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More Trouble Brewing in the Heartland: Foreign Corporation Immunity and Other Issues Arising from the Supreme Court's Venue Decision

The patent venue statute, 28 U.S.C. § 1400(b), provides that patent infringement actions "may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business." For over 25 years, since Congress amended the general venue statute and the United States Court of Appeals for the Federal Circuit issued its decision in *VE Holding v. Johnson Gas*, 917 F.2d 1574 (1990), courts have looked to § 1391(c), the "residency" part of the general venue statute, for the definition of the word "resides" to be used in § 1400(b) venue analyses, and as a result have found venue to be proper for a patent-defendant corporation in any district where the corporation is subject to personal jurisdiction. But in May of this year, the Supreme Court overruled *VE Holding* and held that the definition in § 1391 is not applicable to § 1400(b).[1] Thus, the Supreme Court returned patent venue jurisprudence to its previous state, as set by *Fourco Glass Co. v. Transmirra Prods. Corp.*, 353 U.S. 222 (1957), in which the Supreme Court held that, as used in § 1400(b), a domestic corporation "resides" only in its state of incorporation, as understood in the 19th century, and thus can be sued for patent infringement only in the state of its incorporation or in a state where it both has allegedly infringed and has an established place of business.

While *TC Heartland* was ostensibly about moving the litigation from the improper venue of Delaware to TC Heartland's home court of Indiana, this case was so eagerly awaited primarily because it might serve to limit the amount of patent litigation that may permissibly be filed in the United States District Court for the Eastern District of Texas (the "EDTX"), the current situs of 43% of all U.S. patent litigation. Of course, given that more than half of publicly traded U.S. companies are incorporated in Delaware, due in part to its pro-business state laws, this Supreme Court ruling might simply move the logjam to another court that some consider to be fairly pro-patent.

The Court did leave some doubt about the reach of its holding. Left unanswered by *TC Heartland* is what effect the ruling will have on a patentee's ability to sue foreign corporations for infringement. The Court, in a footnote, noted but did not opine on this issue. The Court further noted that it was not, at this time, opining on its decades-old ruling in *Brunette Machine Works, Ltd. v. Kockum Indus., Inc.*, 406 U.S. 706 (1972), in which the Court held that—given personal jurisdiction over the defendant—a foreign patent infringer may be sued anywhere.[2]

The logic of the earlier *Brunette* case is now in some doubt. The Brunette court held that venue in patent infringement actions against alien corporations is not governed by the patent venue statute, because of "the longstanding rule that suits against alien defendants are outside [venue] statutes."[3] However, to support this holding, the Court pointed to the then-current portion of the general venue statute governing venue of actions against aliens—at the time, § 1391(d)—which provided that "[a]n alien may be sued in any district." However, in 2011, Congress revised the venue statute, moving the rule governing alien defendants from § 1391(d) into the "residency" section of § 1391, at § 1391(c)(3), and rewording it to refer to "defendants not resident in the United States." This presents a problem, because § 1391(c)(2) makes corporate residency co-extensive with personal jurisdiction, and if that definition applies in section (c)(3), then section (c)(3) provides

1 *TC Heartland, LLC v. Kraft Foods Grp. Brands LLC*, No. 16-341 slip op. at 1 (2017).

2 *TC Heartland*, No. 16-341 slip op. at 7 n.2.

3 *Brunette*, 406 U.S. at 713.

nationwide venue only for alien corporate defendants who are not subject to personal jurisdiction in any district and thus are immune from suit regardless of venue.

Courts may attempt to resolve this issue by ruling, per the general reasoning of the 1972 *Brunette* opinion, that while the patent venue statute is exclusive and is not supplemented by anything in the general venue statute, alien corporations are by longstanding rule simply not subject to it, and thus can be sued for patent infringement in any district.

However, in view of the statutory amendments described above, that may be too big a leap to be defensible by the Supreme Court. Despite a natural reluctance to find that, in its 2011 amendments, Congress accidentally immunized alien corporations with no U.S. place of business from suit in patent cases, that outcome does seem to be the necessary result of the language of the amended statutes.

If such companies are indeed immune from suit, at least until Congress amends the venue statutes to fill the gap, then patent owners will naturally respond by suing downstream U.S. entities who either sell or use the accused products. They might, for example, sue a U.S. distributor. That suit would need to be brought in one of the perhaps limited set of districts where the distributor has offices or is incorporated, and thus in many cases could not be filed in the Eastern District of Texas.

However, patent owners might instead be driven to sue retailers (who in many cases will have places of business nationwide), or even users of the accused products, who are subject to venue in the patent-owner's preferred forum. This would lead to some complicated choices for the upstream supplier, whether that supplier is located elsewhere in the United States or overseas, and for the district court. The retailer defendant in the case in the preferred forum could identify the upstream supplier as a required party under Fed. R. Civ. P. Rule 19. The supplier would object that, as to itself, venue is not proper in the preferred forum. And following Rule 19, the court would then have to dismiss the supplier and decide, "in equity and good conscience," whether to (i) proceed without the required party, or (ii) dismiss the entire case, forcing the patent owner to sue in one of the supplier's preferred venues.

The same kind of complication could result from *TC Heartland* even if venue for alien corporations is found to be proper in every district, per *Brunette*. For example, in a situation in which the accused infringers include both a U.S. entity and a foreign one (such as a foreign parent corporation), a patentee could choose to sue only the foreign corporation and bring the case anywhere, including the EDTX. Then the foreign entity could seek to join the U.S. entity to the lawsuit under Rule 19. And once again, the court would have to decide whether to have the case go forward without the U.S. entity, or to dismiss the case and force the suit to one of the defendants' preferred venues.

No matter how this all shakes out, the EDTX will likely still see a significant number of newly filed patent cases because venue is proper there if both acts of infringement were committed and the defendant has a regularly established place of business in the district. And, there are many companies with significant facilities located there, which—depending on the Supreme Court's future view of the applicability of § 1391(c)(3)—could even serve to make venue proper there for customers of those local companies. The biggest change wrought by *TC Heartland* likely is the benefit to California-based software companies, especially those with only insignificant facilities in the rest of the country, who now will much more likely face suit in their home court of the Northern District of California or—if their views of the significance of the benefits of forum shopping to non-practicing entities is correct—perhaps not at all.

Oil States: The Constitutionality of the Current Patent Regime

On June 12, 2017, the Supreme Court granted *certiorari* in the case of *Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC*, with respect to the first question presented:

> Whether inter partes review—an adversarial process used by the Patent and Trademark Office (PTO) to analyze the validity of existing patents—violates the Constitution by extinguishing private property rights through a non-Article II forum without a jury.

In 2012, patent owner Oil States filed an infringement suit against Greene's Energy Group in the United States District Court for the Eastern District of Texas. During the *Markman* proceedings, the court construed the claims of the asserted patent in a manner so as to be distinct from one of the inventor's own prior art published applications. After *Markman*, the defendant filed an *inter partes* review ("IPR") petition arguing that the aforementioned published application anticipated the asserted claims. The Patent Trial and Appeal Board (the "PTAB") applied the "broadest reasonable interpretation" claim construction standard, granted the petition, and instituted the IPR. Oil States attempted to amend the claims both to align their scope with the disclosure of the patent specification and to more clearly distinguish the prior art application. But the PTAB denied the motion, stating that Oil States had not "demonstrated" or sufficiently "explained" where and how each new claim element was disclosed in the specification. The PTAB then, in a final written decision, found the patent claims unpatentable.

Oil States appealed the PTAB's decision to the United States Court of Appeals for the Federal Circuit (the "CAFC") on various bases, including arguing that the IPR process is violative of Article III of the U.S. Constitution and the Seventh Amendment, especially as they protect the right to trial by jury. During briefing and before oral argument, the CAFC issued its decision in *MCM Portfolio LLC v. Hewlett-Packard Co.*,[4] which rejected a similar constitutionality argument. The CAFC affirmed the result in the Oil States IPR, and denied requests for panel rehearing and rehearing *en banc*.

In its successful petition for *certiorari*, Oil States argued that the Supreme Court and predecessor English courts have always required jury trials for infringement suits, and that invalidity is a defense made in such suits that also must be the province of the jury. Congress's attempt to "streamline" patent litigation by permitting the PTAB to resolve invalidity defenses, according to Oil States, supplants the jury trial and renders "*Markman* a dead letter." Oil States further argued that patent rights are more than "public" property rights that may arise out of, and be taken away by, agency hearings. Rather, patent rights are "complete with the most important characteristic of private ownership—the right of exclusion"—and exist wholly apart from the government once granted. In this regard, Oil States pointed out in its briefing that patents are not closely tied to a regulatory scheme, as the PTO is not responsible for violations of a patent.

Oil States also asserted that it had a right to an Article III forum for invalidation proceedings, citing Supreme Court precedent for the proposition that—once a patent is granted—it "is not subject to be revoked or canceled by the president, or any other officer of the Government" because "it has become the property of the patentee, and as such is entitled to the same legal protection as other property."[5]

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4 812 F.3d 1284 (Fed. Cir. 2015).

5 *Citing McCormick Harvesting Mach. Co. v. C. Aultman & Co.*, 169 U.S. 606, 608–09 (1898).

Greene's Energy Group responded to the petition by disputing Oil States' characterization of historical English practice, and asserting that invalidation proceedings were traditionally reserved for chancery courts. Greene's Energy Group also argued that patents are public property rights, deriving from an extensive federal regulatory scheme, and that Oil States therefore has no right to have invalidation proceedings heard in an Article III court.

Needless to say, this case has the potential to completely upend the current balance of power in patent litigation. IPR petitions are on pace to exceed 2,000 in number this year (compared to 4,500 new patent lawsuits),[6] and have become the knee-jerk first response to most patent suits. They have been so successful that those bringing infringement suits have reduced the expected value of their cases, that patent-holders have marked down the value of their portfolios, that patent auctions have resulted in less money changing hands, and that clients are paying their patent prosecutors and litigators less.

A Supreme Court reversal in *Oil States* might even affect other post-grant proceedings, including the long-standing *ex parte* reexamination proceedings and the relatively new derivation proceedings—although, until *TC Heartland*, one might have thought that the three-decade-plus history of *ex parte* reexaminations would itself foreclose the possibility of reversal here. A reversal would mean that, for at least a period of time, patent litigation practice would be in a state of chaos as the PTAB and Federal Circuit would be forced to terminate all existing proceedings, litigation defendants would have to scramble for new defense strategies, and Congress would be confronted with the prospect of sorting out alternative, Constitutional ways to achieve the results sought in the AIA.

[6] Statistics from Docket Navigator.

Non-Disclosing Sales Under the AIA's On-Sale Bar

On May 1, 2017, the United States Court of Appeals for the Federal Circuit (the "CAFC") issued an opinion in *Helsinn Healthcare S.A. v. Teva Pharms USA, Inc.*[7] discussing the prior-art provisions of the America Invents Act (the "AIA"). The case presented an issue of first impression for the CAFC: did the AIA's prior-art provisions change the law about what kinds of activity would create an on-sale bar and, if so, how? The court's answer to this question is startling. It appears to contradict the Patent Office's own view of the law, as expressed in the Manual of Patent Examining Procedure, and to raise more questions than it answers about what triggers an on-sale bar under the AIA.

The AIA's on-sale bar

The AIA represents the most significant amendment to the U.S. patent system since 1952. In a long-awaited but radical change, the AIA altered the U.S. patent apparatus from a "first to invent" system to a "first inventor to file" system. To implement this change, Congress re-wrote 35 U.S.C. § 102.

The AIA version of § 102 defines at its outset the types of prior art that would prevent an inventor from obtaining a patent. The new phrase central to the *Helsinn* case is in bold:

> (a) NOVELTY; PRIOR ART.–A person shall be entitled to a patent unless–
>
> (1) 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 . . . .

In § 102(b), the statute provides a one-year grace period for certain types of disclosures made (directly or indirectly) by the inventor, and it provides some additional protection for an inventor who discloses prior to another's disclosure:

> (b) EXCEPTIONS.–
>
> (1) DISCLOSURES MADE 1 YEAR OR LESS BEFORE THE EFFECTIVE FILING DATE OF THE CLAIMED INVENTION.–A disclosure made 1 year or less before the effective filing date of a claimed invention shall not be prior art to the claimed invention under subsection (a)(1) if–
>
> (A) the disclosure was made by the inventor or joint inventor or by another who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor; or
>
> (B) the subject matter disclosed had, before such disclosure, been publicly disclosed by the inventor or a joint inventor or another who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor.

The U.S. patent system has traditionally emphasized the patent system's role in encouraging inventors to disclose their inventions to the public as quickly as possible. Thus, the pre-AIA on-sale bar prevented an inventor from obtaining a patent if the inventor waited to file a patent application for more than one year after putting the invention "on sale." The bar was

[7] 855 F.3d 1356 (Fed. Cir. 2017).

triggered by sales and offers to sell regardless of whether the sales were public knowledge,[8] and regardless of whether the public could learn anything at all about the invention from the inventor's sales activity.[9]

At first blush, it would appear that both the grace period and the additional protection in § 102(b) represent a continued emphasis on encouraging prompt disclosure. However, the addition of the phrase "or otherwise available to the public" in § 102(a) raises the question of whether (i) sales that do not disclose the invention, or (ii) sales made in secret, which would have triggered a bar under the old law, would still trigger the bar under the new law. If not, an inventor might be able to commercialize an invention secretly for years and still obtain patent protection later.

Factual Background and Proceedings Below

Helsinn sued Teva on four patents relating to a drug used to treat chemotherapy-induced nausea and vomiting.[10] Teva's invalidity defense focused on the on-sale bar of § 102.[11]

Before the critical date for the patents (*i.e.*, more than a year before the patents' effective filing date), Helsinn entered into a license agreement and a supply and purchase agreement with a third party.[12] The parties included in a joint press release redacted versions of the agreements that disclosed the sale of the drug in general terms but did not contain the allegedly novel dosage of palonosetron.[13] In other words, only the fact that the sale of the drug occurred was publicized; the dosage—*i.e.*, in terms of patentability, the invention—was not publicly disclosed.

Teva argued that, under both pre-AIA and AIA § 102 (pre-AIA § 102 applying to the first three patents, and current AIA § 102 applying to the fourth), Helsinn's sale was invalidating prior art to the asserted patents.[14] The district court rejected Teva's arguments, finding that, with respect to the three pre-AIA patents, the drug was not ready for patenting, and, with respect to the AIA patent, because the AIA changed the law to require a *public* sale or offer for sale of the claimed invention, the sale under an NDA was a "secret," non-qualifying sale, and the joint press release also did not qualify, as it did not disclose the details of the invention.[15]

The CAFC's Reversal

The CAFC reversed the district court's decision, but declined to address the issue of whether the AIA's amended § 102(a) abolished secret sales as prior art. Instead, the CAFC held only that, "after the AIA, if *the existence of the sale* is public, the details of the invention need not be publicly disclosed in the terms of sale."[16]

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8 *See*, *e.g.*, *Special Devices, Inc. v. OEA, Inc.*, 270 F.3d 1353, 1357–58 (Fed. Cir. 2001).

9 *See*, *e.g.*, *RCA Corp. v. Data Gen. Corp.*, 887 F.2d 1056, 1060 (Fed. Cir. 1989), *overruled in part on other grounds by Grp. One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1048 (Fed. Cir. 2001).

10 *Helsinn*, 855 F.3d at 1360.

11 *Id*.

12 *Id*. at 1361.

13 *Id*. at 1362.

14 *Id*. at 1360.

15 *See Helsinn Healthcare S.A. v. Dr. Reddy's Labs. Ltd.*, Civil Action No. 11-3962 (MLC), 2016 WL 832089, at **49, 52 (D.N.J. Mar. 3, 2016).

16 *Helsinn*, 855 F.3d at 1371 (emphasis added).

The CAFC, in effect, found that the AIA did not change the pre-AIA precedent that offers for sale are prior art even if no details of the claimed invention are disclosed in the offer,[17] and that a sale of a product that embodies an invention, regardless of whether the parties to the sale know that the product embodies the invention, is prior art[18]—as long as the fact of the sale is public knowledge.

The court thus interpreted the AIA sales bar to apply regardless of whether the sales activity teaches the public anything about the invention, just as the pre-AIA sales bar had done. However, in a nod to the "or otherwise available to the public" language in the new statute, and to the copious legislative history suggesting that the bar in the new statute was not intended to be triggered by secret sales activity, the court emphasized that the fact of the sale in this case was public.

The court's holding is contrary to the Patent Office's understanding of the law, as expressed in the M.P.E.P. In § 2152.02(d) of the Manual, the Office explains that the phrase "on sale" in the new statute has the same meaning as in the old statute, "except that the sale must make the invention available to the public." Under the Office's view, Helsinn's sales activity would not be a bar to patentability, because the sale neither taught the public anything about the claimed invention, nor placed the invention physically in the hands of the public.

Regardless of whether sales activity must "make the invention available to the public" (per the Patent Office) or whether it can create a bar even if only the fact of the sale, not anything about the invention, is public knowledge (per the CAFC), there is a second step to the analysis, one that the court did not need to reach in *Helsinn*. Does the one-year-grace period of § 102(b) apply in all cases? Or can there be sales activity that creates a bar but does not trigger the grace period?

Based, again, on the M.P.E.P., it appears that the Patent Office believes that all activities that trigger a bar under § 102(a) also invoke the one-year grace period of § 102(b):

> The AIA does not define the term "disclosure," and 35 U.S.C. § 102(a) does not use the term "disclosure." 35 U.S.C. §§ 102(b)(1) and 102(b)(2), however, each state conditions under which a "disclosure" that otherwise falls within 35 U.S.C. §§ 102(a)(1) or 102(a)(2) is not prior art under 35 U.S.C. §§ 102(a)(1) or 102(a)(2). Thus, **the Office is treating the term "disclosure" as a generic expression intended to encompass the documents and activities enumerated in 35 U.S.C. § 102(a)** (*i.e.*, being patented, described in a printed publication, in public use, on sale, or otherwise available to the public, or being described in a U.S. patent, U.S. patent application publication, or WIPO published application).[19]

It is not yet clear whether the CAFC agrees, or if instead the court will hold that sales activities like Helsinn's trigger the bar (because the fact of the activity was public knowledge) but are not entitled to a grace period (because they do not "disclose" the invention to the public).

This second reading would be consistent with the idea that patent systems should encourage prompt disclosure. Under this reading, the bar and the grace period would interact so that non-disclosing sales can create a bar, but only disclosing sales are permitted a grace period.

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17 *See*, *e.g.*, *RCA Corp.*, 887 F.2d at 1060.

18 *See*, *e.g.*, *Abbott Labs.*, 182 F.3d at 1319.

19 M.P.E.P. § 717 (emphasis added).

It appears likely that the CAFC will have to revisit *en banc* the on-sale provision of the AIA to resolve both issues (When is the bar triggered? Is there always a corresponding grace period?).

Until the issue is resolved, inventors should assume that any sales activity that would have created a bar under the old law might also create a bar under the new law, but that the new law might not provide a grace period. This means making sure to file applications—even if only "document dump"-style provisional applications—before undertaking any sales activity.

Federal Circuit Issues Rare Decision Finding Abuse of Discretion in Denying Attorneys' Fees Award Under Section 285

In *Rothschild Connected Devices Innovations, LLC v. Guardian Protection Servs., Inc.*, the United States Court of Appeals for the Federal Circuit (the "CAFC") reversed and remanded a decision by the United States District Court for the Eastern District of Texas (the "EDTX") denying attorneys' fees to ADS Security.[20] After being sued by Rothschild, ADS sent an email to Rothschild alleging that the asserted patent was ineligible under Section 101 and also anticipated by prior art.[21] ADS offered to settle if Rothschild paid $43,330 in ADS attorneys' fees.[22] Rothschild declined, which prompted ADS to file a motion for judgment on the pleadings, and to serve Rothschild with a Rule 11 motion.[23] Prior to expiration of the Rule 11 safe-harbor period, Rothschild moved for voluntary dismissal of the case, but ADS opposed and cross-moved for attorney fees under Section 285.[24] The EDTX then granted Rothschild's motion, and denied ADS's cross-motion, finding that Rothschild acted reasonably in view of the voluntary withdrawal and his plausible validity positions.[25] The CAFC disagreed, holding that the district court had abused its discretion and instructing the district court on remand to calculate attorney fees consistent with the opinion.[26]

First, the CAFC reasoned that the district court failed to consider Rothschild's willful ignorance of the prior art.[27] More specifically, the district court failed to properly consider Rothschild's admitted failure to review the prior art cited in ADS's email and Rule 11 motion.[28] Although Rothschild's counsel and founder each attested that they made good faith pre-suit infringement inquiries, the CAFC reasoned that the district court erred in crediting this evidence since the attestations failed to identify any exemplary websites, product brochures, manuals, or other publicly available information that they reviewed before filing suit.[29]

Second, the CAFC ruled that the district court misjudged Rothschild's prior litigation conduct, because Rothschild had a history of filing repeated patent infringement actions for the sole purpose of forcing settlements, and this type of conduct supports an exceptional case finding.[30] Interestingly, the CAFC seems to put the burden on Rothschild to *disprove* that its

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20 2017 WL 2407870, __ F.3d __ (Fed. Cir. June 5, 2017).

21 *Id.* at *1.

22 *Id.*

23 *Id.*

24 *Id.*

25 *Id.* at *2.

26 *Id.* at *5.

27 *Id.* at *3.

28 *Id.*

29 *Id.* at *4.

30 *Id.* at *4–5.

prior litigation conduct was unreasonable.[31] The mere fact that it had filed and quickly settled numerous prior litigations (for what ADS simply contended was below the cost of litigation) warranted an exceptional case finding.[32]

Last, the CAFC ruled that the district court erroneously conflated Rule 11 with 35 USC § 285.[33] Section 285 may be broader in some instances and requires consideration of the "totality of the circumstances," which may warrant an award of attorneys' fees even where specific underlying conduct is not sanctionable.[34]

Judge Mayer wrote separately in a concurrence to point out that Rothschild's complaint was frivolous on its face.[35] He noted that the "specification and the prosecution history indicate that claim 1 is limited to consumable liquid products" and that Rothschild's assertion against a wide range of "Internet"-based products was "remarkable."[36] He cited an article in the Washington Post dubbing the patent one of the worst four patents of 2015.[37]

31 *Id.*

32 *Id.*

33 *Id.* at *5.

34 *Id.*

35 *Id.* at *5–6.

36 *Id.* at *6.

37 *Id.* at *5 (footnote).

Only Mostly Dead: Pre-Issuance Patent Expiration

The defendants in a recent case in the United States District Court for the Eastern District of Texas argued that one of the patents in suit had died before it ever lived. According to the defendants, the patent expired not only before the case was filed, but before it was even issued, and thus it had no enforceable term. They asked the court to dismiss the allegations of infringement of that patent.

Can a patent expire before it issues?

Yes. It is not a common situation, but if a patent is issued more than 20 years after the earliest filing date to which it claims priority, and there is no term extension long enough to make up the difference, then the patent is dead on arrival.

This was the situation in the Texas case, *Bartonfalls LLC v. Turner Broadcasting Sys., Inc.*, Case No. 2:16-cv-1127-JRG-RSP. The complaint in that case included allegations of infringement of U.S. Patent No. 9,094,694. The ’694 patent issued from an application filed on July 1, 2014. It received no term extension, and it claims priority to an application filed on June 8, 1995, so pursuant to 35 U.S.C. § 154(a)(2) it expired on June 8, 2015. However, the ’694 patent was not issued until July 28, 2015, six weeks after it had expired. Thus, the defendants argued, it never had any term at all.

The plaintiff responded by arguing that a patent must have some enforceable term, because otherwise the government’s acceptance of issuance fees would be inequitable and an unlawful taking.

The district court disagreed, and granted the motion to dismiss:

> If the statute were construed as Bartonfalls proposes, *i.e.*, so that an expired-when-issued patent had some indefinite term extension past the ordinary twenty-year mark to be determined by the Court, then the public would have no notice as to when such patent term would end. Clearly, that cannot be the case. Equally clear, the fact that the government accepted fees from the patentee does not result in an inequity or a taking. Rather, it reflects a (perhaps misguided) decision to pay for a patent that would have no term under the terms of the statute. Whatever the reason, the public should not bear the burden of the patentee’s questionable but intentional decision.[38]

Why would anyone ever pay the issue fee for a patent that had already expired?

The Texas court suggested that the “decision to pay for a patent that would have no term” was “questionable” and “perhaps misguided.” But while that may have been true for Bartonfalls, it won’t always be the case, because when a patent expires before it is issued, it is “only mostly dead. There’s a big difference between mostly dead and all dead. Mostly dead is slightly alive.”[39]

Such a patent is only “mostly dead” because a suit for infringement during the term of a patent is not a patent owner’s only remedy. If the patent owner has been alert and careful during prosecution, it can sue to assert “provisional rights” over acts

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38 *Bartonfalls*, 2017 WL 1375205, at *1 (E.D. Tex. Mar. 15, 2017) (report and recommendation adopted by Gilstrap, J., on April 7, 2017, 2017 WL 1319656).

39 *The Princess Bride* (Act III Comms. 1987).

that took place before the patent was issued, regardless of when the patent expired.[40] These rights apply only if the accused provisional-rights-violator had actual notice of the published application that led to the patent's issuance, and only if the issued claims are "substantially identical" to the claims in the published application. The only relief available for violation of provisional rights is a reasonable royalty, and it can be assessed only for acts that took place after actual notice and before the patent was issued.[41]

In the right case, then, it can not only make sense for a patent applicant to pay the issue fee for a patent that is already expired, but to hope for further delays before the patent is issued, thus extending the provisional–rights period. The patent will be mostly dead when it finally arrives, but it may also be slightly alive.

40 35 U.S.C. § 154(d).

41 *See id*.

Evolution of IPR Estoppel

Inter partes review proceedings ("IPRs") can be powerful weapons in the hands of a petitioner seeking to invalidate potentially threatening patent claims. Since the effective date of the America Invents Act (the "AIA"), petitioners have successfully challenged the validity of 16,688 claims.[42]

There is, however, a danger of estoppel associated with an unsuccessful challenge that could foreclose a petitioner's future invalidity arguments. Section 315(e) of the patent statute prevents petitioners (or the real parties in interest or the privies of the petitioner) from (1) requesting or maintaining a proceeding before the Patent Office or (2) asserting invalidity in district court or the International Trade Commission with respect to any ground that the petitioner raised or reasonably could have raised during an IPR that resulted in a final written decision.[43]

However, in the six years since enactment of the AIA, the United States Court of Appeals for the Federal Circuit (the "CAFC"), various district courts, and the Patent Trial and Appeal Board (the "PTAB") have cut back on the strength of the estoppel risk.

In *Shaw Indus. Grp., Inc. v. Automated Creel Sys., Inc.*, the CAFC held that an IPR petitioner was not estopped from later raising arguments on grounds that it raised in its petition for IPR, when the PTAB never considered those arguments during the IPR proceeding (post-institution) because the arguments were redundant.[44] Central to the CAFC's reasoning was that an IPR does not begin until it is instituted, and the plain language of § 315(e) only creates estoppel for grounds the petitioner raised or reasonably could have raised during the IPR.[45] Thus, the petitioner could not have raised—during the IPR—the ground on which the PTAB denied institution.

Some district courts have further held that grounds based on publicly available prior art that petitioners could have presented in an IPR, but chose not to, are available in a later proceeding.[46]

And, now, the PTAB has extended the *Shaw* rationale, albeit in a somewhat different direction than the district courts' expansion. In *Johns Manville Corp. v. Knauf Insulation, Inc.*, the patent owner filed a motion to terminate based on estoppel, alleging that the current grounds, based on two prior art documents that were actually in the possession of the petitioner at the time of a previous IPR proceeding, "reasonably could have been raised" during that proceeding.[47] The petitioner countered that a skilled researcher could not reasonably have been expected to discover the documents from within its own possession prior to the filing of its earlier IPR petition.[48] As evidence of its diligence, the petitioner swore that

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42 *See* United States Patent and Trademark Office, *Patent Trial and Appeal Board Statistics* (Mar. 31, 2017), https://www.uspto.gov/sites/default/files/documents/AIA%20Statistics_March2017.pdf

43 35 U.S.C. § 315(e).

44 817 F.3d 1293, 1300 (Fed. Cir. 2016).

45 *Id.*

46 *See, e.g.*, *Intellectual Ventures I LLC v. Toshiba Corp.*, Civ. No. 13–453–SLR, 2016 WL 7341713 at *12–13 (D. Del. Dec. 19, 2016); *Verinata Health, Inc. v. Ariosa Diagnostics, Inc.*, Case No. 12-cv-05501-SI, 2017 WL 235048 at *4 (N.D. Cal. Jan. 19, 2017).

47 IPR2016-00130 at 5 (Paper 35) (May 8, 2017).

48 *Id.*

both in-house and outside counsel had conducted nearly thirty employee interviews at the company, but none of those employees possessed the documents.[49] And, further, a professional research analyst had conducted a search of internet archives for relevant prior art and did not find the documents in question, apparently because they were never posted online or maintained in electronic form.[50] In siding with the petitioner on the estoppel question, the PTAB explained that "[t]he word 'reasonably' is a qualifier that refers to the discretion applied by a qualified searcher in conducting an adequate search."[51] The PTAB found that the search conducted was reasonable and rejected the argument that there is a distinction between the petitioner (who was in possession of the documents through its employee) and the lawyers for the petitioner (who were unable to discover those documents in an earlier proceeding).[52]

It is of note that not everyone thinks that these decisions are a proper reading of § 315(e) or good policy. For example, district courts have criticized the CAFC's holding in *Shaw* and found a defendant estopped from raising invalidity grounds that it could have presented in its IPR, but chose not to.[53] And, one court has classified the CAFC's discussion of IPR estoppel in *Shaw* as dicta and adopted a narrow reading of *Shaw*.[54] Given the Supreme Court's recent penchant for hearing patent matters, especially where those matters are newsworthy to U.S. tech companies, the estoppel issue will likely be in front of the Court in the near future (unless, of course, the Supreme Court finds IPRs unconstitutional in *Oil States*).

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49 *Id*. at 6–7.

50 *Id*. at 7.

51 *Id*. at 9.

52 *Id*. at 10.

53 *See*, *e.g.*, *Douglas Dynamics, LLC v. Meyer Prods. LLC*, 14-cv-886-jdp, 2017 WL 1382556 at *4–5 (W.D. Wis. Apr. 18, 2017).

54 *See Cobalt Boats, LLC v. Sea Ray Boats, Inc.*, Case No. 2:15-cv-00021 (E.D. Va. June 5, 2017) (D.I. 285) ("The court in Shaw was only making observations in dicta, and it had no occasion to consider restricting estoppel in the manner that other districts have interpreted it.").

Federal Circuit Denies *En Banc* Review of CBM Eligibility in *Secure Axcess*

A patent may be challenged under an America Invents Act ("AIA") covered business method ("CBM") review if it "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 . . . ."[55]

As discussed in our last newsletter, in *Secure Axcess, LLC v. PNC Bank Nat'l Ass'n*[56], the United States Court of Appeals for the Federal Circuit (the "CAFC") reversed the PTAB's determination that a challenged patent—relating "generally to computer security, and more particularly, to systems and methods for authenticating a web page"—qualified for CBM review. The appellees subsequently petitioned for rehearing *en banc*. On June 6, 2017, the CAFC refused to revisit its earlier decision, denying the petition for *en banc* review in a 7-5 split.[57]

Judge Taranto, with whom Judge Moore joined, concurred in the denial of rehearing and explained that "the panel opinion in this case adopts a resolution that soundly resolves an ambiguity in the statutory language" of AIA § 18(d)(1)—*i.e.*, that the verb "claims" applies to *both* the "method or corresponding apparatus for performing data processing" language *and* the "used in practice, administration, or management of a financial product or service" language, and not only to the "method or corresponding apparatus for performing data processing" language.[58] In addition, Judge Taranto found that the panel opinion "is consistent with every one of our precedents and with a number of Patent Trial and Appeal Board decisions dating to when the program began."[59] Further review of the CBM issue here, he wrote, would be "a poor use of judicial resources."[60] He also disagreed with the dissent's reading of the statute and found their proposed approach impractical: "the dissent's effort to confine the scope of the CBM program to the intended 'business method patents' boundary is also intrinsically indeterminate to an unacceptable degree."[61]

Judge Plager concurred in the denial of panel rehearing and wrote separately to address a popular, but mistaken, criticism that the CAFC's "panel opinion was designed to accomplish, or inadvertently resulted in, a significant narrowing of the Director's ability to institute [CBM] reviews . . . ."[62]

Judge Lourie, with whom Chief Judge Prost and Judges Dyk, Wallach, and Hughes joined, dissented because "the statutory interpretation question presented here certainly satisfies the requirements for en banc review . . . ."[63] Judge Lourie found that the majority's interpretation severely limits what constitutes a CBM patent, and thus frustrates Congress's intent that

55 AIA § 18(d)(1).

56 848 F.3d 1370 (Fed. Cir. 2017), *reh'g denied*, No. 2016-1353 (Fed. Cir. June 6, 2017).

57 *Secure Axcess, LLC v. PNC Bank Nat'l Ass'n*, No. 2016-1353 (Fed. Cir. June 6, 2017).

58 *Id*. at 2–3.

59 *Id*. at 2.

60 *Id*.

61 *Id*. at 8.

62 *Id*. at 1–2 (Plager, J., concurring).

63 *Id*. at 2 (Laurie, J., dissenting).

CBM review be a widely-applicable substitute for expensive district court litigation.[64] This dissent held that the claims of the patent at issue, when read in light of the specification, were clearly directed to "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."[65] The identities of the parties—all financial institutions—confirmed this.[66]

Judge Dyk, with whom Judges Wallach and Hughes joined, opined in a separate dissent regarding the appealability of the predicate question of whether a patent qualifies for CBM review.[67] Under 35 U.S.C. § 324(e), the determination of whether to institute a post-grant review is final and nonappealable.[68] Thus, according to Judge Dyk, because the decision to institute hinged in this case on whether the patent is a covered business method, the appeal is barred under § 324(e).[69] The CAFC previously opined on this issue in *Versata Dev. Grp., Inc. v. SAP Am., Inc.*,[70] and held that § 324(e) does not bar CAFC review of the PTAB's determination that a patent is CBM-eligible because the appellate review is of the ultimate authority of the PTAB to invalidate a patent and the restriction of that authority in § 18 to CBM patents.[71] Judge Dyk urged that *Versata* was wrongly decided, noting that the decision in that case issued before the Supreme Court's decision in *Cuozzo Speed Techs., LLC v. Lee*,[72] which held that the appeal bar in § 314(d)—which includes language identical to that of § 324(e)—precludes review.[73]

With such a vigorous split, the next step could be a *writ of certiorari* to the Supreme Court.

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64 *Id*. at 3.

65 *Id*. at 6 (emphasis in original).

66 *Id*. at 7–8.

67 *Id*. at 2–3 (Dyk, J., dissenting).

68 CBM proceedings are regarded as a post-grant review and employ those same standards. AIA § 18(a)(1).

69 *Secure Axcess*, No. 2016-1353, slip op. at 2–3 (Fed. Cir. June 6, 2017) (Dyk, J., dissenting).

70 793 F.3d 1306 (Fed. Cir. 2015).

71 *Id*. at 1322.

72 136 S.Ct. 2131 (2016).

73 *Id*. at 2142; *Secure Axcess*, No. 2016-1353, slip op. at 3–4 (Fed. Cir. June 6, 2017) (Dyk, J., dissenting).

The Register of Copyrights Selection and Accountability Act of 2017

In a bi-partisan vote, the U.S. House of Representatives passed H.R. 1695, the *Register of Copyrights Selection and Accountability Act*, which changes the process for selecting the Register of Copyrights, the head of the Copyright Office. Judiciary Committee Chair Bob Goodlatte (R-VA) introduced the bill, which was co-sponsored by Ranking Member John Conyers (D-Mich) and others. The bill calls for the Register to be appointed by the President, with the advice and consent of the Senate. Under the current process, the Librarian of Congress selects the Register. The position would have a ten-year renewable term, with removal only for cause.

Supporters of this legislation, including the Intellectual Property Owners Association, believe that it will help the Copyright Office be more autonomous in delivering its services. Unlike the Library of Congress, which strives to make resources and creations widely available to the public, the Copyright Office endeavors to administer laws that reward and incentivize creation. The missions of the Library and the Office do not necessarily align, and a change in the appointment process may alleviate any tension.

The bill was received in the Senate, read twice, and has been referred to the Committee on Rules and Administration.

Matal v. Tam: Trademark Disparagement Clause Held Unconstitutional

On June 19, 2017, the Supreme Court held in an 8–0[74] decision that the disparagement clause in the Trademark statute—which prohibits the registration of trademarks that may "disparage . . . or bring . . . into contemp[t] or disrepute" any "persons, living or dead," 15 U.S.C. § 1052(a)—violates the Free Speech Clause of the First Amendment.[75] Justice Alito, writing for the majority, explained that the disparagement clause defies "a bedrock First Amendment principle: Speech may not be banned on the ground that it expresses ideas that offend."[76]

This case arises out of a dance-rock band's application for federal trademark registration of the band's name, *The Slants*. Pursuant to 15 U.S.C. § 1052(a), the PTO refused registration on the ground that it believed the mark to refer to persons of Asian ancestry and to be disparaging of them—even though the band's purpose in choosing the name was not to disparage, but instead to reclaim the term for people of Asian descent.[77] The United States Court of Appeals for the Federal Circuit (the "CAFC"), in a panel decision, originally affirmed the PTO's decision,[78] but then revisited the decision *en banc* and held that the disparagement provision of § 1052(a) is facially invalid under the First Amendment.[79] The Government petitioned for *certiorari*, and the Supreme Court affirmed the CAFC's *en banc* decision.

In finding the disparagement clause unconstitutional, the Supreme Court rejected the Government's following three arguments: (1) trademarks are government speech, not private speech; (2) trademarks are a form of government subsidy; and (3) the constitutionality of the disparagement clause should be tested under a new "government-program" doctrine.[80]

As important as this case is to *The Slants*, it will likely have an even larger impact on the Washington Redskin's billion-dollar franchise. In 2014, the PTO's Trademark Trial and Appeal Board ordered the cancellation, under the disparagement clause, of six of the team's registrations for various configurations of the word REDSKINS.[81] The team's appeal, which proceeded on a separate track from this case even though the cases both deal with the constitutionality of the disparagement clause, was stayed in the United States Court of Appeals for the Fourth Circuit during the pendency of this case to preserve judicial resources.[82]

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74 Justice Gorsuch did not participate.

75 *Matal v. Tam*, 582 U.S. ___ (2017) (slip op. at 1); Previously captioned *Lee v. Tam*.

76 *Id.* at 3.

77 *In re Tam*, 2013 WL 5498164 (T.T.A.B. Sept. 26, 2013), *aff'd*, 785 F.3d 567 (Fed. Cir. 2015), *vacated and remanded en banc*, 808 F.3d 1321 (Fed. Cir. 2015).

78 *In re Tam*, 785 F.3d 567 (Fed. Cir. 2015), *vacated and remanded en banc*, 808 F.3d 1321 (Fed. Cir. 2015).

79 *In re Tam*, 808 F.3d 1321 (Fed. Cir. 2015).

80 *Tam*, 582 U.S. ___ (2017) (slip op. at 12). The Supreme Court also addressed (and rejected) the following periphery argument that Tam raised for the first time in the litigation: the disparagement clause does not reach marks that disparage racial or ethnic *groups* because the statutory language refers only to "persons" and "persons" includes only natural and juristic persons, not non-juristic entities such as racial and ethnic groups. *Id.* at 8–9.

81 *Blackhorse v. Pro-Football, Inc.*, Cancellation No. 92046185 (T.T.A.B. June 18, 2014). The cancellation of the REDSKINS trademarks does not prevent them in any way from continued use of the name, nor does it strip the team of certain common law rights it might have in the marks.

82 *Pro-Football, Inc. v. Blackhorse*, Case No. 15-1874, D.E. 121, (4th Cir. Nov. 15, 2016) (order placing case in abeyance pending decision in *Tam*).

The Supreme Court's holding in *Tam* confirms the Redskins' arguments with respect to the unconstitutionality of the disparagement clause in its case. And while that issue seems case-dispositive from a big-picture perspective, it is conceivable that the team might continue its appeal—subject to mootness—on certain other issues of importance, such as whether the district court erred in finding that the cancellation of the team's trademark registrations decades after the registrations were granted violates the trademark holder's procedural due process rights under the Fifth Amendment.[83]

83 *Id.*, D.E. 20 (4th Cir. Aug. 20, 2015).

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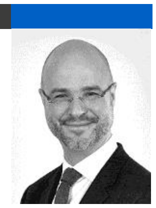

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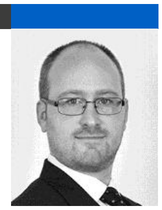

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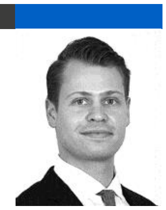

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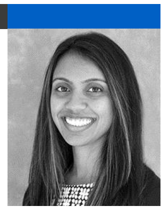

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