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CLIENT ALERT: CALIFORNIA INSTITUTE OF TECHNOLOGY V. BROADCOM LIMITED

The United States Court of Appeals for the Federal Circuit recently weighed in on the *California Institute of Technology v. Broadcom Ltd. et al.*, No. 20-2222 (Fed. Cir. Feb. 4, 2022) (*CalTech*) case, dismissing a \$1.1B damage award against Broadcom and Apple and issuing a precedential opinion that clarifies three areas of patent law: (i) the scope of estoppel when a party challenges the patent-in-suit in an *inter partes* review, (ii) the standard for asserting multi-tiered reasonable royalty rates in damage awards, and (iii) the criteria for determining whether a sale transaction is subject to U.S. Patent Law.

IPR ESTOPPEL

The scope of what prior art and which claims are subject to estoppel is a critical strategic issue that impacts how an accused infringer will consider bringing invalidity challenges to the patent at issue.

The Federal Circuit's prior holding in *Shaw Industries Group, Inc. v. Automated Creel Systems, Inc.* had limited estoppel to *only* instituted claims and grounds. However, in the intervening U.S. Supreme Court decision in *SAS Institute Inc. v. Iancu*, 138 S. Ct. 1348 (2018) (*SAS*), the

Court required the USPTO to review **all** claims identified in an IPR petition. In light of the *SAS* decision, the Federal Circuit found it necessary to overrule *Shaw* in the *CalTech* case, finding:

...we take this opportunity to overrule Shaw and clarify that estoppel applies not just to claims and grounds asserted in the petition and instituted for consideration by the Board, but to all claims and grounds not in the IPR but which reasonably could have been included in the petition.

This newly broader IPR-based estoppel, encompassing all potential claims and grounds at the petition stage, strengthens the position of patent owners and will likely alter the way petitioners approach IPR petitions in the future. For example, *ex parte* reexams may become more attractive now, especially because they can be filed anonymously and do not incur legal estoppel. In that regard, at least one district court recently disallowed discovery on whether the accused infringer had participated in an *ex parte* reexamination, which is another advantage over IPR.

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This publication is a summary of legal principles. Nothing in this article constitutes legal advice, which can only be obtained as a result of a personal consultation with an attorney. The information published here is believed accurate at the time of publication, but is subject to change and does not purport to be a complete statement of all relevant issues.

DAMAGES

The Federal Circuit also vacated CalTech's \$1.1B damage award and remanded the case for a new trial on damages, rejecting CalTech's hypothetical "two-tier" reasonable royalty model, which sought both a chip-level royalty (lower) rate for Broadcom and a device-level royalty (higher) rate for Apple. The court noted that CalTech's model "ignores established precedent to the effect that, in the absence of a compelling showing otherwise, a higher royalty is not to be separately calculated against each successive infringer."

Based on this decision, as well as potential considerations of patent exhaustion, a patent owner having a potential infringement claim against multiple parties at different levels in the supply chain may decide to first enforce their patent against the party for which the highest priced reasonable royalty rate could be obtained.

EXTRATERRITORIALITY

Finally, Broadcom and Apple had argued that the damage award "improperly included extraterritorial sales from Broadcom's international affiliates." The Federal Circuit, however, rejected this argument, noting that the District Court's jury instructions regarding the infringement standard and extraterritoriality – limiting direct infringement to acts involving imports, offers to sell, sales, or uses of an accused product in the United States – were proper and sufficient. The Federal Circuit further noted that the District Court's jury instructions had emphasized the key question of whether there were "substantial activities in the United States."

This ruling may prompt companies that do business in international markets to restrict activities relating to their overseas sales operations to non-US locations.

We will continue to monitor these issues and would be happy to discuss any of them should you have any questions.