

2020 Patent Law Developments

PTO/Court Patentability; EP SEPs; ITC Update

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September 15, 2020

Agenda

- ❑ Overview and Introductions
- ❑ Patentability Standards as Between the USPTO and the Federal Circuit
- ❑ European Standard Essential Patent Practice Developments
- ❑ International Trade Commission Developments
- ❑ Other Issues to Watch

Do the USPTO and the Federal Courts Agree on Patent Eligibility?



Section 101 - How did we get here?

State Street Bank and Trust Company v. Signature Financial Group, Inc., 149 F.3d 1368, 1373 (Fed. Cir. 1998) - "Today, we hold that the transformation of data, representing discrete dollar amounts, by a machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm, formula, or calculation, because it produces 'a useful, concrete and tangible result' -- a final share price momentarily fixed for recording and reporting purposes and even accepted and relied upon by regulatory authorities and in subsequent trades."

Bilski v. Kappos, 561 U.S. 593 (2010) - Rejecting "machine or transformation test" in favor of **generalizations about abstract ideas**, etc., while affirming invalidity of risk hedging claims as claiming a patent-ineligible "abstract idea"

Mayo v. Prometheus, 566 U.S. 66 (2012) - Finds medical diagnostic claims patent ineligible under § 101 and introduces two-part framework - (1) are claims **directed to a judicial exception (abstract ideas, laws of nature or natural phenomena)**; and (2) do other claim elements amount to **significantly more**?

Berkheimer v. HP Inc., 881 F.3d 1360 (Fed. Cir. 2018) - "The question of whether a claim element or combination of elements is well-understood, routine and conventional to a skilled artisan in the relevant field is **a question of fact**. **Any fact**, such as this one, that is **pertinent to the invalidity conclusion must be proven by clear and convincing evidence**."

In re Bilski, 545 F.3d 943 (Fed. Cir. 2008) - Rejecting *State Street* test for § 101 subject matter eligibility in favor of "machine or transformation test," while rejecting claims under § 101: "In essence, the claim is for a method of hedging risk in the field of commodities trading."

Federal District Courts begin to routinely invalidate claims under *Bilski*; USPTO begins to routinely reject claims under *Bilski*

Alice Corp. v. CLS Bank Int'l, 573 U.S. 208 (2014) - While invalidating a patent covering intermediate settlement, Supreme Court **reiterates Mayo framework** of (1) are claims **directed to "patent-ineligible concept"**; (2) if so, is there an "**inventive concept**" that preserves patentability



Andrei Iancu
nominated director of
USPTO (2017)

USPTO Issues *Berkheimer* Memo (April 2018) and *Subject Matter Eligibility Guidance* (January 2019), **significantly reducing § 101 rejections at the USPTO**

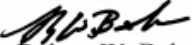
1998 2008 2010 2012 2014 2016 2018 2020

USPTO Berkheimer Memo

MEMORANDUM

DATE: April 19, 2018

TO: Patent Examining Corps

FROM: 
Robert W. Bahr
Deputy Commissioner
for Patent Examination Policy

SUBJECT: Changes in Examination Procedure Pertaining to Subject Matter Eligibility, Recent Subject Matter Eligibility Decision (*Berkheimer v. HP, Inc.*)

II. Well-Understood, Routine, Conventional Activity: While the *Berkheimer* decision does not change the basic subject matter eligibility framework as set forth in MPEP § 2106, it does provide clarification as to the inquiry into whether an additional element (or combination of additional elements) represents well-understood, routine, conventional activity. Specifically, the Federal Circuit held that “[w]hether something is well-understood, routine, and conventional to a skilled artisan at the time of the patent is a factual determination.” *Id.* at 1369.

III. Impact on Examination Procedure: This memorandum revises the procedures set forth in MPEP § 2106.07(a) (Formulating a Rejection For Lack of Subject Matter Eligibility) and MPEP § 2106.07(b) (Evaluating Applicant’s Response).

A. Formulating Rejections: In a step 2B analysis, an additional element (or combination of elements) is not well-understood, routine or conventional **unless the examiner finds, and expressly supports a rejection in writing** with, one or more of the following:

1. A citation to an express statement in the specification or to a statement made by an applicant during prosecution that demonstrates the well-understood, routine, conventional nature of the additional element(s).

2. A citation to one or more of the court decisions discussed in MPEP § 2106.05(d)(II) as noting the well-understood, routine, conventional nature of the additional element(s).

3. A citation to a publication that demonstrates the well-understood, routine, conventional nature of the additional element(s). An appropriate publication could include a book, manual, review article, or other source that describes the state of the art and discusses what is well-known and in common use in the relevant industry.

4. A statement that the examiner is taking official notice of the well-understood, routine, conventional nature of the additional element(s). This option should be used **only** when the examiner is certain, based upon his or her personal knowledge, that the additional element(s) represents well-understood, routine, conventional activity

- Under the *Berkheimer* Memo, patent examiners are explicitly required to provide evidentiary support for Step 2B (*Alice/Mayo* step 2) of the *Alice/Mayo* analysis.
- Prior to the *Berkheimer* memo, rejections were typically cursory and not subject to challenge as a practical matter.

USPTO 2019 Patent Subject Matter Eligibility Guidance

DEPARTMENT OF COMMERCE

United States Patent and Trademark Office

[Docket No. PTO-P-2018-0053]

2019 Revised Patent Subject Matter Eligibility Guidance

AGENCY: United States Patent and Trademark Office, Commerce.

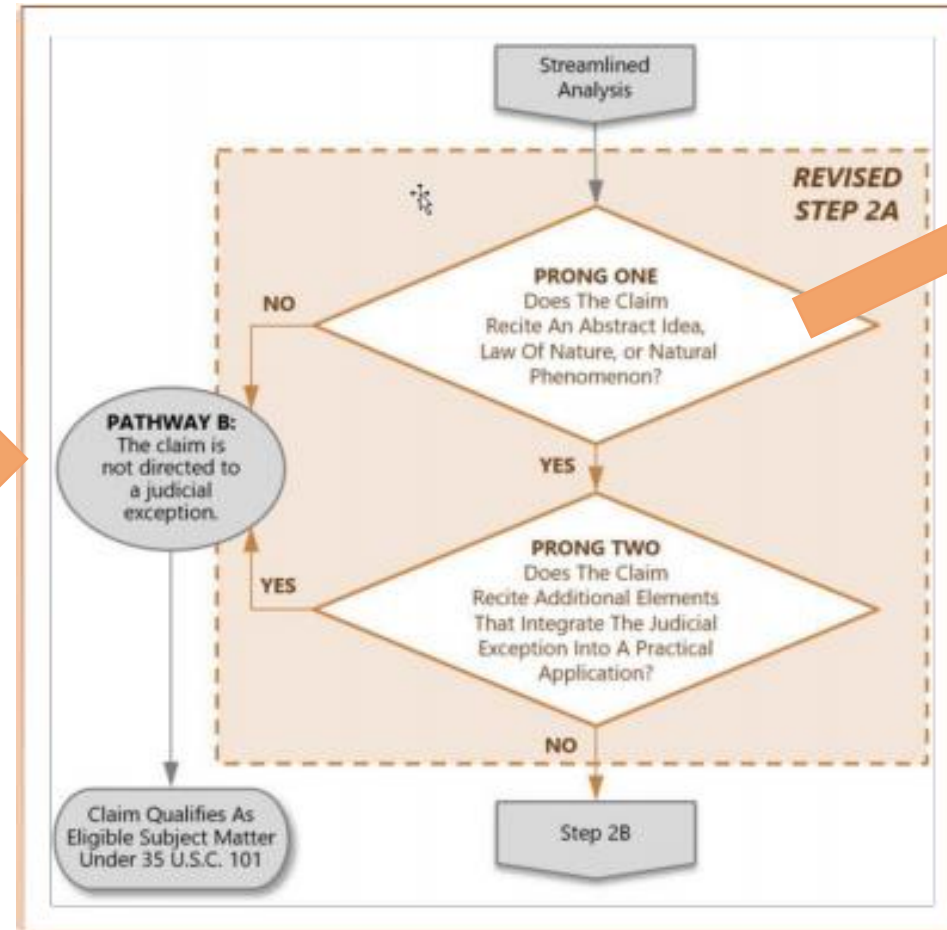
ACTION: Examination Guidance; Request for comments.

A. Revised Step 2A

1. Prong One: Evaluate Whether the Claim Recites a Judicial Exception

2. Prong Two: If the Claim Recites a Judicial Exception, Evaluate Whether the Judicial Exception Is Integrated Into a Practical Application

- Step 2A = *Mayo/Alice* Step 1
- This approach substantially restricts available grounds for rejection and requires a more detailed showing by the patent examiner.



The USPTO, therefore, aims to clarify the analysis. In accordance with judicial precedent and in an effort to improve consistency and predictability, the 2019 Revised Patent Subject Matter Eligibility Guidance extracts and synthesizes key concepts identified by the courts as abstract ideas to explain that the abstract idea exception includes the following groupings of subject matter, when recited as such in a claim limitation(s) (that is, when recited on their own or per se):

(a) Mathematical concepts—mathematical relationships, mathematical formulas or equations, mathematical calculations;¹²

(b) Certain methods of organizing human activity—fundamental economic principles or practices (including hedging, insurance, mitigating risk); commercial or legal interactions (including agreements in the form of contracts; legal obligations; advertising, marketing or sales activities or behaviors; business relations); managing personal behavior or relationships or interactions between people (including social activities, teaching, and following rules or instructions);¹³ and

(c) Mental processes—concepts performed in the human mind¹⁴ (including an observation, evaluation, judgment, opinion).¹⁵

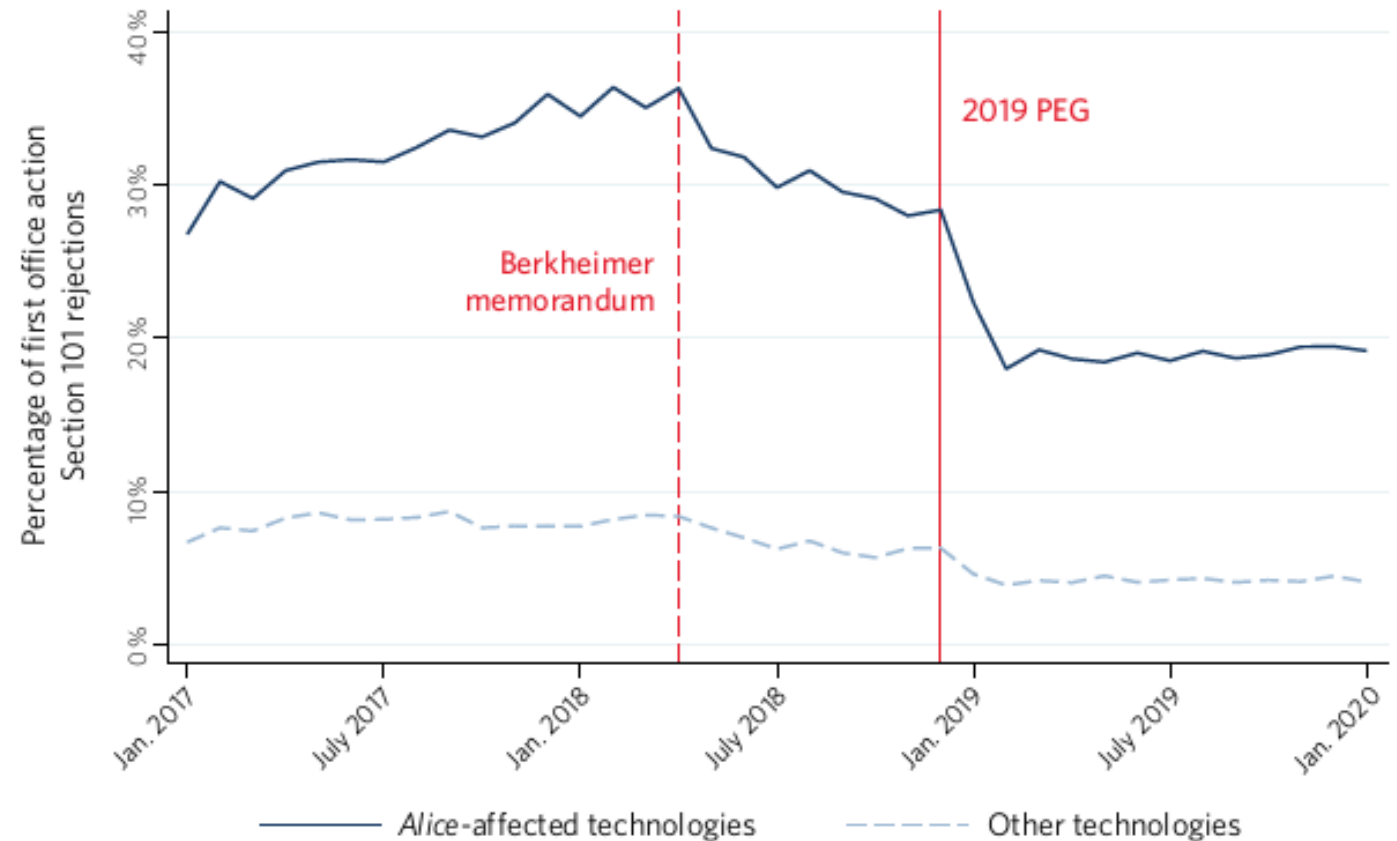
• Available at - <https://www.govinfo.gov/content/pkg/FR-2019-01-07/pdf/2018-28282.pdf>;

• See also 2019 October Update - https://www.uspto.gov/sites/default/files/documents/peg_oct_2019_update.pdf

Effect of Changes to USPTO Practices

- Initial rejection rates under § 101 have dropped across all technology areas, and most notably, in "Alice-affected technologies"
- Following the *Berkheimer* Memo, rates dropped by 6-8% in Alice-affected technologies
- Following the 2019 Patent Eligibility Guidelines, rejection rates in these areas dropped another 8-10%
- Patent examiners now have to make a much stronger showing under Step 2A (abstract idea, etc.) under the 2019 PEG and Step 2B (inventive concept) under *Berkheimer*.

Figure 3: The probability of receiving a first office action with a Section 101 rejection in Alice-affected technologies and in other technologies, Jan. 2017 - Jan.2020.



Note: Patent applications included in this figure are restricted to those filed before January 2019 to minimize any influence of applicant drafting and filing decisions in response to the 2019 PEG.

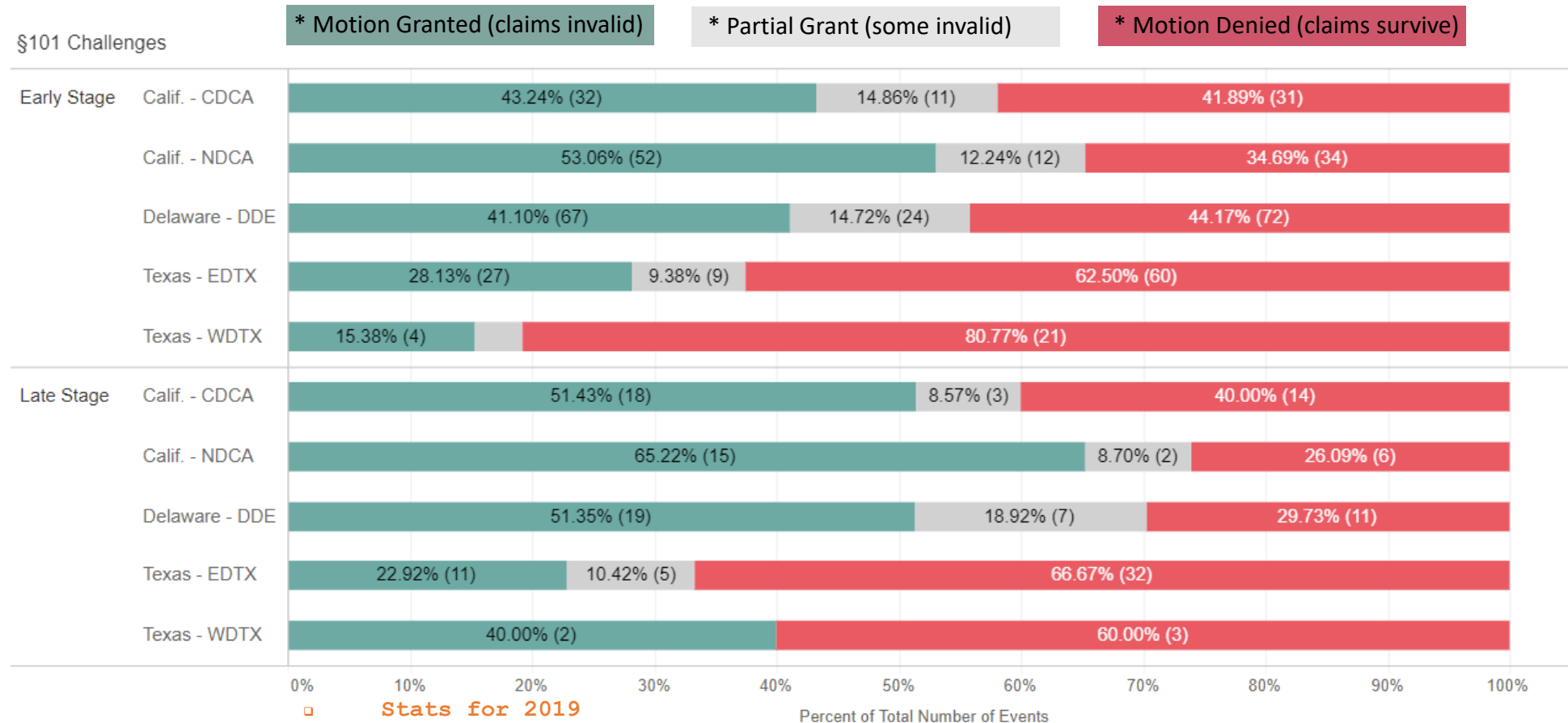
What do the Courts Say?

- ▣ Although the Courts have not expressed disapproval of the USPTO's application of the *Berkheimer* Memo or 2019 Guidance at the USPTO, Courts have noted that they are not bound by these procedures:
 - "The Court acknowledges the similarity of the challenged claims to Example 40 of the United States Patent and Trademark Office's 2019 Revised Subject Matter Eligibility Guidance. (See D.I. 75 Ex. 2) ('PTO Guidance') The PTO Guidance, however, is not binding on the Court. More importantly, the Court concludes that, under binding Supreme Court and Federal Circuit precedent, the claims at issue here are directed to nonpatentable subject matter." *Citrix Sys. v. AVI Networks, Inc.*, 363 F. Supp. 3d 511, n.2 (D. Del. 2019).
 - "Finally, Cleveland Clinic argues that the district court failed to give the appropriate deference to subject matter eligibility guidance published by the PTO, as required by *Skidmore v. Swift & Co.*, 323 U.S. 134, 65 S. Ct. 161, 89 L. Ed. 124 (1944). . . . In its guidance, the PTO advised that, because the [similar example] claim does not 'recite or describe any [ineligible concept],' it is not directed to a natural law and is eligible under § 101. J.A. 1163. We agree with True Health that the district court did not err in finding the instant claims ineligible. While we greatly respect the PTO's expertise on all matters relating to patentability, including patent eligibility, we are not bound by its guidance. And, especially regarding the issue of patent eligibility and the efforts of the courts to determine the distinction between claims directed to natural laws and those directed to patent-eligible applications of those laws, we are mindful of the need for consistent application of our case law." *Cleveland Clinic Found. v. True Health Diagnostics LLC*, 760 Fed. Appx. 1013, 1020 (Fed. Cir. Apr. 21, 2019).

District Courts & Berkheimer

- Prior to Berkheimer, most District Courts were deciding § 101 challenges early (with 12(b)(6) motions)
- Post-Berkheimer, Courts are somewhat more likely to wait until summary judgment to decide § 101

- § 101 grant rates still appear to be jurisdiction dependent
- As expected, N.D. Cal. grants most § 101 motions; Texas courts the fewest
- W.D. Tex. appears to follow the Berkheimer framework, with more § 101 grants at summary judgment



Recent Fed. Cir. § 101 Decision - American Axle

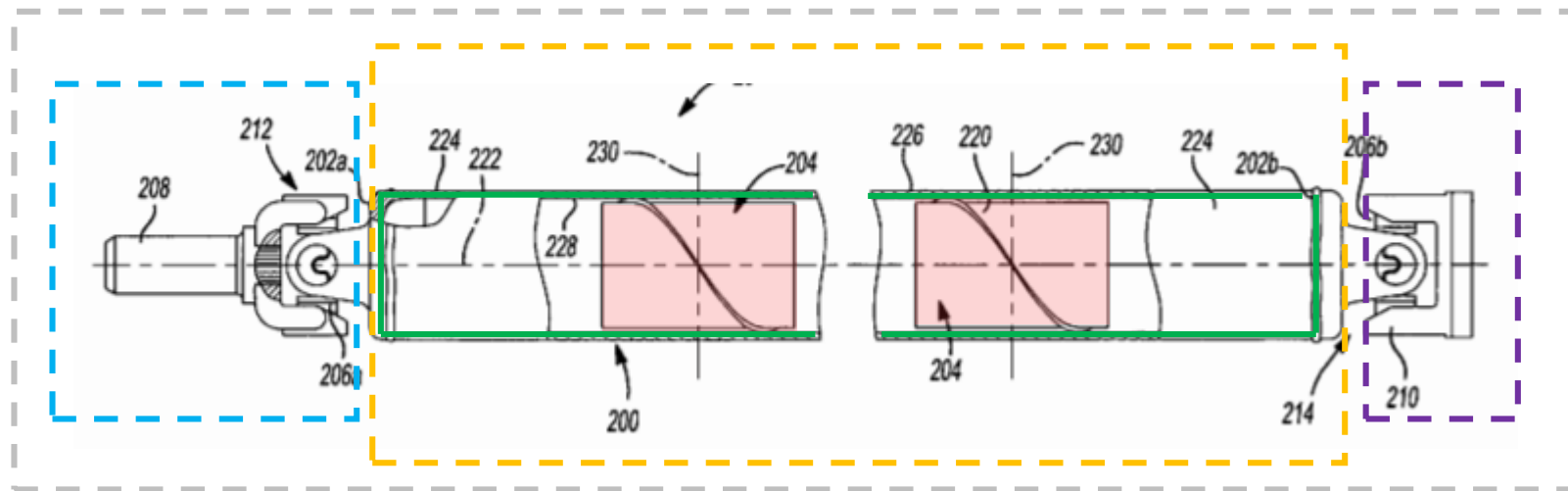
22. A method for manufacturing a shaft assembly of a driveline system, the driveline system further including a first driveline component and a second driveline component, the shaft assembly being adapted to transmit torque between the first driveline component and the second driveline component, the method comprising:

providing a hollow shaft member;

tuning a mass and a stiffness of at least one liner; and

inserting the at least one liner into the shaft member;

wherein the at least one liner is a tuned resistive absorber for attenuating shell mode vibrations and wherein the at least one liner is a tuned reactive absorber for attenuating bending mode vibrations.



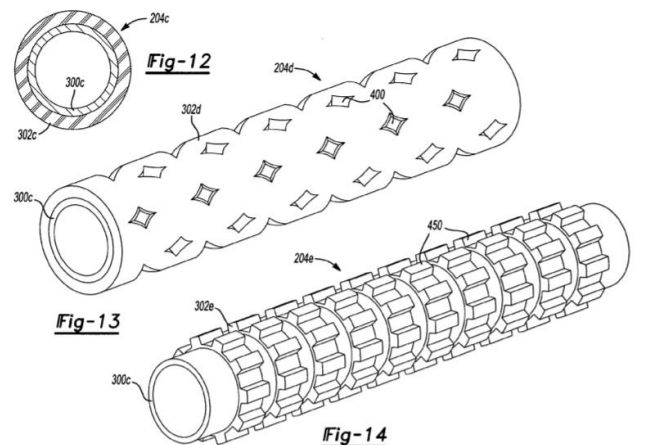
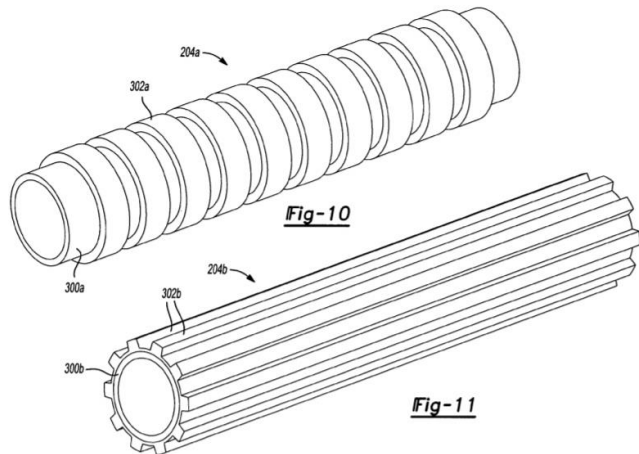
Recent § 101 Decision – American

Axle

- Federal Circuit affirmed District Court decision that claim was invalid under § 101
 - “Tuning a mass and stiffness of at least one liner” was a simple application of Hooke’s Law
 - Court seemed concerned that the wherein clause simply claimed a result of using Hooke’s law without claimed detail – “wherein the at least one liner is a tuned resistive absorber for attenuating shell mode vibrations and wherein the at least one liner is a tuned reactive absorber for attenuating bending mode vibrations”

- Vehement dissent from Judge Moore: (1) all claims make use of natural laws;

“Goodness sakes, the dependent claims held claim Hooke’s Law, (2) the Court imprudently by the majority specify the material the liner must be made of (cardboard or plastic or fiberglass or metal (claim 31)) and need not describe certain shapes. (4) the Court ignored actual physical principles and shapes. (5) the Court would have passed muster under the obviousness test if the claims were properly positioned (‘symmetrically about a bending anti-node’ (claims 34, 35)).” (Moore, J., at pp. 21-22 of dissent)



Recommendations for Patentees

□ Prosecution

- Problem/solution approach to patent specification drafting
- Avoid functional claiming or at least include alternative scope in other independent claims
- Argue dependent claims and focus on examiner burden
- Whatever the USPTO may allow, prosecute at least some litigation-ready independent claims
- Leave continuations open to be able to adjust to changing legal landscape

□ Litigation

- Take advantage of *ex parte* reexamination and reissue to proactively revise claim scope and address § 101 issues – for example, remove § 101 patent profanity (functional claiming, financial terms in claims, etc.) and tie claim language to specific technology improvements from specification
- As a patentee, avoid providing a basis for a Declaratory Judgment

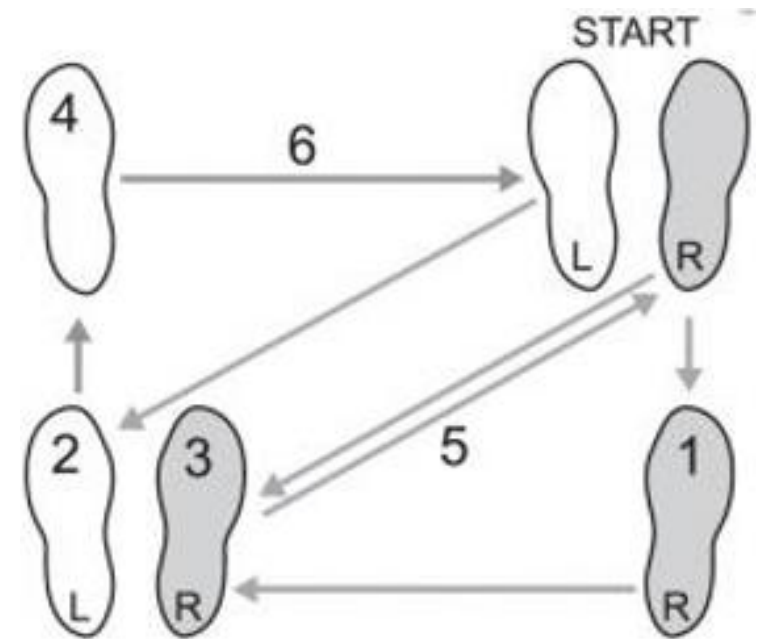
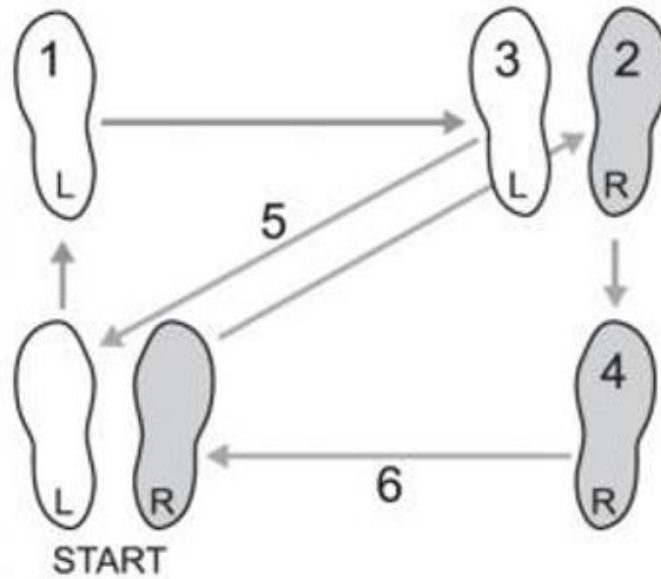
So Where Are We on § 101?

- ❑ The battle rages on, with no resolution likely anytime soon
- ❑ USPTO Guidance and practices can be changed with a change in Director
- ❑ Different District Courts are giving § 101 wildly divergent treatment, both substantively and procedurally
- ❑ The Federal Circuit declined to rehear *American Axle en banc*, with a 6-6 split
- ❑ Supreme Court recently



Good Luck!

New Steps in the EP SEP Dance.

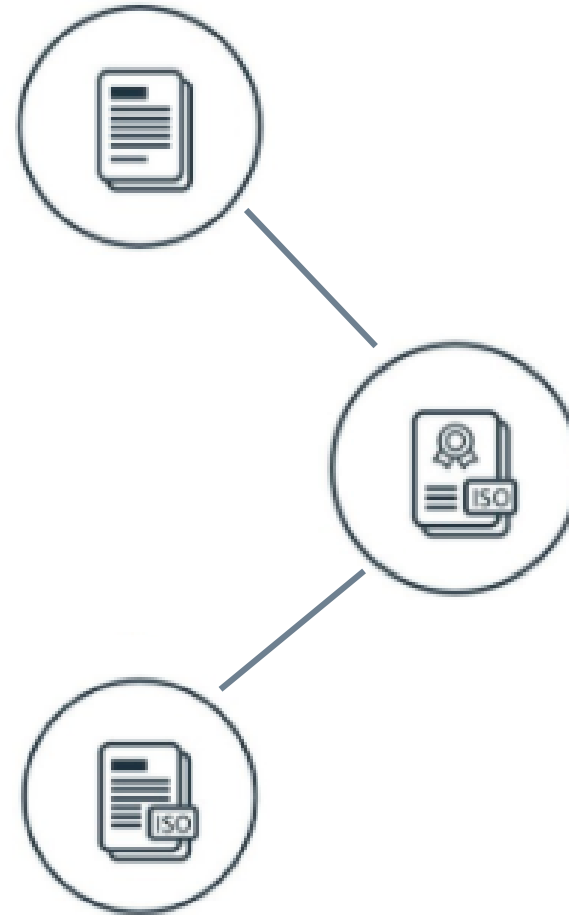


Summary

- ❑ What is an SEP and why are they important?
- ❑ German Federal Court of Justice FRAND Judgment in *Sisvel v. Haier*
- ❑ UK Supreme Court Rules on Global FRAND Licensing Powers of UK Courts in *Unwired Planet v. Huawei*
- ❑ So, what now...

What is an SEP and why are they important?

- 90 Million patents worldwide



- 280,000 SEPs
- Infringed by any implementation of the standard**

- 4 Million standards across industries

Standard-Setting Organisations develop rules and practices to ensure the efficient licensing of patents that are essential

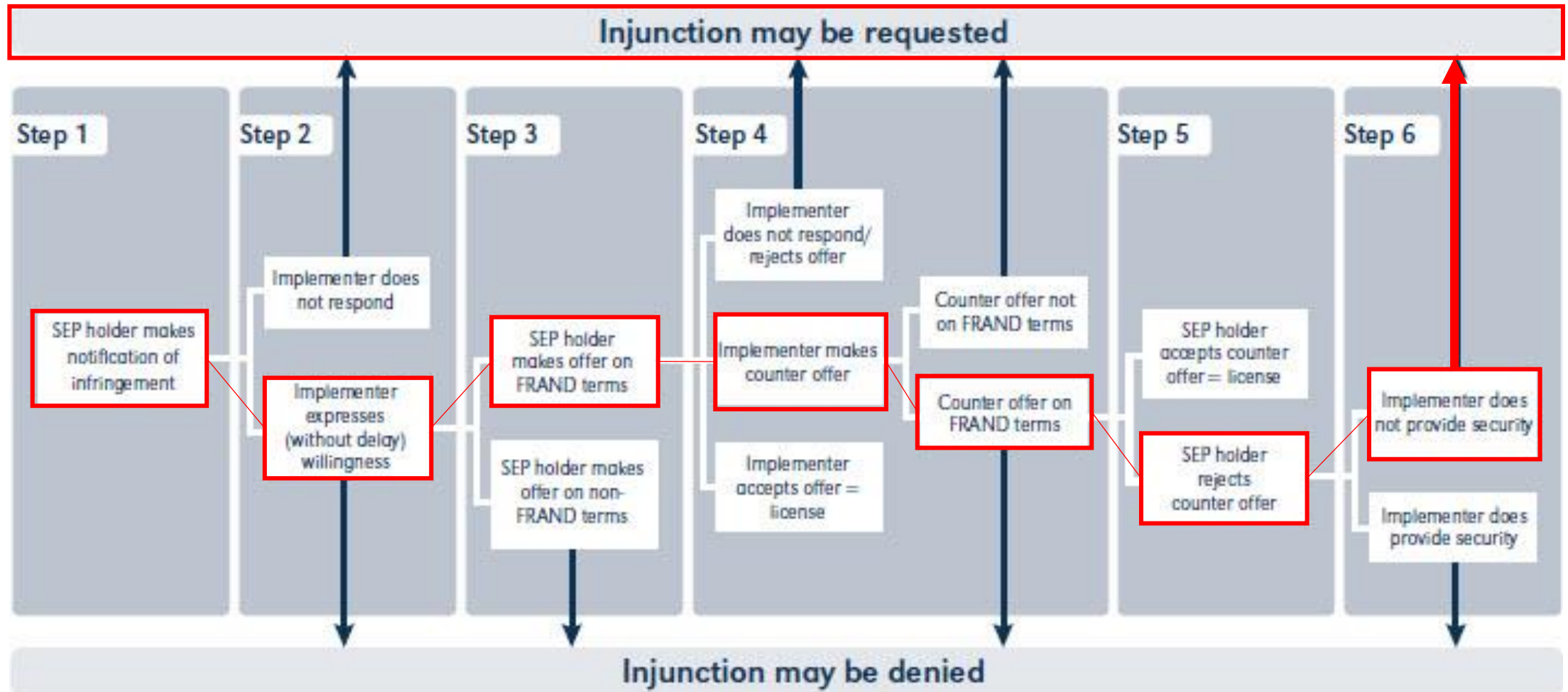
FRAND controversy

- ❑ SSO members must commit to licensing their SEPs on Fair, Reasonable and Non-Discriminatory (FRAND) terms
- ❑ These commitments are meant to protect technology implementers while ensuring that patent holders receive an appropriate reward for their investments
- ❑ But, what exactly are FRAND terms...?
- ❑ Struggling for consensus on:
 - conditions for using **injunctive relief** against patent infringers
 - appropriate methodology for **determining FRAND royalties**
 - the choice of a relevant **royalty base**

Sisvel v. Haier: Summary

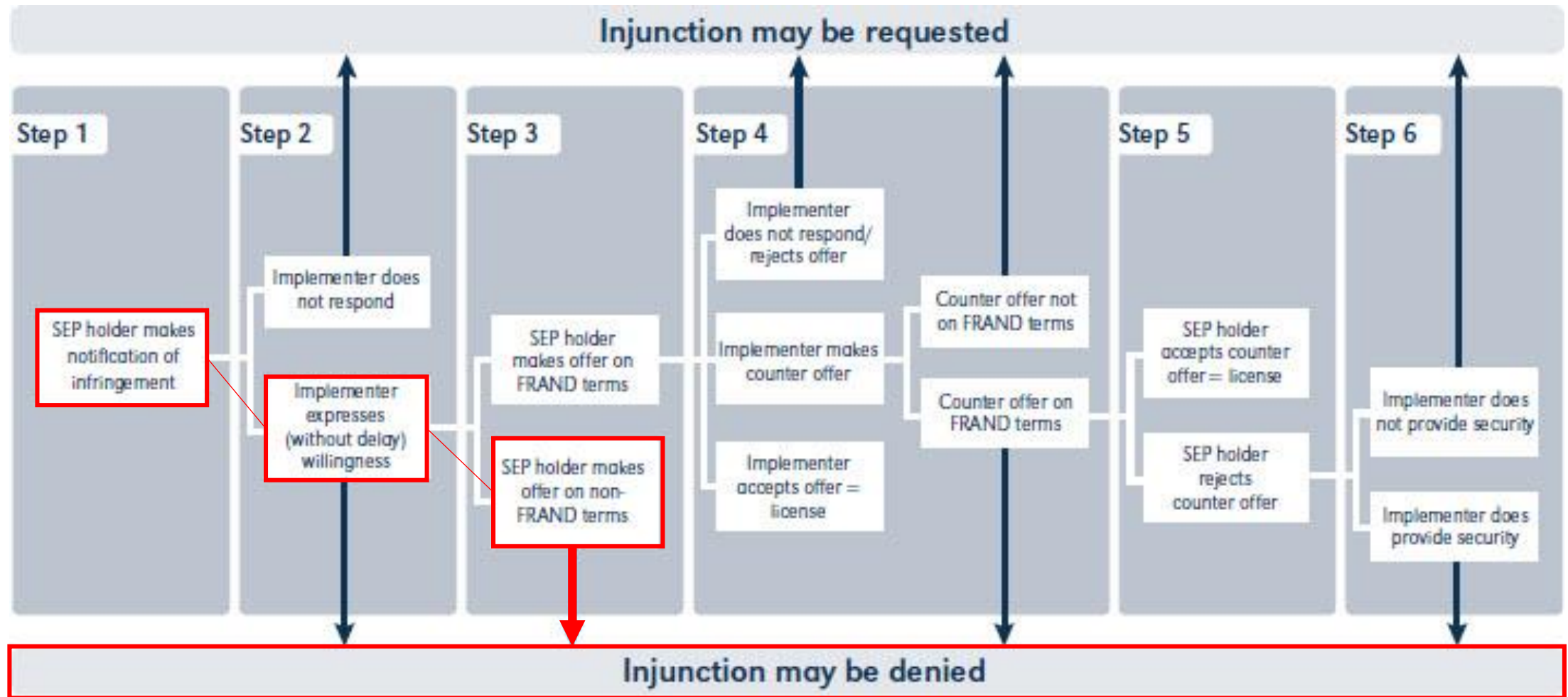
- Previously, under *Huawei/ZTE*, the SEP owner must grant a license to any implementer who has declared its willingness to take a license and **can only seek an injunction if it first makes a FRAND offer to the alleged infringer and the latter fails to diligently respond to that offer**
- FCJ held that the lower court should have granted *Sisvel* an injunction because *Haier* did not express “unconditional willingness” to take a license on FRAND terms
- The Court found that *Haier* employed delaying tactics in its approach to the negotiations and inappropriately conditioned its willingness to license on a court first ruling *Sisvel*’s SEP to be valid and infringed

Sisvel v. Haier: First Instance



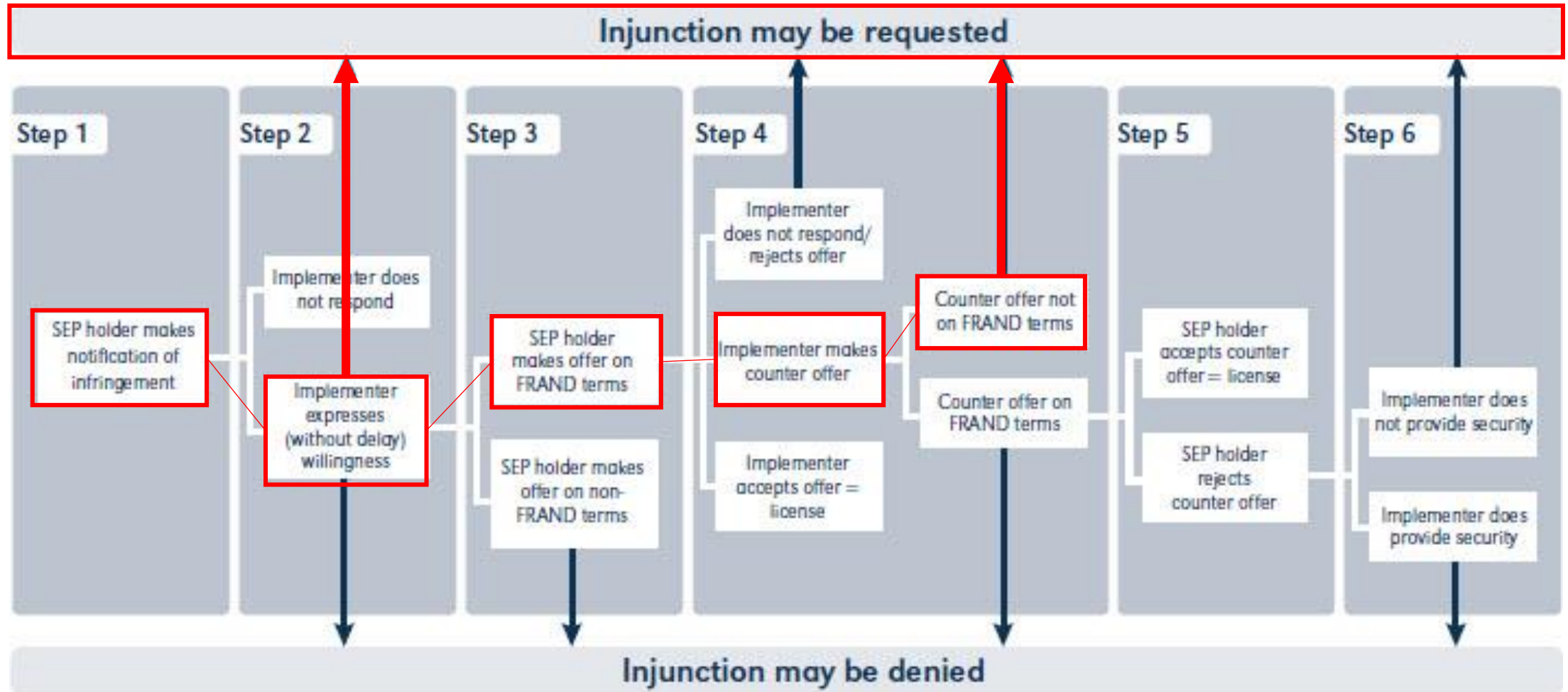
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Sisvel v. Haier: On Appeal by Haier



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Sisvel v. Haier: On Appeal by Sisvel



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Sisvel v. Haier: Implications

- ❑ FRAND terms may be different for different licensees, but differences need to be justified
- ❑ An offer may be FRAND compliant if a portfolio license is offered, rather than licensing SEPs one by one
- ❑ **Increased risk of injunctions against SEP implementers, by:**
 - (i) imposing strict conditions on the obligations of the implementer
 - (ii) relieving the SEP owner of the duty to provide claims charts, and
 - (iii) refusing to apply a “hard-edged” discrimination criterion

Sisvel v. Haier: Practical Advice

- ❑ For a FRAND defense to an injunction to succeed, the implementer should clearly state, **as soon as it receives a notice of infringement, that it is willing to take a license so long as the offer is FRAND and should continue to express such willingness throughout the negotiations**
- ❑ **The implementer should not condition its signing of a license on first resolving validity or infringement proceedings** (though the implementer may still reserve the right to challenge validity and infringement in parallel to, or after, signing a license)

Unwired Planet v. Huawei & Conversant v. Huawei and ZTE: Supreme Court

- 1. Does the English court have the power or jurisdiction:
 - to grant an injunction restraining infringement of a UK SEP unless the defendant enters into a global licence under a multinational patent portfolio
 - to determine the rates/terms for such a licence
 - to declare that such rates/terms are FRAND?
- 2. If the answer to 1. is "yes", is England the proper forum for such a claim in the circumstances of the *Conversant* proceedings?
- 3. What is the meaning and effect of the ND component of the FRAND?
- 4. Does the CJEU's decision in *Huawei v ZTE* mean that an SEP owner is entitled to seek an injunction restraining infringement of those SEPs in circumstances such as those of the *Unwired* case?
- 5. An additional issue raised before the Supreme Court as to whether the Court should grant damages in lieu of an injunction.

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 - to determine the rates/terms for such a licence
 - to declare that such rates/terms are FRAND?
- ❑ **The Supreme Court found that the English Court had power to grant an injunction in respect of UK national patents unless the implementer enters a global licence of a multinational patent portfolio, and determine the terms of that licence.**

Unwired Planet v. Huawei & Conversant v. Huawei and ZTE: Supreme Court

- ❑ 3. What is the meaning and effect of the ND component of the FRAND?
 - “Licence terms should be made available which are “fair, reasonable and non-discriminatory”, **reading that phrase as a composite whole.**”
 - The Court went on to find that a SEP holder has to offer a royalty rate reflecting the value of the SEPs being licensed, and that rate does not cease to be FRAND simply because the SEP holder has previously granted a license on more favourable terms.

Unwired Planet v. Huawei:

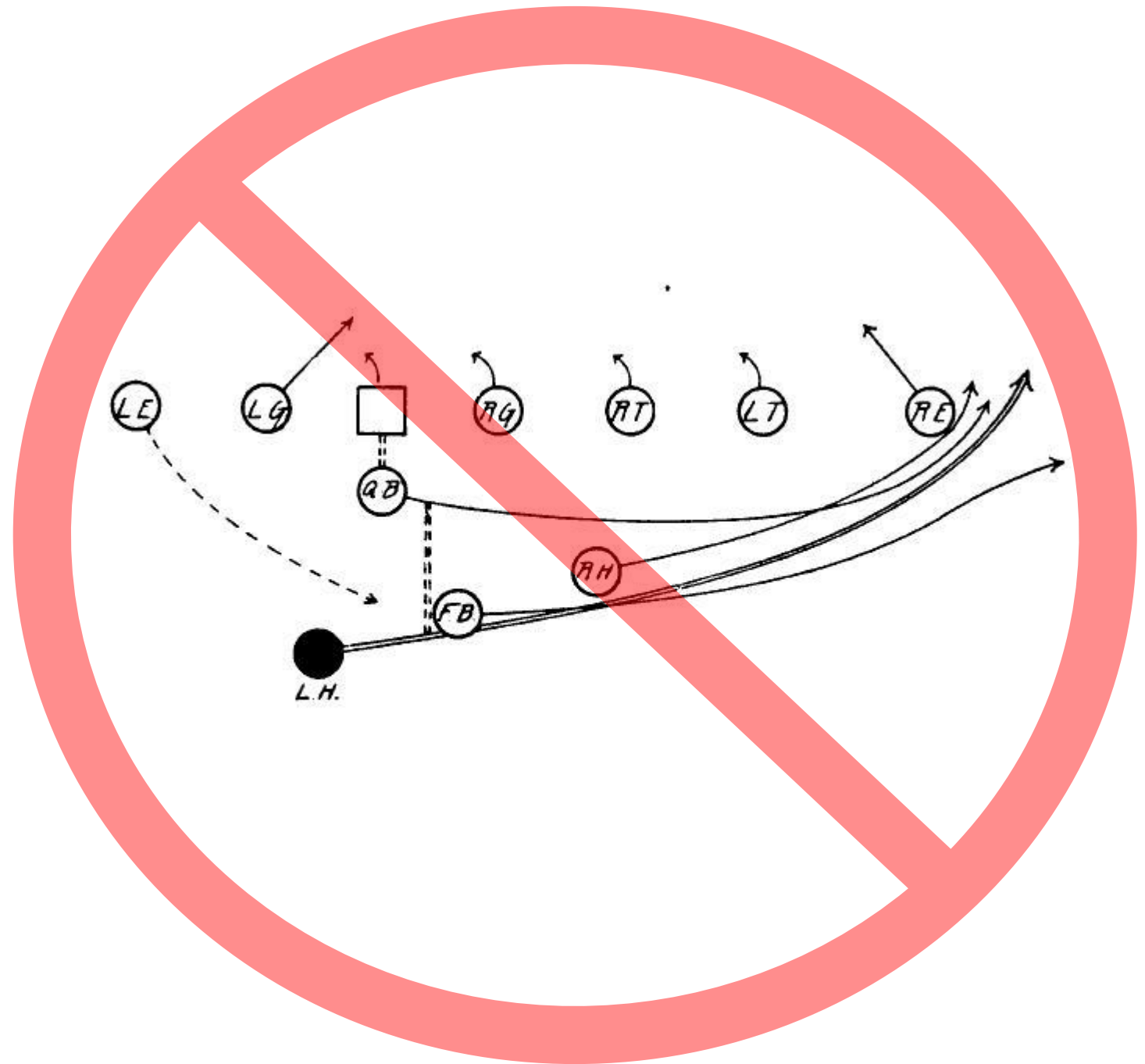
Implications

- ❑ The decision from the Supreme Court is likely to secure the position of the UK as a forum of choice for SEP holders wishing to secure their rights, as a global licence may be secured without the requirement for infringement proceedings in a large number of jurisdictions
- ❑ The decision also provides some information on how FRAND terms may be established, for example, considering the global situation rather than just the national situation
- ❑ FRAND applies to process as well as outcomes
- ❑ It is possible to offer bespoke licences at lower rates where economically rational and commercially important, e.g. for a first mover advantage

Unwired Planet v. Huawei: Practical Advice

- ❑ From the position of implementers, a primary consideration may be whether to attempt to obtain a licence quickly at a reasonable rate
- ❑ There is no obligation on the part of SEP holders to match previous offers
- ❑ How to respond if sued? If the terms offered by an SEP holder for a global licence are unreasonable, there may be some benefit in having the courts determine FRAND terms (as the courts have now demonstrated willingness to do)
- ❑ Simply accept a UK injunction...?

End runs
around the
ITC.



International Trade Commission

- Administrative Court
- Administers enforcement of 19 U.S.C. § 337
- Increasingly well known
- Gained popularity post-eBay
- Requires a “domestic industry”

B

“Importer” under Section 337

Section 337 prohibits the “importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that” infringe a valid patent. 19 U.S.C. § 1337(a)(1)(B)(i). **Whether a party is an importer**

Suprema v. ITC – Federal Court 2015 *En Banc*

Case History

- Fingerprint scanning technology; manufactured in Korea by Suprema, imported, and assembled in the US by Mentalix (who directly infringed).
- Suprema's scanners and software development kits (SDKs) are capable of substantial non-infringing use – whether they embody the asserted claims was completely dependent on how they are integrated with domestically developed software after importation.
- The Commission found that Suprema willfully blinded itself to the existence of the '344 patent and "deliberately shielded itself from the nature of the infringing activities it actively encouraged and facilitated Mentalix to make." Issued an exclusion order.
- But, in 2013, the Fed. Cir. found the Commission lacked authority to issue an exclusion order predicated on induced infringement because such imports are *not in an infringing state upon importation*.

2015 *En Banc* Decision

- Suprema committed indirect infringement through willful blindness – deliberately avoiding knowledge of existing IP and failing to consult legal counsel due to the high probability of infringement.
- Determined "articles that infringe" introduced textual uncertainty around inducement and post-importation infringement.
- Concluded that induced infringement of method claims, even post-importation was within the Commission's purview.
- But, the decision was 6-4

Comcast v. ITC – Court of Appeals, Federal Circuit 2020

Comcast's Argument

- **We don't infringe:** The imported X1 set-top boxes are not "articles that infringe" because the boxes do not infringe the patents at the time of importation. At most, the STBs infringe (indirectly) when they are plugged into Comcast's system, on user premises.
- **We're not the importer:** Comcast avoided being the importer of X1 STBs by taking title only after the STBs enter the United States.
- **The actual importers can't be subject to a LEO:** The ITC can't stop ARRIS and Technicolor from importing because an exclusion order is only limited to importers of infringing articles.

Federal Circuit's Decision

- "Section 337 applies to articles that infringe after importation." Undisputed that direct infringement occurs in the U.S. Comcast was so deeply involved in the design, manufacture, importation and delivery: "Comcast's inducing activity took place overseas, prior to importation; it took place at importation; and it took place in the United States, after importation."
- "Comcast's control over the importation of the X1 [STBs]." The "products are designed only for Comcast. ... It is no defense to the violation of a trade statute that Comcast, from the United States, actively induces the infringement by its users as to the imported X1 STBs."
- "The Commission has discretion in selecting a remedy that has a reasonable relation to the unlawful trade practice."

Additional Points versus Comcast

- ❑ *Suprema v. ITC* (Fed. Cir. 2015) established that imported articles may infringe for Sect. 337 purposes even if infringement occurs after importation.
- ❑ Comcast designed the X1 set-top boxes with the intent to be used in an infringing manner, requiring their manufacturers overseas to install software compatible to Comcast servers: "X1 set-top boxes 'are so tailored to Comcast's system and requirements that they would not function within another cable operator's system.'"
- ❑ *Comcast v. ITC* (Fed. Cir. 2020) confirmed *Suprema* and prevents end runs around the ITC.
- ❑ What's next...?

Anything Else
Happen
Recently?



Other Cases and Issues to Follow

□ **Exceptional Case:**

- *Intellectual Ventures I LLC v. Trend Micro Inc.*, 944 F.3d 1380 (Fed. Cir. Dec. 19, 2019)
- *Blackbird Tech LLC v. Health in Motion LLC*, 944 F.3d 910 (Fed. Cir. Dec. 1, 2019)

□ **Marking (§287):**

- *Arctic Cat Inc. v. Bombardier Rec. Prods.*, 950 F.3d 860 (Fed. Cir. Feb. 19, 2020)

HG Haley ■ Guiliano



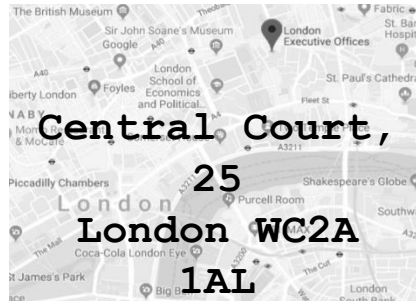
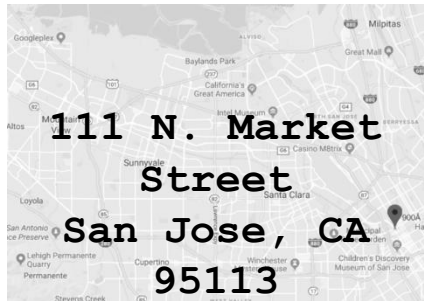
- Partner with HG
- Federal Law Clerk
- Litigation and IP Strategy practice



- EPO Qualified
- Biotech background
- International patent portfolio development



- Lead attorney on \$500M+ in licenses & dozens of litigations
- Chief patent counsel
- Gray Cary, DLA, HG



- 21 attorneys, 10 technical advisors/patent agents, and 23 paralegals/docketers
- 17 professionals with advanced technical degrees
- Technical degrees include computer science, computer engineering, civil engineering, electrical engineering, mechanical engineering, physics,