

## Fed. Circ. Provides Guidance On Patent Exhaustion Doctrine

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The recent Federal Circuit decision concerning the scope of patent exhaustion has important implications for patent prosecution of related inventions in the same or related patent applications, the structure of licensing agreements relating to such different but closely related inventions, and to parties litigating issues of patent exhaustion. The following article provides some insight from the authors on these issues.

In *Helferich Patent Licensing LLC v. New York Times Co.*, 2015 U.S. App. LEXIS 2047 (Fed. Cir. Feb. 10, 2015), the Court of Appeals for the Federal Circuit concluded that the judicially created doctrine of patent exhaustion should not be expanded such that authorized sales to persons practicing a first set of patent claims exhaust the patentee's rights to enforce other patent claims against different parties, reversing a district court decision that had granted summary judgment of noninfringement in favor of the accused infringers. *Helferich Patent Licensing LLC v. New York Times Co.*, 965 F. Supp. 2d 971 (N.D. Ill. 2013).



Bradford Breen

*Helferich Patent Licensing* holds rights to a large portfolio of patents and enforces those patents through licensing or litigation. The *Helferich* patents-at-issue relate to methods and systems for sending and receiving hyperlinks to an electronic device, such as a cellular phone. Using Short Message Service or Multimedia Messaging Service protocols, a cellphone can receive a link to a website from a content provider. A user can then click on the link to retrieve content via a website. The Federal Circuit referred to the *Helferich* patent claims directed toward this process as “content claims.”

A related set of claims in some of the asserted *Helferich* patents consist of product and method claims directed generally to mobile wireless communication devices on handsets such as mobile phones, and receiving and/or requesting content on such handsets. The court referred to these claims collectively as the “handset claims.”

*Helferich* has licensed virtually all mobile handset manufacturers under the handset claims, while expressly stating in most of those licenses that no license was being granted to content providers as to the content claims. In this regard, the CAFC noted that “[t]he licenses themselves generally reflect painstaking efforts to distinguish the conduct of handset makers and possessors [of those handset devices] from the conduct of others, such as content providers, and to distinguish claims practiced by the former from claims practiced by the latter. ... The licenses [to the handset manufacturers] generally disclaim any grant of rights to such content providers and reserve *Helferich*’s enforcement rights against

them.”

Not only is it critical for the patent owner, in terms of setting up a licensing program, to make it clear what is and what is not licensed under each relevant licensed agreement in such a situation, but patent prosecutors also must be careful to write the patent claims in such a way that it is clear that the invention of one set of claims is to be practiced by one group, and a second set of claims for a different (albeit related) invention are to be practiced by another group. The fact that each such invention “tends to make the other more useful when thus separately practiced” does not trigger patent exhaustion, so long as the patent claim language for the two sets of claims is distinct enough to meet the “separate invention” criteria, and the patent owner structures any patent licenses in a way that makes it abundantly clear that the patent owner is distinguishing the conduct of the licensed group licensed under the first set of claims from the conduct of a second group as to practicing a second group of claims.

Between 2010 and 2012, Helferich filed complaints against several content providers including the New York Times, J.C. Penney Corp, G4 Media LLC, the Bon-Ton Stores and CBS in the United States District Court for the Northern District of Illinois. In these complaints, Helferich asserted that the defendant content providers infringed the content claims in six patents. Two of the six asserted patents also contained handset claims, which, as previously noted, had already been licensed to virtually every handset manufacturer.

The district court, in August 2014, granted defendants’ request for summary judgment of noninfringement, holding that, by granting handset manufactures broad authority to sell handsets under the handset claims, Helferich had exhausted its ability to enforce the content claims not only against acquirers of the handsets, but also against the defendant content providers who presumptively infringed the content claims of these patents by managing and delivering content to handset users. Helferich appealed the district court’s summary judgment ruling to the Federal Circuit, arguing that patent exhaustion should not apply to content claims as to parties not licensed under the handset claims.

The Federal Circuit, on Feb. 10, 2015, reversed. The three-judge panel unanimously held that the judicially created doctrine of patent exhaustion should not be expanded to bar infringement claims against content providers based on the content claims. The court faulted the district court for not focusing on the particulars of the handset claims and the content claims. The Federal Circuit further pointed out that the district court failed to show that two key elements of patent exhaustion were present. The first such required element is that those who possessed licensed handsets by definition used the content claims. The second element necessitates that, to the extent the asserted content claims contemplate someone else’s use of a handset, they specify that the handset have inventive features claimed in particular handset claims.

The court noted that patent exhaustion is a judicially fashioned doctrine not codified in the patent statute, and it would be improper to apply the doctrine, as defendants proposed, merely based on the enhanced practical utility to a handset owner of being able to use the inventions of the content claims. The court concluded that the defendants’ broad proposed approach “would extend exhaustion far beyond the doctrine’s traditional scope, and it does not lie within a sensible range of judicial elaboration pursuant to implied congressional authority.” “We cannot say that inventions of the asserted content claims have no reasonable use other than one involving someone’s practicing of the handset claims, because we cannot say that the asserted content claims call on use of the inventive features of the handset claims: at most an ordinary handset is required.”

Litigators representing patent owners may applaud the Federal Circuit's decision because it narrows the application of patent exhaustion as a defense. However, following this decision, patent owners will need to be more selective over which patent claims to assert against various parties, and patent owners will need to carefully review patent licensing agreements for consistency among multiple groups of possible defendants, especially if attempting to carve out a subset of patent claims for separate litigation.

After *Helferich*, counsel for accused infringers should recognize that the defense of patent exhaustion has become more limited against patent assertion entities that file lawsuits against multiple parties based on competing interests with patents having mixed claims. Device/manufacturer licenses, like in this instance the handset manufacturers, must carefully consider their customers' business partners' interests in these types of mixed claim patent licenses (in this instance, the purchaser of the handsets and the content providers who deliver content to those handsets).

The Federal Circuit confirms that the patent exhaustion defense is a narrow one. The decision and reasoning in *Helferich* make clear that assertion of a patent exhaustion defense requires a detailed analysis of the asserted patent claims and individual analysis for each claimed invention, as well as a careful reading of any licenses granted by the patent owner. In some situations, the patent exhaustion analysis may need to be performed separately for different claims within a single patent. In addition, licensees of a patent portfolio with related claims should make every effort to ensure that the grant language in the license agreement is sufficient to cover the intended uses by the licensee and its customers of the licensed products and methods.

—By Bradford Breen, Davin Stockwell and James Maune, Orrick Herrington & Sutcliffe LLP

*Bradford Breen is senior counsel in Orrick's New York office. Davin Stockwell is of counsel and James Maune is an associate in the firm's Orange County, California, office.*

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