Discretio est discernere per legem quid sit justum.

Discretion is to discern through law what is just. The Supreme Court’s recent patent-related decisions have in large part focused on granting greater degrees of discretion. Recently in Halo, the Supreme Court endorsed a greater degree of discretion to district court judges in awarding enhanced damages. And in Cuozzo, the Supreme Court validated the USPTO’s discretionary use of the broadest reasonable interpretation standard for claim construction in inter partes reviews. Indeed, it seems as if the only entity to whom discretion is disfavored by the Supreme Court is the Federal Circuit. The days when the Supreme Court gave the Federal Circuit considerable leeway in fashioning patent law have long since faded in memory. Perhaps a bit more discretion directed towards the Federal Circuit might help “discern through law what is just.”

The following is a summary of at least some of the most important cases in the area of patent law from the last twelve months. Please read with discretion!

The Supreme Court of the United States


On June 13, 2016, Chief Justice Roberts delivered the opinion of a unanimous Supreme Court, vacating a Federal Circuit decision denying enhanced damages under § 284 of the Patent Act. The Supreme Court held that (1) the Federal Circuit’s two-part test for enhanced

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1 Diego Freire is currently a 3L student at Notre Dame Law School and recently served as a summer associate at McDonnell Boehnen Hulbert & Berghoff LLP (MBHB) in Chicago. Paul Berghoff is one of the founders of MBHB and has over 30 years of patent litigation experience. He was honored with IPO’s President’s Distinguished Service Award in 2011.
damages under *Seagate* was inconsistent with the statute and (2) district courts can exercise discretion in determining enhanced damages.

Halo’s patent at issue disclosed electronic packages containing transformers designed to be mounted to the surface of circuit boards. The jury found that Pulse had willfully infringed. However, the district court declined to award enhanced damages under § 284 because Pulse had presented a defense that “was not objectively baseless, or a ‘sham’” and therefore was not objectively reckless under the first prong of *Seagate*. *Id* at 1931. Under *Seagate*, the patent owner had to show by clear and convincing evidence that (1) “the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent,” and (2) the risk of infringement “was neither known or so obvious that it should have been known to the accused infringer.” *Id* at 1925-26. The issue before the Supreme Court was whether *Seagate* was consistent with § 284, which provides that a district court “may increase the damages up to three times the amount found or assessed.” *Id* at 1931.

The Supreme Court first determined that the language of the statute “contains no explicit limit or condition” and “the ‘word “may” clearly connotes discretion.’” *Id* at 1926. The Court then concluded that the *Seagate* test “is unduly rigid and it impermissibly encumbers the statutory grant of discretion to district courts.” *Id* at 1932. By requiring findings of objective recklessness in every case, *Seagate* “excludes from discretionary punishment many of the most culpable offenders, such as the ‘wanton and malicious pirate’ who intentionally infringes another’s patent – with no doubts about its validity or any notion of a defense – for no purpose other than to steal the patentee’s business.” *Id* at 1926. As in *Octane Fitness*, the Supreme Court found subjective willfulness to be enough. Simply stated, culpability “is generally measured against the knowledge of the actor at the time of the challenged conduct,” and not based on a defense later thought up by their “attorney’s ingenuity.” *Id* at 1933.

The Supreme Court went on to note that district courts “[a]s with any exercise of discretion … should continue to take into account the particular circumstances of each case in
deciding whether to award damages, and in what amount." *Id* at 1933. They should be guided by the “nearly two centuries of enhanced damages under patent law,” which has been “reserved for egregious cases typified by willful misconduct.” *Id* at 1934. Finally, the Supreme Court held that § 284 requires showing recklessness by a preponderance of the evidence and that decisions of the district courts should be reviewed for abuse of discretion.


On June 20, 2016, Justice Breyer delivered the opinion of the U.S. Supreme Court, affirming a Federal Circuit decision (for a change!) In a 6-2 decision, the Court held that the AIA mandated that decisions to institute *inter partes* reviews (IPRs) were not subject to judicial review and, in a unanimous decision, the Court held that the USPTO properly applied the “broadest reasonable construction” standard for claim construction in IPRs. *Id* at 2142.

Garmin filed a petition seeking an IPR of the Cuozzo Patent, which covers speedometer indicator technology. The Patent Trial and Appeal Board (PTAB) ordered 3 of Cuozzo’s claims canceled. Cuozzo appealed the decision arguing that the PTAB had improperly instituted the IPR and had improperly used the interpretive standard set forth in the Patent Office’s regulation, “broadest reasonable construction,” when it should have applied the Phillips standard of “ordinary meaning.” *Id* at 2134. A divided Federal Circuit rejected the argument and, in a 6 to 5 vote, denied Cuozzo’s petition for rehearing. The Supreme Court granted *certiorari* to determine whether: (1) 35 U.S.C. § 314(d) rendered decisions to institute IPRs “nonappealable” and (2) application of the broadest reasonable construction standard was a reasonable exercise of the Patent Office’s rulemaking authority.

With regard to the first issue, the Supreme Court determined that the text of § 314(d) expressly states that the Patent Office’s determinations whether to institute an IPR “shall be final and nonappealable.” *Id* at 2137. The majority opinion noted that judicial review would “undercut the important congressional objective of giving the agency significant power to revisit
and revise earlier patent grants.” *Id* at 2140. Furthermore, the Court determined that though there is a “strong presumption” favoring judicial review, that presumption can and is overcome by “clear and convincing” indications that Congress intended to bar review. *Id.*

With regard to the second issue, the unanimous Supreme Court stated that § 316(a)(4) grants the Patent Office the authority to issue “regulations … establishing and governing *inter partes* review.” *Id* at 2142. The Court then determined that “[n]either the statute’s language, nor its purpose, nor its legislative history suggest that Congress decided what standard should apply in an IPR” and “[w]here a statute leaves a gap or is ambiguous, this Court typically interprets a congressional gap of rulemaking authority as giving the agency leeway to enact rules that are reasonable in light of the text, nature, and purpose of the statute.” *Id* at 2134-35. Therefore, the Court concluded that the Patent Office regulation requiring the PTAB to apply the broadest reasonable construction standard was a reasonable exercise of the rulemaking authority granted to the Patent Office by Congress.

**The Federal Circuit**

**HP Inc. v. MPHJ Tech. Inv., LLC, 817 F.3d 1339 (Fed. Cir. 2016)**

On April 5, 2016, the Federal Circuit affirmed a PTAB decision in an IPR finding claim 13 not unpatentable as anticipated and canceling the remaining claims as anticipated. The Federal Circuit held that the PTAB did not err in finding that claim 13 was not anticipated by the cited prior art. In addition, in a ruling with broader applicability, the Federal Circuit held that the PTAB did not err in only addressing the instituted grounds in its final written decision and that IPR-based estoppel does not apply to grounds that are not instituted.

MPHJ asserted that HP’s multi-function scanner printers infringed its patent and sent letters to tens of thousands of businesses that used those printers. HP responded by filing an IPR challenging the claims of the patent, all but one of which were canceled by the PTAB. HP
argued that the PTAB erred by not also finding claim 13 unpatentable as anticipated, and challenged the PTAB’s decision not to review whether claim 13 was unpatentable as obvious.

Before reaching the merits, the opinion written by Judge Lourie addressed whether the Court had jurisdiction. Under 35 U.S.C. § 314(d), “[t]he determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable.” Id at 1345. HP argued that § 314(d) did not prevent review of the redundancy issue. The Federal Circuit, however, agreed with MPHJ and the USPTO Director that § 314(d)’s “bar on judicial review is not limited to the determination whether there is a reasonable likelihood that the petitioner would prevail” and therefore the Court lacked jurisdiction. Id.

The Federal Circuit went on to state that “a redundancy determination does not impact the PTAB’s authority to find a claim unpatentable … [i]t only prevents the claim from being challenged on a particular basis in that particular IPR proceeding.” Id at 1346. Lastly, the Court addressed HP’s concern that “it will be estopped from challenging claim 13 in a future proceeding” by stating that since “the noninstituted grounds do not become a part of the IPR,” they are not raised and the estoppel provisions of § 315(e)(1) do not apply. Id at 1347.

**Ariosa Diagnostics, Inc. v. Sequenom, Inc., 809 F.3d 1282 (Fed. Cir. 2015)(rehearing denied)**

On December 2, 2015, the Federal Circuit denied a petition for rehearing en banc by the patent owner Sequenom. The Federal Circuit panel had held that the claimed method of detecting paternally inherited nucleic acid was unpatentable as a law of nature. The Supreme Court has since denied Sequenom’s writ of certiorari.

Sequenom’s patent at issue covered a noninvasive prenatal diagnosis using a simple blood test that reduces or eliminates the need for the riskier amniocentesis procedure. The district court had granted summary judgment of invalidity under § 101, and the Federal Circuit panel affirmed. The Federal Circuit panel held that there was no “inventive concept” in the
claims since the “inventive” steps of amplifying and detecting were already well known at the time of the invention.

Sequenom’s petition for rehearing was denied by an 11-1 vote based on Mayo. Judge Dyk, concurring in the denial of the petition for rehearing, wrote about his concerns regarding Mayo’s “restrictive test for patent eligibility” and called for “further illumination as to the scope of Mayo.” Id at 1287. Judge Lourie, with whom Judge Moore joined in concurring, wrote about how “it is unsound to have a rule that takes inventions of this nature out of the realm of patent-eligibility on grounds that they only claim a natural phenomenon plus conventional steps, or that they claim abstract concepts.” Id. Judge Newman dissented and stated that she “agree[d] with [her] colleagues that this case [was] wrongly decided,” but did “not share their view that this incorrect decision [was] required by Supreme Court precedent” since the “facts of this case diverge[d] significantly from the facts and rulings in Mayo.” Id at 1293.


On July 5, 2016, the Federal Circuit vacated and remanded a decision from the Northern District of Illinois granting summary judgment of invalidity. The patent covers a method of preserving liver cells through multiple freeze-thaw cycles.

The opinion written by Chief Judge Prost first determined that the inquiry need not extend past step one of the Mayo/Alice test, as the claims were not directed to a law of nature, but rather to “a new and useful laboratory technique for preserving hepatocytes [liver cells].” Id at 4. The Court emphasized that “[t]he inventors certainly discovered the cells’ ability to survive multiple freeze-thaw cycles, but that is not where they stopped, nor is it what they patented.” Id. The Court then distinguished these claims from other recent cases by stating that here “[t]he end result… is not simply an observation or detection” but rather “a better way of preserving hepatocytes.” Id. It then emphasized that to hold these claims patent-ineligible “would [be to]
find patent ineligible methods of, say, producing a new compound … treating cancer with chemotherapy … or treating headaches with aspirin.” Id.

**Enfish, LLC v. Microsoft Corp., 822 F.3d 1327 (Fed. Cir. 2016)**

In a May 12, 2016 opinion authored by Judge Hughes, the Federal Circuit reversed the district court’s summary judgment based on § 101, vacated summary judgment based on § 102, and found no error in the district court’s determination of noninfringement. The Federal Circuit held that the claims at issue were not directed to an abstract idea.

The district court had found all claims invalid under § 101, concluding that the claims were directed to the abstract idea of “organizing information using tabular formats.” Id at 1337. The Federal Circuit first stated that it “did not read Alice to broadly hold that all improvements in computer-related technology are inherently abstract and, therefore, must be considered at step two.” Id at 1335. The Court then found that the first step in the Alice inquiry was “whether the focus of the claims is on the specific asserted improvement in computer capabilities or, instead, on a process that qualifies as an ‘abstract idea’ for which computers are invoked merely as a tool.” Id at 1336. It found that “the claims at issue in this appeal [were] not directed to an abstract idea” but rather “directed to a specific improvement to the way computers operate.” Id. This was supported “by the specification’s teachings that the claimed invention achieves other benefits over conventional databases, such as increased flexibility, faster search times, and smaller memory requirements.” Id at 1337. Because the claims were not directed to an abstract idea, the Court did not need to consider step two of the Alice analysis.
On June 27, 2016, the Federal Circuit, in an opinion authored by Judge Chen, vacated the district court’s order dismissing Bascom’s complaint and remanded for further proceedings. The Court held that under FRCP 12(b)(6) there was nothing of record that refuted the allegation that “the inventive concept [could] be found in the ordered combination of the claim limitations that transform the abstract idea of filtering content into a particular, practical application of that abstract idea.” *Id* at 4.

Bascom’s patent disclosed a filtering system installed on an ISP server that allows for customized filtering of websites for each user. The district court found that the claims were directed to the abstract idea of “filtering content,” each limitation was “well-known,” and the limitations in combination were not inventive because filtering elements “[were] well-known prior art.” *Id*.

The Federal Circuit reviewed the district court’s determination of patent-eligibility de novo under *Mayo*. The Federal Circuit agreed with the district court that filtering content is an abstract idea. The court differentiated this case from *Enfish*, because the claims in that case “were unambiguously directed to an improvement in computer capabilities.” *Id* at 5. The Court then turned to the second step of the *Mayo* analysis and searched for an “inventive concept,” either in the individual claim limitations or in the ordered combination of the limitations. The Court found that individually, the claims “recite[d] generic computer, network and Internet components, none of which [were] inventive by itself.” *Id* at 6. However, the Court found that the ordered combination of limitations did rise to an “inventive concept” since the “design gives the filtering tool both the benefits of a filter on a local computer and the benefits of a filter on the ISP server.” *Id* at 6. The Court emphasized that “the claimed invention represents a ‘software-based invention[] that improve[s] the performance of the computer system itself.’” *Id* at 7.
On September 18, 2015, in an opinion by Chief Judge Prost, the Federal Circuit sitting en banc held that laches remains a viable defense to patent infringement, notwithstanding the Supreme Court’s *Petrella* decision.

SCA brought suit against First Quality for infringing its patent on adult incontinence products. SCA had previously contacted First Quality about its ‘646 patent seven years prior to this suit. First Quality moved for partial summary judgment of laches and equitable estoppel. The district court granted the motion, SCA appealed and a panel of the Federal Circuit affirmed the opinion on laches, but reversed as to equitable estoppel. SCA filed a petition for rehearing en banc, asking the court to reconsider laches in light of *Petrella*. In *Petrella* the Supreme Court had held “that laches is no defense to a copyright infringement suit brought within the Copyright Act’s statutory limitations period.” *Id* at 1319.

The en banc Federal Circuit first determined that the question in *Petrella* was “whether Congress has prescribed a time period for recovery of damages.” *Id* at 1321. The majority decided that Congress had codified a laches defense in the patent statute in § 282(b), as “§ 282 uses inclusive language, the legislative history characterizes § 282 as ‘broader’ and ‘general,’ and the Federico Commentary explicitly states that § 282 includes laches." *Id* at 1323. The Federal Circuit also determined that “case law strongly supports the availability of laches to bar legal relief.” *Id* at 1328. Finally, the Court emphasized that where “copyright infringement requires evidence of copying … innocence is no defense to patent infringement.” *Id* at 1330.

But please stay tuned; the Supreme Court has granted *certiorari*.

**Lexmark Int'l, Inc. v. Impression Products, Inc., 816 F.3d 721 (Fed. Cir. 2016)**

On February 12, 2016, the Federal Circuit sitting en banc reversed the district court’s judgment of noninfringement for returned printer cartridges first sold in the United States and
affirmed the district court’s judgment of infringement as to the cartridges first sold abroad. The majority opinion, authored by Judge Taranto, held that “when a patentee sells a patented article under otherwise-proper restrictions on resale and reuse communicated to the buyer at the time of sale, the patentee does not confer authority on the buyer to engage in the prohibited resale or reuse.” Id at 735. Furthermore, it held that “a foreign sale of a U.S.-patented article, when made by or with the approval of the U.S. patentee, does not exhaust the patentee’s U.S. patent rights in the article sold, even when no reservation of rights accompanies the sale.” Id at 755.

Lexmark sold its patented printer cartridges in the United States with express single-use/no resale restrictions. Lexmark also sold some of its cartridges abroad with and without the restrictions. Impression acquired the cartridges and resold them in the United States after modification to enable re-use, in violation of Lexmark’s restrictions.

The en banc Federal Circuit considered whether patent exhaustion remained good law. More specifically, the Federal Circuit determined whether the Supreme Court’s decision in Quanta had stripped the Federal Circuit’s decision in Mallinckrodt of its controlling force and whether Kirtsaeng had done the same to Jazz Photo. The Federal Circuit determined that Quanta did not overrule Mallinckrodt since Quanta did not address a sale by a patentee or a sale made with restrictions. Furthermore, the Court determined that Kirtsaeng did not overrule Jazz Photo since Kirtsaeng, a copyright case, did not address patent law issues, and did not address whether a foreign sale confers authority to engage in otherwise infringing domestic activities. Therefore, the Federal Circuit concluded that its prior precedents on patent exhaustion remained good law.

A cert. petition has been filed and the Supreme Court has asked the Solicitor General to weigh in on whether certiorari is appropriate.
Immersion Corp. v. HTC Corp., __ F.3d __, 2016 WL 3408017 (Fed. Cir. 2016)

On June 21, 2016, in a 3-0 decision authored by Judge Taranto, the Federal Circuit reversed the district court’s decision to grant summary judgment of invalidity. The Federal Circuit held that § 120 “must be read as using a ‘day’ as the unit of time for determining beforeness” and therefore filing and patenting were deemed to occur within the same day. Id at 6.

Immersion filed suit against HTC for infringement. Immersion had filed a continuation application on the same day that the parent application had issued. HTC argued, and the district court agreed, that the patent that resulted from the continuation application was not entitled to the parent’s priority date because it was not “filed before patenting.” Id at 2.

The Federal Circuit first determined that the language of § 120 “does not by its terms answer the question” and that the “language does not say that the unit of time is a day, as opposed to some smaller unit.” Id at 3. Next, the Court looked at other sections of the Patent Act and its history. It found that federal courts and the Patent Office followed Godfrey’s rule, which had a “long-established result approving same-day continuations for priority-date purposes.” Id at 4. It also noted that the MPEP allowed for filing on the “same day or before the patenting of the first application.” Id at 5. Ultimately the Court concluded that “the repeated… judicial and agency interpretations … provide a powerful reason to read section 120 to preserve, not upset, the established position.” Id at 6. The Court also noted that “Congress has done nothing to disapprove… despite having amended section 120 several times.” Id.


On July 11, 2016, the Federal Circuit sitting en banc affirmed the district court’s decision that the asserted claims were not invalid under the on sale bar of § 102(b). In an opinion authored by Judge O’Malley, the Court held that “to be ‘on sale’ under § 102(b), a product must be the subject of a commercial sale or offer for sale, and that a commercial sale is one that
bears the general hallmarks of a sale pursuant to Section 2-106 of the Uniform Commercial Code.” *Id* at 1.

Hospira submitted two Abbreviated New Drug Applications ("ANDAs") and sought FDA approval to sell generic bivalirudin products before the expiration of the patents-in-suit. The patents cover Angiomax, a blood thinner sold by MedCo. However, MedCo, as a small company, did not have its own manufacturing facilities. Instead, MedCo hired Ben Venue Laboratories to manufacture three batches of bivalirudin using the claimed methods. Medco paid Ben Venue for these batches, which were not released for sale to the public until after the patent’s critical date.

Hospira argued that the patents were invalid under the on-sale bar of § 102(b), since the sale by Ben Venue to MedCo prior to the critical date constituted a commercial sale. The district court, under the *Pfaff* two-step framework, concluded that the first prong was not met because the claimed invention was not commercially offered for sale prior to the critical date. Hospira appealed the district court’s decision and a merits panel reversed the decision since "commercial benefit to the inventor" was provided more than a year before a patent application was filed. *Id* at 4.

The Federal Circuit’s en banc decision first provided a brief overview of the development of the on-sale bar, emphasizing how "[f]or many years this court applied a ‘totality of circumstances’ standard in applying the on-sale bar," and how the standard was changed by the Supreme Court two-pronged test under *Pfaff*. *Id* at 7. The Court emphasized how “to be true to *Pfaff* … we must focus on those activities that would be understood to be commercial sales and offers for sale ‘in the commercial community.’” *Id* at 8. To do so, it looked to the Uniform Commercial Code. The Federal Circuit concluded that the transactions could not constitute commercial sales of the patented product and gave three reasons for its ruling: (1) the invention itself was not sold, only manufacturing services were sold to the inventor; (2) the inventor
maintained control of the invention since there was no transfer of title or authorization to sell the product to others; and (3) "stockpiling" of the product, on its own, was not enough.