Advisory

JUNE 2016

Busy Supreme Court Docket in Intellectual Property Highlighted by Cases on Enhanced Damages, Attorney's Fees, Claim Construction Standard in IPRs, and Extraterritoriality

ENHANCED DAMAGES - *HALO*

In June 2016, the U.S. Supreme Court handed down a decision in *Halo Electronics v. Pulse Electronics* (14-1513), in which it addressed the Federal Circuit's test for determining whether enhanced damages should be awarded for patent infringement under 25 U.S.C. § 284. The Court held that judges have broad discretion to award enhanced damages for patent infringement, concluding that the prior Federal Circuit test was "unduly rigid, and impermissibly encumbers the statutory grant of discretion to the district courts." Specifically, the Court rejected the prior Seagate test, which required clear and convincing evidence of both objective recklessness on the part of the infringer as well as subjective knowledge of the risk of infringement. While acknowledging that the Seagate test reflects, in many respects, a sound recognition that enhanced damages are generally appropriate under section 284 only in egregious cases, the Court faulted the test for requiring a showing of "objective recklessness" in every case. While rejecting the rigid Seagate test, the Court nonetheless emphasized that enhanced damages "should generally be reserved for egregious cases typified by willful misconduct beyond typical infringement." The Supreme Court also relaxed the evidentiary burden for proving willful infringement. The Federal Circuit's prior Seagate decision had required proof of willfulness by clear and convincing evidence. By contrast, the Supreme Court in Halo held that "patent-infringement litigation has always been governed by a preponderance of the evidence standard," and "enhanced damages [pursuant to § 284] are no exception." It remains to be seen how the lower courts and Federal Circuit will apply the more flexible standards set forth by the Supreme Court. Since the Supreme Court puts more emphasis on what defenses existed when an alleged infringer was confronted with a patent, companies may want to consider their policies concerning replying to infringement letters and whether an opinion from outside patent counsel may be necessary.

ATTORNEY'S FEES - *KIRTSAENG*

The Court also took up the issue of judicial discretion over monetary awards in *Kirtsaeng v. John Wiley & Sons, Inc.* (No. 15-375), clarifying the standard for attorney's fee awards in copyright cases. Section 505 of the Copyright Act provides that a court "may … award a reasonable attorney's fee to the prevailing party." Specifically, the Court held that while the objective reasonableness of the losing party's position is the most important factor a district court judge should consider in determining whether to award fees under section 505, it is not "the controlling one." As a number of circuit courts have held, "[a]lthough objective reasonableness carries significant weight, courts must view all the circumstances of a case on their own terms, in light of the Copyright Act's essential

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goals." For example, a party pressing a reasonable legal position may have engaged in unreasonable litigation conduct. Thus, as in *Halo, Kirtsaeng* held that a more flexible test for fee awards should be applied.

CLAIM CONSTRUCTION STANDARDS IN IPRS - *CUOZZO*

On June 20, 2016, in *Cuozzo Speed Technologies v. Lee*, the Court addressed whether the "broadest reasonable construction" claim construction standard used during inter partes review (IPR) and post-grant review (PGR) proceedings to challenge patent validity before the Patent Trial Appeal Board was the correct claim construction standard, or whether the PTAB must instead use the same (potentially narrower) claim construction standard used by district courts. The varying claim construction standards between the PTAB and district courts had been a source of much debate. Applying the "broadest reasonable interpretation" standard, the PTAB has been invalidating a large percentage of the patents that it has evaluated, leading patent-holders to criticize the standard and the fact that there were different standards in two different forums that evaluate the validity of patents.

The Supreme Court resolved this debate by unanimously affirming the Federal Circuit, holding that the Patent and Trademark Office (PTO), which promulgated the "broadest reasonable interpretation" standard for IPRs, had the authority to issue such a regulation. The Court deferred to the PTO's choice of the standard because Congress gave the PTO discretion to design the IPR process. This standard is one reason that militates in favor of challenging patent validity in an IPR proceeding, where possible.

EXTRATERRITORIALITY - *LIFE TECHNOLOGIES*

Most recently, on June 27, 2016, the Supreme Court granted certiorari in *Life Technologies Corp. v. Promega Corporation*, in which it will take up the scope of 35 U.S.C. § 271(f)(1). Section 271(f)(1) making it an act of infringement to supply from the U.S. "all or a substantial portion of the components" of a patented invention so as to actively induce the combination of the components outside of the U.S. The *Life Technologies* case continues the Court's trend of examining the extraterritorial scope of U.S. Patent laws.

Life Technologies supplied an enzyme from the U.S. to its UK subsidiary, which then incorporated the enzyme into a diagnostic kit abroad, and was sold worldwide. At trial, the jury found infringement and awarded $52 million in damages to plaintiff Promega. However, in his ruling on post-trial motions, the Judge reversed, holding that the "substantial portion" language of section 271(f)(1) required that multiple components were shipped abroad. The Federal Circuit reversed, holding that the "substantial portion" language referred to importance rather than quantity and could be met by a single component, here the enzyme. The question that the Supreme Court will address is "whether the Federal Circuit erred in holding that supplying a single commodity component of a multi-component invention from the United States is an infringing act under 35 U.S.C. § 271(f)(1), exposing the manufacturer to liability for all worldwide sales."

PATENT EXHAUSTION - *LEXMARK*

Finally, it appears likely that the Supreme Court may also grant certiorari in *Impression Products, Inc. v. Lexmark International, Inc.* If granted, this case would address two significant issues pertaining to the patent exhaustion doctrine: (1) whether a "conditional sale" that transfers title to the patented item while specifying post-sale restrictions on the article's use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law's infringement remedy; and (2) whether, in light of the Supreme Court's holding in *Kirtsaeng*, the exhaustion doctrine applies to authorized sales of a patented article that take place outside of the United States.

Though the Supreme Court has not yet ruled on the petition for certiorari, numerous amicus briefs have been filed, and on June 20, 2016, the Court invited The Solicitor General to file a brief in the case expressing the views of the United States.

We will continue to monitor these cases and issues, and will keep you apprised of the latest developments.