Intellectual Property and Tech Transactions Update

September 24, 2018

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Notable Developments

Supreme Court to Hear Challenge to Interpretation of On-Sale Bar Rule under the America Invents Act

On June 25, 2018, the Supreme Court granted certiorari on *Helsinn Healthcare SA v. Teva Pharmaceuticals USA Inc.*, a Federal Circuit decision that invalidated four Helsinn Healthcare SA ("**Helsinn**") nausea drug patents under the on-sale bar rule. Three of the drug patents were subject to the pre-AIA version of the on-sale bar rule, which generally provided that an invention cannot be patented if it has been "on sale" for over one year prior to the filing of a patent application covering such invention, including any nonpublic or confidential sales. The fourth patent was subject to the America Invents Act's on-sale bar rule, codified at 35 U.S.C. § 102, which applies to patents filed after March 2013. The AIA amended 35 U.S.C. § 102 to prohibit patenting an invention that is "on sale. . . or otherwise available to the public" before the effective filing date of the invention. While the Federal Circuit interpreted the AIA's version of the on-sale bar rule to be consistent with the pre-AIA rule, the petitioners argue that by adding the "otherwise available to the public" language to the statute, the AIA exempts confidential or other nonpublic sales from being considered prior art that would prevent the granting of a patent.

The petition for a writ of certiorari is available **here**.

Supreme Court Delivers Victory to Patent Owners Seeking Protection Abroad

On June 22, 2018, the U.S. Supreme Court issued a decision in *WesternGeco LLC v. Ion Geophysical Corp.*, expanding the scope of recoverable patent damages by holding that a patent holder may recover lost profits resulting from extraterritorial acts of patent infringement under 35 U.S.C. § 271(f). The Supreme Court's decision reverses the presumption that U.S. patent owners may generally only recover lost profits for infringement that occurred within the United States.

The case arose over four patents owned by WesternGeco LLC ("**WesternGeco**") covering marine seismic streamer technology that enabled ships to create three-dimensional maps of the ocean floor to facilitate natural resource exploration and management, which WesternGeco used to perform geological surveys for oil and gas companies. In 2007, ION Geophysical Corp. ("**ION**") began selling a competing system, which it produced by manufacturing the system components in the United States and shipping them abroad for assembly. ION's technology was then used by its customers to compete with WesternGeco in foreign markets.

In 2009, WesternGeco sued ION in the Southern District of Texas, alleging the infringement of all four patents under 35 U.S.C. §§ 271(f)(1) and (f)(2), which prohibit exporting components of patented technology for assembly into an infringing product abroad. At trial, WesternGeco argued that it had lost at least 10 specific survey contracts due to ION's infringement. The jury agreed, finding that ION had infringed all four patents and awarded WesternGeco $93.4 million in lost profits based on foreign contracts and a royalty of $12.5 million for the patented article. ION did not appeal the $12.5 million royalty award but challenged the jury's finding that ION was liable for the post-sale, extraterritorial use of the infringing technology by its customers. Specifically, ION argued that the performance of a patented method abroad does not constitute infringement of a U.S. patent under § 271(f)(1). On appeal, the Federal Circuit agreed with ION and reversed the district court's award of lost profit damages, finding that the Patent Act does not cover losses resulting from extraterritorial acts of infringement. In response, WesternGeco petitioned the Supreme Court to affirm the jury verdict and reverse the Federal Circuit decision.

In a 7-2 decision, the high court reversed the Federal Circuit's denial of lost profits, finding that the "conduct relevant to the statutory focus in this case is domestic." The Supreme Court began the analysis by recognizing the "presumption against extraterritoriality" by which courts presume that federal statutes "apply within the territorial jurisdiction of the United States." However, Justice Clarence Thomas, writing on behalf of the majority, emphasized that it was ION's domestic act of exporting the components that infringed WesternGeco's patents, and thus any award of lost profits (foreign or otherwise) based on that domestic infringement constitutes a valid application of the Patent Act.

Justice Neil Gorsuch dissented, joined by Justice Stephen Breyer, writing that awarding damages of this nature would effectively permit U.S. patent owners to use American courts to extend their monopolies to foreign markets and invite other countries to use their own patent laws and courts to assert control over the U.S. economy.

The decision may provide a favorable precedent for U.S. patent owners, particularly those with foreign competitors, although it is uncertain whether courts will limit the holding to instances of patent infringement under § 271(f) or extend the reasoning to cover foreign lost profits resulting from other instances of domestic patent infringement.

The U.S. Supreme Court Opinion is available **here**.

Supreme Court Upholds Constitutionality of *Inter Partes* Review and Holds that Petitioners Are Entitled to a Written Decision Addressing All Challenged Claims

On April 24, 2018, the Supreme Court issued two opinions regarding *inter partes* review proceedings ("**IPRs**"). In the first decision, *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, the high court upheld the constitutionality of IPRs, holding that a jury trial before an Article III court is not required to reconsider the grant of a patent. In the second decision, *SAS Institute Inc. v. Iancu*, the high court held that when conducting an IPR, the Patent Trial and Appeal Board ("**PTAB**") must issue a written decision addressing each challenged claim, rather than a narrower set of claims on which the PTAB might have instituted review.

Davis Polk recently published a memorandum summarizing these decisions. A copy of the memorandum is available **here**.

Federal Circuit Rules Tribal Sovereign Immunity Inapplicable to *Inter Partes* Review Proceedings in Allergan Patent Case

On July 20, 2018, the Federal Circuit ruled that tribal sovereign immunity does not apply to *inter partes* review of patents before the PTAB. The case at issue, *Saint Regis Mohawk Tribe v. Mylan Pharm. Inc.*, involved an attempt by Allergan PLC ("**Allergan**") to protect certain of its U.S. patents covering Restasis, one of its most profitable pharmaceutical products, from IPR proceedings by transferring them to the Saint Regis Mohawk Tribe in order to invoke the Saint Regis Mohawk Tribe's sovereign immunity protection.

In September 2017, Allergan assigned its Restasis patents to the Saint Regis Mohawk Tribe, which then exclusively licensed the patents back to Allergan. Upon the assignment of the Restasis patents, the Saint Regis Mohawk Tribe filed a motion to dismiss the ongoing IPR of the patents based on its status as a sovereign tribal government. Although previous PTAB decisions involving public universities make clear that sovereign immunity can apply in PTAB proceedings, the PTAB panel unanimously ruled in February 2018 that tribal immunity does not apply to IPR proceedings, finding that there was no precedential or statutory basis for such an application of sovereign immunity. The PTAB also found that, even if tribal immunity applied, the IPRs could be permitted without the Saint Regis Mohawk Tribe as a party, as Allergan held all substantial rights, including prosecution, manufacturing and commercialization rights, making it the "true owner" of the patents despite the assignment.

In its ruling, the Federal Circuit sided with the challengers of the Restasis patents, finding that tribal sovereign immunity does not apply to IPR proceedings and that the PTAB had the authority to adjudicate the validity of Allergan's patents. In reaching its decision, the Federal Circuit emphasized the PTAB's broad discretion in deciding whether to review a challenged patent, drawing parallels to more traditional enforcement actions from a federal agency instead of a civil lawsuit in which tribal immunity may find general applicability.

Although the Federal Circuit noted that its decision is limited to tribal immunity and does not apply to state sovereign immunity, several states and state universities have filed amicus briefs supporting a petition for *en banc* rehearing submitted by Allergan and the Saint Regis Mohawk Tribe, raising concerns that the Federal Circuit's reasoning could be applied to any sovereign entity, potentially weakening protections and inviting parties to challenge patents owned by states.

The Federal Circuit's opinion is available **here**.

Federal Circuit Holds No Right to Jury Trial for Trade Secret Disgorgement Damages

A recent decision by the Federal Circuit held that there is no Seventh Amendment right to a jury trial for trade secret disgorgement damages. In *Tex. Advanced Optoelectronic Solutions, Inc. v. Renesas Elecs. Am., Inc*., Texas Advanced Optoelectronic Solutions, Inc. ("**TAOS**") sued Intersil Corporation ("**Intersil**") in federal district court for patent infringement and various Texas state law claims, including trade secret misappropriation. A jury returned a verdict in favor of TAOS on all claims and awarded $48.8 million in disgorgement of Intersil's profits for trade secret misappropriation. However, on appeal, the Federal Circuit vacated the jury's trade secret misappropriation award and remanded to the district court for a new trial on damages. Because a new damages trial was necessary, the Federal Circuit addressed a unique argument raised by Intersil on appeal, that "monetary relief in the form of disgorgement is equitable and, as a result, the court, not the jury, must decide whether to award it and how much to award." According to Intersil, "the district court had to treat the jury verdict on disgorgement as merely advisory, . . . and had to find the facts specially and state its conclusions of law separately on disgorgement [under] Fed. R. Civ. P. 52(a)(1) . . . [which it] did not do so." Whether Intersil was correct turned on whether there is a Seventh Amendment right to a jury trial when a plaintiff seeks disgorgement of profits as a remedy for state law trade secret misappropriation in federal court. The Federal Circuit engaged in a detailed historical analysis concerning the time when the Seventh Amendment was adopted, including whether a claimant in the English courts of law in 1791 would have had a right to a jury trial for disgorgement of profits as a remedy for trade secret misappropriation or an analogous cause of action. The Federal Circuit held that TAOS failed to show that such remedy would have been available. The Federal Circuit emphasized that trade secret misappropriation was not a recognized claim until the 19th century and that analogous causes of action, such as patent, copyright, and trademark infringement, historically did not include disgorgement of profits as a remedy. The Federal Circuit concluded that disgorgement of profits as a remedy for trade secret misappropriation was not available at law in 1791 and therefore ordered that "Intersil is entitled to a decision on disgorgement by the trial court, with findings of fact and conclusions of law duly entered in accordance with Rule 52."

Because Texas has adopted a version of the Uniform Trade Secret Act ("**UTSA**"), the Federal Circuit's holding will be relevant in federal cases that seek disgorgement under another UTSA jurisdiction. Moving forward, plaintiffs bringing a claim for trade secret misappropriation may need to consider not pairing that claim with a patent infringement claim (which must be brought in federal court) and taking other measures to avoid ending up in federal court if they desire a jury trial on trade secret disgorgement damages.

The Federal Circuit's decision is available **here**.

Federal Circuit Affirms USPTO's Right to Intervene in Appeals from PTAB Proceedings Even without Participation of Challenging Party

On April 6, 2018, the Federal Circuit ruled in *Knowles Elecs. LLC v. Iancu* that the USPTO is permitted to intervene in appeals to defend PTAB decisions even after the challenger is no longer party to the appeal. In a 2-1 decision, the panel concluded that the director of the USPTO has standing and an unconditional statutory right to intervene with or without the challenger.

The case originated in 2014 following a challenge by Analog Devices Inc. ("**Analog**") of a patent held by Knowles Electronics LLC ("**Knowles**"), an acoustics components manufacturer, covering technology for a silicon condenser microphone package used in hearing aids. Analog argued, and the patent examiner agreed, that certain of the claims in the Knowles patent were invalid. The PTAB subsequently upheld the patent examiner's findings, leading Knowles to appeal the decision before the Federal Circuit, after which Analog announced it would decline to participate in defending the appeal.

Despite Analog's decision to abstain, the USPTO nevertheless intervened to defend the PTAB decision. Acting *sua sponte*, the Federal Circuit directed both Knowles and the USPTO in late June 2017 to submit supplemental briefing on the issue of whether the USPTO may intervene under these particular circumstances. In particular, the Federal Circuit requested that the parties address the issues of whether the USPTO is required to possess Article III standing to intervene on appeal when the prevailing party of a reexamination declines to participate, whether the USPTO possessed such standing in the instant case, and whether the director is required to defend the PTAB's decision.

While the majority opinion focused on the merits of the appeal, it addressed the standing concern in a footnote, stating that precedent as well as statutory language from the America Invents Act permits the USPTO to intervene on appeal and defend a PTAB decision despite the withdrawal of the prevailing party. In reaching its conclusion, the Federal Circuit looked to the Supreme Court's decision in *Cuozzo*

Speed Techs., LLC v. Lee, which stated, "the [USPTO] may intervene in a later Judicial proceeding to defend its decision—even if the private challengers drop out." The dissenting Federal Circuit judge asserted that, despite language in the America Invents Act, the USPTO lacked standing to intervene because it had no independent interest in the case and no party remained as an appellee on the side of its intervening interest.

The Federal Circuit's opinion is available **here**.

Federal Circuit Resurrects Oracle's Multibillion-Dollar Copyright Claim against Google, Narrowing the Fair Use Doctrine for Software

On March 27, 2018, the Federal Circuit reversed a district court's finding that Google's use of Java APIs in its Android operating system was fair use, resurrecting Oracle's multibillion-dollar copyright claim. In the ruling, a three-judge panel of the court sharply limited the jury's role in deciding fair use cases and significantly narrowed the fair use doctrine in the software context. On August 28, 2018, the Federal Circuit declined to rehear the case, and Google has vowed to challenge the decision at the Supreme Court.

Davis Polk recently published a memorandum summarizing the Federal Circuit's decision. A copy of the memorandum is available here.

Proposed New Rules Could Benefit Patent Owners in *Inter Partes* Reviews

Patent owners have recently welcomed proposed new rules by the USPTO under new Director Andrei Iancu, which could directly affect the odds of patents surviving *inter partes* review. Specifically, on May 8, 2018, the USPTO issued a notice of proposed rulemaking with significant proposals, the most notable of which would replace the current "broadest reasonable interpretation" ("**BRI**") claim-construction standard used by the PTAB in IPR proceedings with the Federal Circuit's *Phillips* standard that is used by federal courts and the International Trade Commission ("**ITC**"). For years, patent owners have complained that the BRI standard is overbroad and unprincipled and resulted in patent claims being interpreted differently by the PTAB than they would in other fora. Requiring the PTAB to apply the *Phillips* standard, where the "words of a claim are generally given their ordinary and customary meaning," which is "the meaning that the term would have to a person of ordinary skill in the art in question at the time of the invention," would promote uniformity and predictability in a world where patents are often being litigated concurrently in the PTAB, in federal district court, and in the ITC. The USPTO's proposed rule specifies that the PTAB would "construe patent claims and proposed claims based on the record of the IPR, [post-grant review] or [covered business method] proceeding, taking into account the claim language itself, specification, and prosecution history pertaining to the patent." And "consistent with *Phillips* and its progeny, the doctrine of construing claims to preserve their validity would apply." These changes would likely result in more patent claims surviving IPRs, which is welcome news to patent owners and, of course, an unwelcome development to the prominent technology companies that have regularly succeeded in invalidating patents through IPR.

The USPTO's full notice of the proposed rulemaking is available **here**.

Music Modernization Act Approved by Senate

On September 18, 2018, the Music Modernization Act was unanimously approved by the Senate and will now move to a vote by the House of Representatives before going to the president. The House of Representatives unanimously approved its own version of the bill on April 25, 2018. If passed into law, the Music Modernization Act will represent one of the most substantial updates to copyright law in decades.

As currently drafted, the bill would update Section 115 of the Copyright Act to change the way streaming music services obtain compulsory licenses for the use of musical compositions. Under the current version of Section 115, parties seeking a mechanical license file a notice and automatically obtain a license to a specific composition. However, the lack of a central database has led to difficulty identifying and locating the correct recipients for royalty payments, leading to litigation between songwriters and several streaming music services. In response, the bill contemplates the creation a central entity, known as the Mechanical Licensing Collective ("**MLC**"), to collect and distribute royalties from such licenses. Digital services would seek and receive a blanket license for all works administered by the MLC and would only be liable for royalties owed (not infringement) in suits brought after January 1, 2018.

In another notable change, the bill would require streaming services to pay royalties for pre-1972 sound recordings, as is already required for newer recordings. Pre-1972 sound recordings are not currently protected by federal copyright law, an issue that has also led to litigation in recent years. Other changes include implementing a market-based standard for rates set by the Copyright Royalty Board for mechanical royalties, requiring that Southern District of New York judges be randomly assigned to hear disputes involving performance royalty rate-setting, and enabling studio professionals to collect a portion of sound recording royalties directly.

Before approving the bill, the Senate proposed changes over the House version. In the Senate version, the MLC would be subject to additional oversight and required to make certain information public, such as financial information, royalty payments, and the content of its database. Additionally, the Senate version includes a mechanism whereby unclaimed royalties would be distributed to copyright owners based on market share and obliges the Justice Department to keep Congress apprised of changes in the consent decrees governing performance rights organizations' royalty rates. These and other changes introduced in the Senate will need to be reconciled against the House version before passage into law.

The bill has gained bipartisan support and the backing of groups from both sides of the industry—content owners and technology companies—that believe the bill would bring greater transparency and simplicity to the modern music licensing system and appropriately reward musical creativity. Opponents of the bill have argued that the bill is anticompetitive and harmful to consumers, and claim that it unfairly treats terrestrial radio stations differently from other content providers with respect to payment of pre-1972 royalties. The bill is awaiting a vote by the House of Representatives.

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your regular Davis Polk contact.

Frank J. Azzopardi	**212 450 6277**	**frank.azzopardi@davispolk.com**
David R. Bauer	**212 450 4995**	**david.bauer@davispolk.com**
Micah G. Block	**650 752 2023**	**micah.block@davispolk.com**
Anthony I. Fenwick	**650 752 2015**	**anthony.fenwick@davispolk.com**
David Lisson	**650 752 2013**	**david.lisson@davispolk.com**
Ashok Ramani	**650 752 2007**	**ashok.ramani@davispolk.com**
Pritesh P. Shah	**212 450 4147**	**pritesh.shah@davispolk.com**
Matthew J. Bacal	**212 450 4790**	**matthew.bacal@davispolk.com**
Bonnie Chen	**212 450 4063**	**bonnie.chen@davispolk.com**
Daniel F. Forester	**212 450 3072**	**daniel.forester@davispolk.com**