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End of Year Wrap-Up: 2017's Hottest Patent Decisions

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2017 was a banner year for patent cases. From patent venue (*TC Heartland*) to the death of patent laches (*SCA Hygiene*) to infringing exports (*Life Technologies*) to patent exhaustion (*Impression Products*) to claim amendments during inter partes review proceedings (*Aqua Products*), it was a can't-miss year for patent attorneys.

If you want to impress your tech friends at upcoming holiday parties—or were sleeping underneath a rock and need to catch up, summaries of the most significant *decided* cases in 2017 appear below.

Notable yet-to-be-decided cases include the Supreme Court's upcoming decisions in two inter partes review cases: *Oil States Energy Services, LLC v. Green's Energy Group, LLC* (about the constitutionality of IPR proceedings) and *SAS Institute Inc. v. Matal* (about whether the Patent Trial and Appeal Board must consider all challenged claims in a final written decision). But those cases, which were just heard, are really for next year's list.

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TC Heartland LLC v. Kraft Food Brands Group LLC

In *TC Heartland*, 137 S. Ct. 1514 (S. Ct. May 22, 2017), the Supreme Court made it harder to file patent cases outside a domestic defendant's state of incorporation. The Court made clear that the patent venue statute, 28 U.S.C. § 1400(b), is the sole, applicable venue statute, and that the term "*resides*" in that statute refers only to a domestic company's state of incorporation. (The Court expressly noted that it was not addressing foreign defendants. Accordingly, its earlier holding that foreign defendants in patent cases "may be sued in any district" stands. *Brunette Machine Works, Ltd. v. Kockum Industries, Inc.*, 406 U.S. 706 (1972).)

The first prong of Section 1400(b) is limited to the state of incorporation (again)

Section 1400(b) provides that "[a]ny civil action for patent infringement may be brought in [1] the judicial district where the defendant resides, or [2] where the defendant has committed acts of infringement and has a regular and established place of business."

In 1957, the Supreme Court had concluded that Section 1400(b)'s reference to "the judicial district where the defendant *resides*" means the "*state of incorporation only*" *for corporate defendants. Fourco Glass Co. v. Transmirra Products Corp., 353 U.S. 222 (1957).*

Yet, until this year, courts had been following a (contrary) 1990 decision by the U.S. Court of Appeals for the Federal Circuit, in *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990). The Federal Circuit had held that a patentee may sue a corporate defendant in any district where *personal jurisdiction exists over the defendant. It relied on a broad interpretation of 28 U.S.C. § 1391(c)(2), under which a corporate entity is deemed to reside "in any judicial district in which such defendant is subject to the court's personal jurisdiction."*

Revisiting this issue in *TC Heartland*, the Supreme Court reiterated its holding in *Fourco Glass* that "resides" means the *state of incorporation* only. The Court thus made clear that TC Heartland—a company incorporated in Indiana—could not be sued in Delaware under the first prong of Section 1400(b). But it left open the question of when companies could be sued under the second prong of that statute.

The second prong of Section 1400(b) is broader (but not that broad)

Is a ''regular and established place of business'' necessarily a physical location?

Post-*TC Heartland* courts grappled with the meaning of the second prong's phrase ''regular and established place of business.'' For example, the U.S. District Court for the Eastern District of Texas outlined a series of factors to assess proper venue under that prong. *See Raytheon Co. v. Cray Inc.*, 258 F. Supp. 3d 781, 123 U.S.P.Q.2d 1799 (E.D.Tex. June 29, 2017). The court emphasized that ''the lack of a physical building in the district is not dispositive.''

But the Federal Circuit found that the Eastern District of Texas' test ''impermissibly expand[ed] the statute.'' *In re: Cray Inc*., 871 F.3d 1355, 124 U.S.P.Q.2d 1001 (Sept. 21, 2017). The appellate court held that, for a corporation to have a regular and established place of business in a district, the following requirements must be met:

(1) there must be a physical place in the district;
(2) it must be a regular and established place of business; and
(3) it must be the place of the defendant.

The court explained that ''a virtual space or [] electronic communications from one person to another'' is not enough. It noted that, ''while the 'place' need not be a 'fixed physical presence in the sense of a formal office or store,' there must still be a physical, geographical location in the district from which the business of the defendant is carried out.''

Must there be a relationship between the defendant's infringing acts and place of business?

Another issue relating to the scope of the second prong of Section 1400 is whether there must be a relationship between the infringing acts and the defendant's regular and established place of business. Some courts have held that there must be a relationship. *See, e.g., Scaramucci v. FMC Corp.*, 258 F. Supp. 598, 602, 151 U.S.P.Q. 618 (W.D. Okla. 1966).

But the majority of courts have determined that no relationship is required. *See, e.g.*, *Gaddis v. Calgon Corp.*, 449 F.2d 1318, 1320, 171 U.S.P.Q. 729 (5th Cir. 1971). For example, Judge Stark of the U.S. District Court for the District of Delaware (one of the busiest patent dockets in the country) recently adopted this view in *Bristol-Myers Squibb Co. v. Mylan Pharms. Inc*., No. 1:17-cv-00379, 2017 BL 318410 (D. Del. Sept. 11, 2017). Under that view, once a regular and established place of business is found, there is no need to connect it to the infringing acts or accused products.

Other open issues remain

Which party bears the burden of proof with respect to venue?

The majority view is that when the defendant has made a proper objection, the burden is on the plaintiff to establish that the chosen district is a proper venue. But the Third Circuit has expressly held to the contrary—that the moving party has the burden of proving that venue is improper. *See Myers v. Am. Dental Ass'n*, 695 F .2d 716, 724 (3d Cir. 1982).

Can a defendant in a case pending when TC Heartland was decided still challenge venue?

A party may waive its right to challenge venue if it ''does not interpose timely and sufficient objection to the venue.'' 28 U.S.C. § 1406(b). ''An exception to normal law of the case and waiver rules is recognized when an intervening decision from a superior court changes the controlling law.'' *Beazer E., Inc. v. Mead Corp.*, 525 F.3d 255, 263 (3d Cir. 2008).

The majority of courts had held that *TC Heartland* is *not a change of the law; it is, instead, merely a reaffirmation of Fourco. Under this view, a defendant who failed to file what most considered a futile motion could not challenge venue despite the practical change in law*.

The Federal Circuit recently concluded, however, that ''*TC Heartland* changed the controlling law in the relevant sense: at the time of the [defendant's] initial motion to dismiss, before the Court decided *TC Heartland*, the venue defense now raised [by the defendant] based on *TC Heartland*'s interpretation of the venue statute was not 'available,' thus making the waiver rule of Rule 12(g)(2) and (h)(1)(A) inapplicable.'' *In re Micron Technology, Inc.*, 875 F.3d 1091, 124 U.S.P.Q.2d 1661 (Fed. Cir. Nov. 15, 2017).

SCA Hygiene AB v. First Quality Baby Products, LLC

In *SCA Hygiene*, 137 S. Ct. 954 (S. Ct. March 21, 2017), the Supreme Court held that laches cannot be invoked as a defense against a claim for damages brought within the Patent Act's six-year statutory limitations period.

In its 2014 decision in *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 695 F.3d 946, 952-53 (2012), the Supreme Court held that laches is not a defense to copyright infringement. The Court explained that laches, an equitable defense, does not limit the legal remedies available during the three-year statute of limitations period in Section 507(b) of the Copyright Act.

The Federal Circuit had ruled that laches can be asserted within the six-year limitations period

Although Section 286 of the Patent Act also limits the period in which a plaintiff can recover damages for patent infringement to six years prior to the filing of the complaint, the Federal Circuit had repeatedly held that the laches defense *is* available in patent cases.

In 1992, the *en banc* Federal Circuit held that the Patent Act codified the laches defense. *A.C. Aukerman Co. v. R.L. Chaides Construction Co.*, 960 F.2d 1020, 1029 (Fed. Cir. 1992). The Federal Circuit reasoned that: (a) the laches defense does not conflict with Section 286; and (b) the merger of law and equity courts allows laches to bar legal relief.

In 2015, the Federal Circuit held in a 6-5 en banc decision that laches remains a viable defense in patent cases despite the Supreme Court's 2014 *Petrella* decision. *SCA Hygiene v. First Quality*, 807 F.3d 1311 (Fed. Cir. 2015). The court highlighted distinctions between copyright and patent law, including that: (i) Section 286 of the Patent Act is not a statute of limitations, unlike Section 507(b) of the Copyright Act; and (ii) because the Patent Act imposes liability for innocent infringement, ''innovators have no safeguard against tardy claims demanding a portion of their commercial success'' with a laches defense.

The Supreme Court disagreed

Before the Supreme Court, First Quality argued that, ''[a]bsent laches, nothing prevents a patentee from sitting silently on its rights while an innocent infringer invests substantial time and resources to independently develop and commercialize a product, only to have the patentee emerge six years later to seek the most profitable six years of revenues.'' (Opp. Br. 18.) More than 30 companies submitted briefs supporting First Quality's position.

The Supreme Court was not persuaded. It overturned the Federal Circuit's 2015 decision and held that Section 286 ''represents Congress's judgment that a patentee may recover damages for any infringement committed within six years of the filing of the claim.'' The Supreme Court's ruling prevents defendants from asserting laches as a defense within the six-year statute of limitations period.

Life Techs. Corp. v. Promega Corp.

Section 271(f)(1) of the Patent Act prohibits the supply of ''all or a substantial portion'' of the components of a patented invention for combination abroad. In *Life Technologies*, 137 S. Ct. 734 (S. Ct. Feb. 22, 2017), the Supreme Court considered the meaning of the term ''substantial portion.''

The asserted patents claimed methods or kits for DNA testing. Promega licensed the patent to Life Technologies for the manufacture and sale of the kits for use in certain law enforcement fields worldwide. Life Technologies manufactured one of the patented kit's five components (the enzyme Taq polymerase) in the United States and then shipped it to the United Kingdom, where the four other components were made, for combination there. When Life Technologies began selling the kits outside the licensed fields of use, Promega sued.

A jury found Life Technologies liable for infringement due to its exportation of a single component of the patented kit and awarded Promega $52 million in damages. The trial court granted judgment as a matter of law of non-infringement.

The Federal Circuit ruled that a single component can be a ''substantial portion''

The Federal Circuit reversed, holding that ''a party may be liable under Section 271(f)(1) for supplying or causing to be supplied a *single component for combination outside the United States.'' Promega Corp. v. Life Technologies Corp., 773 F.3d 1338, 1353 (Fed. Cir. 2014)*.

The Supreme Court disagreed

The Supreme Court in turn reversed via unanimous decision, holding that the supply of a single component of a multi-component invention for manufacture abroad does *not* give rise to § 271(f)(1) liability. The Court rejected Promega's approach, which would have required a fact-finder to decipher the importance of the component at issue in each case, as such an approach would compound the statute's ambiguity. Instead, the Court held that the term ''substantial portion'' refers to a quantitative measurement, and that a single component can, as a matter of law, never constitute a ''substantial portion.''

The Federal Circuit held Promega waived damages—even on infringing units

The Court's ruling led to an unusual damages outcome on remand. Life Technologies had admitted that some of its kits (sold in the U.S.) did infringe. But Promega's damages argument at trial was based on total worldwide sales, which required *all* the accused products to have infringed. Accordingly, Promega asked the district court for a new trial to determine the damages from Life Technologies' U.S. sales, but the district court denied Promega's request.

On appeal, the Federal Circuit affirmed, agreeing that Promega had waived any damages argument based on a subset of total sales. It reasoned: ''Promega's deliberate strategy to adhere to a single damages theory had the effect of winnowing out from the case any argument about damages based on a figure other than worldwide sales.'' Accordingly, ''[t]he district court acted within its discretion when it concluded that Life [Technologies] and the judicial system should not suffer the consequences of Promega's deliberate choice.'' Promega thus was unable to get damages even on admittedly-infringing sales.

Impression Prods., Inc. v. Lexmark Int'l, Inc.

In *Impression Products*, 137 S. Ct. 1523 (S. Ct. May 30, 2017), the Supreme Court considered the scope of the common law doctrine of patent exhaustion.

The case involved Lexmark's sales of printer ink cartridges with two different purchase options. Option A was a typical sale that exhausted Lexmark's patent rights. Option B was a lower priced sale, but with post-sale restrictions barring multiple uses or resale. Lexmark also sold new cartridges to overseas customers at prices lower than in the United States.

Impression and other cartridge remanufacturers sold refurbished Lexmark cartridges at a discount. They acquired empty Lexmark cartridges from two sources: (1) those sold overseas and (2) those sold within the U.S. under Option B, where the consumers had violated the post-sale restrictions. Lexmark sued Impression and several other remanufacturers for patent infringement, arguing that it had (1) never given anyone authority to import cartridges sold overseas and (2) expressly prohibited reuse and resale of Option B cartridges.

Lexmark prevailed before the Federal Circuit. But the Supreme Court reversed, holding that Lexmark had exhausted its patent rights in both sets of cartridges.

Overseas sales exhaust patent rights

With respect to the cartridges sold overseas, the Court held that an authorized sale outside the U.S. exhausts all rights under the Patent Act. The Court rejected Lexmark's argument that foreign sales do not exhaust patent rights because the patentee does not receive the reward of exclusion when it makes sales abroad. The Court noted that ''[e]xhaustion is a separate limit on the patent grant, and does not depend on the patentee receiving some undefined premium for selling the right to access the American market.''

After making a sale, patent owners cannot enforce restrictions under patent law

With respect to the Option B cartridges, the Court held that a patentee's sale of a product exhausts all of its patent rights in that item—regardless of any clear and enforceable contract restrictions.

The Court explained that the Federal Circuit's ''misstep'' was that ''the exhaustion doctrine is not a presumption about the authority that comes along with a sale; it is instead a limit on 'the scope of the patentee's rights.' '' The Patent Act gives patentees a limited exclusionary power. When the patentee sells a patented object, exhaustion extinguishes that power.

The Court cautioned that a ''licensee's sale is treated, for purposes of patent exhaustion, as if the patentee made the sale itself.'' Thus, even if a license requires a licensee to impose a restriction on purchasers and the licensee does so, if downstream purchasers do not comply with the restriction, the patentee's rights are exhausted; its only recourse is through contract law.

Lexmark makes it harder for patentees to retain control over downstream use and resale of patented products. Contract law still provides a mechanism to enforce post-sale restrictions on downstream purchasers. But attempts to ''license,'' rather than ''sell,'' products may not be sufficient to avoid *Lexmark*; a transfer styled as a license may be considered a sale.

Several copyright infringement cases have addressed the issue of when a transaction is a sale, as opposed to a license. For example, in *Vernor v. Autodesk, Inc.*, the Ninth Circuit held that, to determine whether a software user is a licensee or an owner, courts consider whether the copyright owner: (1) ''specifies that the user is granted a license''; (2) ''significantly restricts the user's ability to transfer the software''; and (3) ''imposes notable use restrictions.'' 621 F.3d 1102, 1111 (2010). To the extent the holdings of such copyright cases apply to patent licenses, a patent holder wishing to ''license,'' rather than sell, a product to avoid exhausting its patent rights will need to do more than just label the contract a ''license.''

Aqua Prods., Inc. v. Matal

Section 316(d) of the Patent Act governs the patentee's amendment of patent claims during inter partes review (IPR) proceedings. Section 316(e) specifies that ''the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence.'' The Patent Trial and Appeal Board's regulations placed the burden on the patentee to show that an amended claim is patentable over the art of record in IPR proceedings. Not surprisingly, the board historically granted very few requests to amend; according to its April 2016 Patent Trial and Appeal Board Motion to Amend Study, the board denied 95 percent of such requests.

One of these denials involved Aqua Products, Inc.'s motion to substitute claims in an IPR proceeding. On appeal to the Federal Circuit, Aqua Products argued that the PTAB's procedures improperly place the burden of proof on the patentee and force the patentee to show non-obviousness. A panel initially affirmed the board's decision.

The Federal Circuit shifted the burden of proof to the petitioner

But the full Federal Circuit granted en banc review and, in a 148-page opinion, discarded the board's rule, *Aqua Prods., Inc. v. Matal*, 872 F.3d 1290 (Fed. Cir. Oct. 4, 2017). Under the appellate court's new rule, the petitioner challenging the validity of the patent has the burden of showing that the new claims are unpatentable.

The impact of the Federal Circuit's ruling remains to be seen

While patent owners hailed the decision as a panacea, the actual impact of this burden shift remains unclear. The 2016 Motion to Amend Study shows that the PTAB rejected 35 percent of proposed amended claims for failure to distinguish from the prior art. If a patent owner still cannot muster arguments to distinguish the prior art despite the burden shift to the petitioner, then the decision may not significantly help the patent owner.

Amendments also do not always help patent owners. When seeking an amendment, the patent owner still must consider the impact on any pending litigation. For example, claim amendments could be detrimental to the patent owner's infringement allegations. Moreover, the doctrine of intervening rights may prevent the patent owner from collecting past damages on amended claims.

In response to *Aqua Products*, the PTAB has not adopted or changed its procedures to facilitate more amendments. In its recent November 21, 2017, Guidance on Motions to Amend in View of *Aqua Products*, the board noted that it would no longer place the burden of persuasion on a patent owner seeking to amend claims. It expressly noted, however, that ''[b]eyond that change, generally speaking, practice and procedure before the Board [otherwise would] not change.''

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