

Patent Cases To Watch In 2016

By Ryan Davis

Law360, New York (December 24, 2015, 8:37 PM ET) -- The courts are set to hear cases next year that could clear the way for bigger damages in patent cases, provide guidance on patent-eligibility following recent U.S. Supreme Court rulings, and result in more findings of patent exhaustion. Here are some of the cases patent attorneys will be watching in 2016.

Halo Electronics Inc. v. Pulse Electronics Inc. and Stryker Corp. v. Zimmer Inc.

The U.S. Supreme Court agreed in October to review the standard for enhancing damages in patent cases, and if the justices throw out the Federal Circuit's current rules, patent owners could be able to collect much bigger damages awards in many cases.

The Patent Act says simply that judges "may increase the damages up to three times the amount found or assessed," but the Federal Circuit has held that enhanced damages are appropriate only when infringement has been found to be willful and set strict rules on what constitutes willfulness.

In separate cases that the high court is hearing together, Halo and Stryker have urged the high court to discard the Federal Circuit's rules and give judges broad discretion to award triple damages.

They argued that the Federal Circuit's test for awarding enhanced damages is essentially the same as a test that the appeals court once used for awarding attorneys' fees, which the justices threw out in 2014 in a case known as *Octane Fitness*.

The Supreme Court has been perceived as being both opposed to rigid tests in patent law and inclined to make patents more difficult to enforce, which makes it difficult to guess how the case might come out, attorneys say.

"Rigid tests don't fare well at the Supreme Court, and there is certainly some merit to the characterization of the test in *Seagate* as a rigid test," said Steven Auvil of Squire Patton Boggs LLP.

While attorneys' fees can be awarded to either party, a decision relaxing the test for enhanced damages would benefit only patent owners, allowing more of them to seek large damages awards.

"It's pretty difficult to get a finding of willfulness, just like it was difficult to get an exceptional case finding before *Octane*," said Case Collard of Dorsey & Whitney LLP. "If the willfulness standard is loosened, we'll see a lot more allegations of willfulness."

Halo is represented by Craig E. Countryman, Michael J. Kane, William R. Woodford and John A. Dragseth of Fish & Richardson PC.

Stryker is represented by Jeffrey Wall, Austin Raynor, Garrard Beeney and Robert Giuffra Jr. of Sullivan & Cromwell LLP and Sharon Hwang, Deborah Laughton and Stephanie Samz of McAndrews Held & Malloy Ltd.

Pulse is represented by Mark L. Hogge, Shailendra K. Maheshwari, Charles R. Bruton and Rajesh C. Noronha of Dentons.

Zimmer is represented by Donald Dunner of Finnegan Henderson Farabow Garrett & Dunner LLP.

The cases are Halo Electronics Inc. v. Pulse Electronics Inc. et al., case number 14-1513, and Stryker Corp. v. Zimmer Inc., case number 14-1520, in the Supreme Court of the United States.

Ariosa Diagnostics Inc. v. Sequenom Inc.

The full Federal Circuit decided in December not to review a decision invalidating a patent on Sequenom's prenatal DNA test as patent-ineligible because it is directed to a natural phenomenon. The case is widely expected to be appealed to the Supreme Court, which could let the justices refine their position on the hot-button issue of patent-eligibility.

The case is notable because the Federal Circuit conceded that Sequenom's test is a breakthrough innovation that eliminates risky invasive procedures to determine whether a fetus has genetic defects. Nevertheless, the panel held that it cannot be patented under the high court's Mayo and Myriad rulings, which held that inventions involving natural phenomena are not patent-eligible.

Some Federal Circuit judges filed concurring opinions to the denial of en banc review saying they were bound by precedent but felt that those decisions could put undue limits on what is patent-eligible in the life sciences area.

"The court felt that it had to find the patent ineligible, despite the fact that they said it seems like groundbreaking technology," said Michelle Holoubek of Sterne Kessler Goldstein & Fox PLLC. "The path the court is following seems to have put an entire industry at risk of not being able to patent its innovations."

The case is also significant because the Federal Circuit held for the first time that additional steps added to a natural phenomenon in a patent must themselves be new, which "makes it very easy for examiners to reject claims for not being statutory subject matter," said John Iwanicki of Banner & Witcoff Ltd.

"I think the Supreme Court may take up this case if it wants to clarify that the test for statutory subject matter is based on the claim as a whole being new and useful, rather than whether the additional steps are new and useful," he said.

Ariosa is represented by David I. Gindler, Andrei Iancu, Sandra Haberny, Lauren Drake and Josh Gordon of Irell & Manella LLP and Amir A. Naini of Russ August & Kabat.

Sequenom is represented by Michael J. Malecek, Peter E. Root and Aton Arbisser of Kaye Scholer LLP.

The case is Ariosa Diagnostics Inc. et al. v. Sequenom Inc., case number 14-1139, in the U.S. Court of Appeals for the Federal Circuit.

McRo Inc. v. Bandai Namco Games America Inc.

A Federal Circuit panel heard arguments in December in another case dealing with patent-eligibility, this one in the field of software inventions. Since the Supreme Court held in Alice in 2014 that abstract ideas implemented using a computer are not patent-eligible under Section 101 of the Patent Act, scores of software patents have been invalidated, and the McRo case could illustrate what other patents are at risk.

"This is a perfect chance for the Federal Circuit to inject some clarity into 101," said Douglas Nemeč of Skadden Arps Slate Meagher & Flom LLP.

A district court judge ruled that McRo's patents on lip-sync animation technology are invalid under Alice for claiming the abstract idea of using rules to create computer animation. Upholding that ruling would leave many similar software patents open to being invalidated, and a reversal would set guidelines on what types of software is patent-eligible.

"If the Federal Circuit maintains the McRo decision that the claims were not eligible, it would be a huge blow to the software patent industry," Holoubek said.

The district judge used the so-called "point of novelty" test to evaluate the patents, which removes from the claim any element that was known the prior art, reducing the claimed invention to a high-level idea.

The Federal Circuit's decision on whether such an analysis is appropriate for analyzing patents under Alice could set guidelines applicable in other cases, said Felicia Boyd of Barnes & Thornburg LLP.

"It gives the Federal Circuit the opportunity to show the contours of an appropriate analysis of patent-eligibility post-Alice," she said.

McRo is represented by Jeffrey Lamken and Michael Pattillo Jr. of MoloLamken LLP, Mark S. Raskin, Robert A. Whitman and John F. Petršoric of Mishcon de Reya New York LLP, and John Whealan, dean for intellectual property law studies at the George Washington University Law School.

Bandai Namco Games America Inc., Sega of America Inc., Electronic Arts Inc., Disney Interactive Studios Inc., Capcom USA Inc., Neversoft Entertainment Inc., Treyarch Corp., Warner Bros. Interactive Entertainment, Lucasarts, Activision Blizzard Inc. and Infinity Ward Inc. are represented by Sonal N. Mehta of Durie Tangri LLP.

Konami Digital Entertainment Inc. and Square Enix Inc. are represented by Wendy Ray and Benjamin J. Fox of Morrison & Foerster LLP.

Obsidian Entertainment Inc. is represented by Thomas Walling and Andrew Tsu of Spach Capaldi & Waggaman LLP.

Naughty Dog Inc., Sony Computer Entertainment America LLC and Sucker Punch Productions LLC are represented by Beth Larigan, B. Trent Webb and John Garretson of Shook Hardy & Bacon LLP.

Codemasters Inc. is represented by Kevin W. Kirsch, Barry Bretschneider and Jared Brandyberry of BakerHostetler.

Valve Corp. is represented by Jan P. Weir, Theodore J. Angelis, David T. McDonald and Joseph J. Mellema of K&L Gates LLP.

The case is McRo Inc. v. Bandai Namco Games America Inc. et al., case number 15-1080, in the U.S. Court of Appeals for the Federal Circuit.

Lexmark International Inc. v. Impression Products Inc.

The en banc Federal Circuit heard arguments in October in this case to review a rule that overseas sales of a product don't exhaust a patent owner's right to sue in the U.S., and a decision tossing that rule could create new hurdles to patent enforcement.

The Federal Circuit has held since 2001 that only U.S. sales trigger patent exhaustion, but the U.S. Supreme Court ruled in a 2013 decision known as *Kirtsaeng* that foreign sales exhaust copyrights. The full Federal Circuit took the Lexmark's patent case against printer cartridge reseller Impression to sort out whether *Kirtsaeng* applies equally to patent law.

Expanding patent exhaustion to include non-U.S. sales would effectively weaken patent rights and cause companies to rethink licensing and litigation strategies based on the idea that foreign sales don't exhaust their rights.

For instance, companies that sell products overseas for prices lower than in the U.S. could end up raising those prices to prevent them from being imported and resold in the U.S., said Michael H. Jacobs of Crowell & Moring LLP.

"It would have a big impact on many different business in many different ways," he said.

The case also addresses the separate question of whether patent owners can impose restrictions on the use of patented items after they are sold in order to keep the sale from triggering patent exhaustion. The final resolution of the case may not come in 2016, however, since any decision by the en banc court is likely to be appealed to the Supreme Court, Jacobs noted.

Lexmark is represented by Constantine L. Trela Jr., Robert N. Hochman, Benjamin Beaton and Joshua J. Fougere of Sidley Austin LLP, Timothy C. Meece, V. Bryan Medlock, Jason S. Shull and Audra C. Eidem Heinze of Banner & Witcoff Ltd. and Steven B. Loy of Stoll Keenon Ogden PLLC.

Impression is represented by Edward F. O'Connor and Jennifer H. Hamilton of Avyno Law PC.

The case is Lexmark International, Inc. v. Impression Products Inc., case number 14-1619, in the U.S. Court of Appeals for the Federal Circuit.

Carnegie Mellon University v. Marvell Technology Group Ltd.

In August, the **Federal Circuit slashed** a record \$1.54 billion patent infringement judgment won by Carnegie Mellon against Marvell to \$278 million. However, it ordered a retrial to address whether some

of Marvell's products were subject to patent U.S. patent law, and the case could reshape the operations of many companies.

The case turns on the complex question of exactly what constitutes a sale of a product in the U.S., making it subject to American law. The Federal Circuit suggested that some of the Marvell semiconductor chips for which it vacated damages may have actually been sold in the U.S., even though they were made and delivered overseas, since they were custom-designed in California. It ordered the district court to resolve the issue on remand.

Benjamin Horton of Marshall Gerstein & Borun LLP said he will be watching to see how the district court answers the question of what constitutes a U.S. sale, and the inevitable further appeals. If products made and shipped overseas can be subject to U.S. patent law because they were designed here, chipmakers and other companies could stop doing design work in the U.S., he said.

"If industry is told that doing any design work here could make you susceptible to patent infringement, maybe we'll see changes in how companies structure themselves," he said. "It could drive good-paying, highly skilled jobs outside of the country."

New Pleading Standards Fallout

On Dec. 1, new pleading standards for patent cases took effect, eliminating a rule that allowed plaintiffs to rely on a bare-bones model complaint for patent suits and requiring complaints to demonstrate that the claims are plausible. Attorneys expect numerous decisions in the coming year as judges sort out exactly what that means.

Motions to dismiss patent suits had been rare, since the model complaint made clear what suits had to include. There will likely soon be a spike in such motions, as defendants argue that patent complaints don't comply with the new rules, and the resulting decisions by judges will start to shed light on what constitutes a plausible patent complaint.

The impact of the new standards is "just gigantic," since it is now an open question about what qualifies as an adequate pleading, said Gregory Leighton of Neal Gerber & Eisenberg LLP, who said he worries resolving that question will take a lot of time and money and litigation that will make litigation less efficient.

No one really knows what the standard is, so "now we'll see most defendants say, 'We'll take a stab at saying they haven't pled their case,'" he said.

--Editing by Katherine Rautenberg and Rebecca Flanagan.
