

Standing in Post Grant Proceedings

- *Return Mail Inc. v. United States Postal Service*, Case No. 17-1594 (U.S. Arg. Scheduled Feb. 19, 2019)
- Under the AIA, a “person” who has been “sued for infringement” or “charged with infringement” of a business method patent may file a petition for CBM review under certain circumstances. AIA § 18(a)(1)(B).
- In its petition, Return Mail argues that the government is not a “person” eligible to file a petition for post grant review under the AIA, since the term “person” generally is not interpreted to include the government unless the statute expressly so provides (and the AIA does not define “person” to include the government).
- Court sidestepped petitioner’s alternative argument that government could not be charged with infringement because it always can practice patent under eminent domain power.

Bankruptcy Effect on Trademark Licenses

Mission Product Holdings Inc. v. Tempnology, LLC

Supreme Court Case No.17-1657

- Background:

- Debtor-Licenser Tempnology, LLC filed Chapter 11 bankruptcy petition.
- Pursuant to 11 U.S.C. § 365(a), **Tempnology sought permission to “reject” the existing non-exclusive trademark license agreement** (allowing use of Tempnology’s trademark and logo) with Mission Product Holdings, Inc. (“Mission Products”)
- **Mission Product objected and invoked exception under §365(n)(1)** that allows licensee of a rejected IP contract to either:
 - Treat the license as terminated and seek pre-petition damages only, not specific performance; or
 - Retain its IP rights under the contract
- **Bankruptcy Court** granted Tempnology’s request to reject the trademark license and **held that the exception in § 365(n)(1) did not apply** because trademark rights are not included as one of six categories of “intellectual property” that § 365(n)(1) protects (per 11 U.S.C. § 101(35A)).
- **Bankruptcy Court effectively held** that Mission Product’s **right to use the Tempnology’s trademarks was terminated with the rejection.**

Mission Product Holdings Inc. v. Tempnology, LLC
Supreme Court Case No.17-1657

- **Bankruptcy Appellate Panel (“BAP”) for First Circuit reversed in part:**
 - § 365(n)(1) exception does not apply to a non-exclusive trademark license,
but
 - A § 365(a) rejection does not necessarily terminate the licensee’s rights to continue using a debtor’s trademark post-rejection
- **BAP followed 7th Circuit:**
 - *Sunbeam Products Inc. v. Chicago American Mfg*, 686 F.3d 372 (7th Cir. 2012) held that § 365(g) treats a rejection as a breach of contract that frees the debtor of further obligation to perform, but does not “vaporize” the licensee’s rights under the contract

Mission Product Holdings Inc. v. Tempnology, LLC

Supreme Court Case No.17-1657

- **First Circuit reversed BAP:**

- “Mission’s right to use Debtor’s trademarks **did not** ... survive rejection” of trademark license.
- **Followed 4th Cir. in *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985)**, which held that the effect of a rejection is to terminate a trademark license, and provide only damages in lieu of specific performance:
 - Even though § 365(g) treats rejection as breach, the legislative history of § 365(g) makes clear that the purpose of the provision is to provide only a damages remedy for the non-bankrupt party Allowing specific performance would obviously undercut the core purpose of rejection under § 365(a). *Lubrizol Enters.*, 756 F.2d at 1048.
- First Circuit reasoned that 7th Cir. approach would force a debtor-licensor to choose between continuing to perform obligations under contract or risk a finding that its trademarks were abandoned through naked licensing.

Mission Product Holdings Inc. v. Tempnology, LLC

Supreme Court Case No.17-1657

Supreme Court to Resolve Split:

- Mission Product has appealed to Supreme Court (Arg. Scheduled for Feb. 20, 2019)
- **Mission Product argues:** Under §365(g), a “rejection” constitutes a breach of contract, the consequences of which should be the same inside and outside a bankruptcy proceeding – **debtor only released from obligation to further perform under the contract, does not terminate contract rights that would survive the breach under non-bankruptcy law.**
 - e.g., Property Leases – lease becomes property of bankruptcy estate *subject to the tenant’s leasehold interest*; cannot simply oust tenant before end of lease
- **Tempnology argues:**
 - **Case is moot** because trademark license expired July 2016 and Mission Product did not use mark between rejection and license expiration.
 - Under 365(a) and (g), **only remedy available for a rejected contract licensee is damages**, unless an exception applies. There is no exception for trademark licenses.
 - Non-exclusive right to use trademark **creates a contract right, not a property interest**.

Genericness

Royal Crown Co. v. Coca-Cola Co.

892 F.3d 1358 (Fed. Cir. 2018)

Coke Claims Exclusive Right to Use “ZERO”

- Coca-Cola Co. (“Coke”) filed 17 applications with the USPTO to register marks for soft drinks, sports drinks and energy drinks that included ZERO, i.e. COCA-COLA ZERO.
- In office actions for each, the USPTO examiner stated that ZERO was descriptive and requested that Coke disclaim the term.
- Coke argued that the term ZERO had acquired distinctiveness as part of a family of ZERO-formative marks.
- USPTO examiner accepted Coke’s arguments and approved the applications for publication without a disclaimer of ZERO.

Royal Crown Co. v. Coca-Cola Co.

892 F.3d 1358 (Fed. Cir. 2018)

Royal Crown and Dr. Pepper/Seven Up Object

- Royal Crown and Dr. Pepper/Seven Up (collectively “Royal Crown”) opposed arguing that ZERO was
 - (1) generic for low-calorie and no-calorie drinks, and
 - (2) descriptive
- **TTAB rejected Royal Crown’s arguments as to soft drinks and sports drinks** and dismissed the oppositions (except as to energy drinks for which the TTAB found Coke failed to show acquired distinctiveness).

Royal Crown Co. v. Coca-Cola Co.

892 F.3d 1358 (Fed. Cir. 2018)

TTAB said:

- **Proper genus of goods is:**

“[T]he broad category of soft drinks (and sports and energy drinks), which encompasses the narrower category of soft drinks (and sports and energy drinks) containing minimal or no calories.” (828 F.2d at 1363.)

- **Not generic** because Royal Crown failed to present direct consumer evidence (surveys/testimony) or dictionary evidence linking ZERO to the genus of goods.

- **Coke proved acquired distinctiveness**

- (1) with evidence of sales and advertising, unsolicited media coverage of ZERO products, and survey showing over 50% of consumers associate Coke, Coca-Cola or Sprite with the term ZERO, and
- (2) with evidence of “substantially” exclusive use of ZERO with soft drinks.

Royal Crown Co. v. Coca-Cola Co.

892 F.3d 1358 (Fed. Cir. 2018)

Federal Circuit vacated and remanded

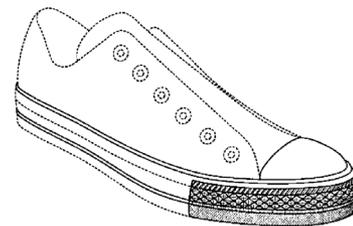
- TTAB failed to consider that “a term can be generic for a genus of goods or services if the relevant public . . . understands the term to refer to a key aspect of that genus.” (892 F.3d at 1367.)
- “ZERO need not be equated by the general public with the entire broad genus ... in order for the term to be generic.” (*Id.* at 1368.)
- On remand TTAB “must consider whether ZERO is generic because it refers to a key aspect of at least a sub-group or type” of the claimed goods. (*Id.*)
- Does this expand definition of genericness, which is “[t]he primary significance of the registered to mark to the relevant public . . . has become the generic name of the goods or services on or in connection with which it has been used.” (15 U.S.C. § 1064(3).)

Presumption of Secondary Meaning

Converse, Inc. v. Int'l Trade Comm'n

909 F.3d 1110 (Fed. Cir. 2018)

- Converse filed an ITC action involving trade dress in midsole design of Chuck Taylor All Star shoes.
 - Converse had used since 1932.
 - But first registered trade dress in 2013.
- ITC ruled that trade dress lacked secondary meaning.
- Federal Circuit ruled:
 - Product design trade dress can never be inherently distinctive, and thus it is protectable only upon a showing of secondary meaning.
 - “In any infringement action, the party asserting trade-dress protection must establish that its mark had acquired secondary meaning before the first infringing use by each alleged infringer.”



Converse, Inc. v. Int'l Trade Comm'n

909 F.3d 1110 (Fed. Cir. 2018)

- “For infringement in the period after registration, the Lanham Act entitles the owner of the registered mark to a presumption that the mark is valid, see 15 U.S.C. §§ 1057(b), 1115(a), including that it has acquired secondary meaning.”
- “However, under the statute, the registration and its accompanying presumption of secondary meaning operate only prospectively from the date of registration, i.e., the date on which the [USPTO] determined that secondary meaning had been acquired.”
- Thus, Converse had the burden of showing secondary meaning as to infringers with uses prior to 2012.

Trademarks in Literary Features

Viacom Internat'l, Inc. v. IJR Capital Inv., LLC

891 F.3d 178 (5th Cir. 2018)

- Viacomm sued proprietor of The Krusty Krab restaurant, the same name of the fictional restaurant featured since 1999 in the SpongeBob SquarePants television program.
- Viacomm had not registered The Krusty Krab with the USPTO or licensed it for restaurant services.
- But, Viacomm's "The Krusty Krab" appeared in 166 of 203 episodes and was featured in two major films, a mobile app, a musical, franchise ads and online outreach, and is licensed for playsets, video games, aquarium accessories, stickers and shirts.



Viacom Internat'l, Inc. v. IJR Capital Inv., LLC

891 F.3d 178 (5th Cir. 2018)

- **District Court granted summary judgment to Viacomm** on federal claim of unfair competition and common law claim of trademark infringement.
- **IJR Capital appealed** arguing there was genuine issue as to (1) whether Viacomm owns a legally protectable mark, and (2) whether there is a likelihood of confusion.
- **Fifth Circuit affirmed** District Court on both grounds, finding that prominence of The Krusty Krab in TV show, movie, play and licensed goods provided sufficient evidence on summary judgment to establish ownership of a protectable mark and likelihood of confusion as a matter of law.

Viacom Internat'l, Inc. v. IJR Capital Inv., LLC

891 F.3d 178 (5th Cir. 2018)

Fifth Circuit:

- **Threshold question on ownership** - Is there trademark protection in certain characters, places or elements of a broader entertainment entity?
- **Answer** – Yes, when the character, place or element plays a central role, as opposed to occasional appearances.
 - “The Krusty Krab” analogous to protected marks like the Daily Planet (Superman), General Lee (Dukes of Hazzard), and Conan the Barbarian (cartoon strip).
 - “The Krusty Krab” integral to SpongeBob
 - appeared in over 80% of episodes,
 - played prominent role in the SpongeBob films and musical, and
 - featured online, in video games, and on licensed merchandise.
- “The Krusty Krab's central role in the multi-billion dollar SpongeBob franchise is **strong evidence that it is recognized in itself as an indication of origin for Viacom's licensed goods and television services.**” (891 F.3d at 188.)

Pre-Suit Requirement for Copyright Infringement Claim

Fourth Estate Public Benefit Corp. v. Wall-Street.com

Supreme Ct. Case No. 17-571

“Registration” of a copyright is a precondition to filing a copyright infringement suit:

17 U.S.C. § 411(a): “no civil action for infringement of the copyright in any United States work shall be instituted until” either (1) “preregistration* or **registration of the copyright** claim has been made in accordance with this title,” or (2) “the **deposit, application, and fee** required for registration have been delivered to the Copyright Office in proper form and registration has been refused.”

* “Preregistration” only sufficient for a limited class of works that have “a history of infringement prior to authorized commercial distribution,” like movies and sound recordings. (17 U.S.C. § 408(f).)

Fourth Estate Public Benefit Corp. v. Wall-Street.com, LLC

Supreme Ct. Case No. 17-571

- **Circuits split** on whether “registration” occurs when the owner files an application **or** when the registration application has been approved or denied.
- **Tenth and Eleventh Circuits require the Register of Copyrights to have acted on an application – either approving or denying – before suit filed:** See *Fourth Estate Pub. Bene. Corp. v. Wall-Street.com, LLC*, 856 F.3d 1338, 1341 (11th Cir. 2017); see also *La Resolana Architects, PA v. Clay Realtors Angel Fire*, 416 F.3d 1195 (10th Cir. 2005).
- **Fifth and Ninth Circuits only require the copyright owner to have filed “the deposit, application, and fee” at the time suit is filed.** See *Cosmetic Ideas, Inc. v. IAC/Interactivecorp*, 606 F.3d 612 (9th Cir. 2010); *Positive Black Talk Inc. v. Cash Money Records Inc.*, 394 F.3d 357 (5th Cir. 2004).

Fourth Estate Public Benefit Corp. v. Wall-Street.com, LLC

Supreme Ct. Case No. 17-571

- Supreme Court heard oral argument January 8, 2019
- **Fourth Estate argued in favor of “application only” requirement**, stating:
 - Phrase “registration ... has been made” in § 411(a) and variations thereof throughout the Copyright Act refers to actions required by a copyright owner, not the Copyright Office
 - Delays in examination of an application out of control of a copyright owner should not deprive a copyright owner of its enforcement rights
- **Wall-Street argued in favor of “registration/examination” requirement**, stating:
 - Plain language of §411(a) requires a registration to have been approved or denied before suit, an “application” for registration falls with neither category
 - Fourth Estate’s interpretation renders multiple provisions of the Copyright Act superfluous
- Justices seemed to believe Wall-Street has stronger textual argument, but acknowledged legitimate policy concerns raised by Fourth Estate.

Questions?



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