

TOP SUPREME COURT PATENT CASES FOR THE OCTOBER 2016 TERM RUNNING THROUGH JUNE 2017

Harold C. Wegner^{*}

Rank	Merits Appeals for this Term (<i>cert.</i> granted)
1	<i>Impression Products v. Lexmark</i> , No. 15-1189 International Patent Exhaustion; Merits briefing; argument date not yet set.
2	<i>Samsung v. Apple</i> , No. 15-777 ← decided today Design Patent Infringement; decided December 6, 2016
3	<i>SCA Hygiene v. First Quality Baby Prods</i> , No. 15-927 Laches; awaiting decision (argument Nov. 1, 2016)
4	<i>Life v. Promega</i> , No. 14-1538 Active Inducement under § 271(f)(1) (argument December 6, 2016)

Selected Pending Petitions (awaiting *Cert.* vote)

<i>Google Inc. v. Arendi S A.R.L.</i> , No. 16-626 Obviousness based on “Common Sense”; <i>cert. vote</i> January 6, 2017
<i>Merck & Cie v. Watson Laboratories, Inc.</i> , No. 16-493 Secret sales as prior art (pre-America Invens Act); <i>cert. vote</i> not yet scheduled.

^{*} President, The Naples Roundtable, Inc.TM. The organization is a Sec. 501(c)3 nonprofit organization “Exploring Ways to Strengthen and Improve the Patent System”, <https://www.thenaplesroundtable.org/>.
contact: hwegner@gmail.com.

Recommended Citation: Harold C. Wegner, <i>Top Supreme Court Patent Cases</i> (Dec. 6, 2016), available at “Wegner’s Writings” on the website of the Los Angeles Intellectual Property Law Association: www.laipla.net/category/wegners-writings/

This version December 6, 2016

(1) *Impression Products v. Lexmark* – International Patent Exhaustion

In *Impression Products, Inc. v. Lexmark International, Inc.*, Supreme Ct. No. 15-1189, petitioner challenges the denial of patent exhaustion at the Federal Circuit, *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721 (Fed. Cir. 2016)(en banc)(Taranto, J.).

Status: Certiorari granted December 2, 2016. Briefing underway; oral argument and merits decisions date late in this Term which expires at the end of June 2017.

Questions Presented: “The ‘patent exhaustion doctrine’—also known as the ‘first sale doctrine’—holds that ‘the initial authorized sale of a patented item terminates all patent rights to that item.’ *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 625 (2008). This case presents two questions of great practical significance regarding the scope of this doctrine on which the *en banc* Federal Circuit divided below:

“1. Whether a ‘conditional sale’ that transfers title to the patented item while specifying post-sale restrictions on the article’s use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law’s infringement remedy.

“2. Whether, in light of this Court’s holding in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), that the common law doctrine barring restraints on alienation that is the basis of exhaustion doctrine ‘makes no geographical distinctions,’ a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.”

A Case Always Destined for Supreme Court Review: Remarkably, in the decision below, the majority (Taranto, J., joined by Newman, Lourie, Moore, O'Malley, Reyna, Wallach, Chen, Stoll, JJ.), maintains its broad denial of exhaustion, distinguishing international intellectual property exhaustion in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), maintaining its denial of exhaustion in *Jazz Photo Corp. v. International Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001), and maintaining contractual restrictions to block exhaustion in the questionable *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), and, particularly, distinguishing *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008)

International Patent Exhaustion: Although the *Kirtsaeng* issue is the *second* Question Presented, this appears to have the greater appeal, given the sharp distinction between the Federal Circuit denial of international intellectual property exhaustion versus the Supreme Court grant of international intellectual property exhaustion in the context of copyright law.

Notwithstanding *Kirtsaeng*, the majority “adhere[s] to the holding of *Jazz Photo Corp. v. International Trade Comm’n*, 264 F.3d 1094 (Fed. Cir. 2001), that a U.S. patentee, merely by selling or authorizing the sale of a U.S.-patented article abroad, does not authorize the buyer to import the article and sell and use it in the United States, which are infringing acts in the absence of patentee-conferred authority.” Two members of the Court in dissent “would retain *Jazz Photo* insofar as it holds that a foreign sale does not in all circumstances lead to exhaustion of United States patent rights. But, in my view, a foreign sale does result in exhaustion if an authorized seller has not explicitly reserved the United States patent rights.” *Lexmark*, ___ F.3d at ___, slip op. at 101 (Dyk, J., joined by Hughes, J., dissenting).

Conditional Sales to Avoid Exhaustion: Notwithstanding *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), the same majority “adhere[s] to [its] holding of *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), that a patentee, when selling a patented article subject to a single-use/no-resale restriction that is lawful and clearly communicated to the purchaser, does not by that sale give the buyer, or downstream buyers, the resale/reuse authority that has been expressly denied. Such resale or reuse, when contrary to the known, lawful limits on the authority conferred at the time of the original sale, remains unauthorized and therefore remains infringing conduct under the terms of § 271.” The same dissent “agree[s] with the government that *Mallinckrodt[, Inc. v. Medipart, Inc.]*, 976 F.2d 700 (Fed. Cir. 1992)], was wrong when decided, and in any event cannot be reconciled with the Supreme Court's recent decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008).

(2) *Samsung v. Apple* – Design Patent Infringement

In *Samsung Electronics Co., Ltd. v. Apple Inc.*, No. 15-777 *opinion below*, *Apple Inc. v. Samsung Electronics Co., Ltd.*, 786 F.3d 983 (Fed. Cir. 2015)(Prost, C.J.), the Court *reversed* the Federal Circuit; it held that design patent damages should be limited to profits attributable to a component of a patented design, where the design is applied to only that component.

An excerpt of the opinion is attached at the end of this paper.

Status: Decision December 6, 2016.

Questions Presented: “***The [Federal Circuit] held that a design-patent holder is entitled to an infringer's entire profits from sales of any product found to contain a patented design, without any regard to the design's contribution to that product's value or sales. The *** effect of [this holding] is to reward design patents far beyond the value of any inventive contribution. The questions presented are:

* * *

“2. Where a design patent is applied to only a component of a product, should an award of infringer's profits be limited to those profits attributable to the component?”

Historic First Grant of *Certiorari* in a Design Patent Case: Never since the Evarts Act of 1891 gave the Court discretion whether to accept an appeal has the Court previously issued a merits decision on design patent law. The leading design patent case came a generation before the Evarts Act in *Gorham Co. v. White*, 81 U.S. (14 Wall.) 511 (1871), where an appeal could be taken directly from the trial court as a matter of right. (To be sure, discussion of design patent law is found in *dictum* in *Mazer v. Stein*, 347 U.S. 201, 215-16 (1954)(copyright case discussing design patents)(“ *Gorham Co. v. White*, 81 U.S. (14 Wall.) 511 (1871), interpret[s] the design patent law of 1842, 5 Stat. 544, granting a patent to anyone who by 'their own industry, genius, efforts, and expense, may have invented or produced any new and original design for a manufacture * * *.' A pattern for flat silver was there upheld. The intermediate and present law differs little. 'Whoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefor, * * *' subject generally to the provisions concerning patents for invention. § 171, 66 Stat. 805, 35 U.S.C.A. § 171.”)(footnote omitted).

Federal Circuit Activity in Design Patents: To be sure, the Federal Circuit has had a major *en banc* review of a design patent issue. See *Egyptian Goddess, Inc. v. Swisa, Inc.*, 543 F.3d 665 (Fed. Cir. 2008)(*en banc*)(Bryson, J.).

(3) SCA Hygiene – Laches

SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC, S.Ct. No. 15-927, *opinion below*, 807 F.3d 1311 (Fed. Cir. 2015)(*en banc*), asks whether Federal Circuit patent laches law consistent with the Supreme Court copyright laches case, *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S.Ct. 1962 (2014).

Status: Awaiting decision (argued November 1, 2016).

Question Presented: “In *Petrella v. Metro-Goldwyn-Mayer*, 134 S. Ct. 1962 (2014), the Court held that the defense of laches cannot be used to shorten the three-year copyright limitations period set forth in 17 U.S.C. § 507(b), observing that ‘we have never applied laches to bar in their entirety claims for discrete wrongs occurring within a federally prescribed limitations period.’ 134 S. Ct. at 1974. In reaching its decision, the Court noted that the Federal Circuit follows a contrary rule in the patent setting, applying laches to bar infringement claims accruing within the six-year limitations period prescribed in 35 U.S.C. § 286, but stated: ‘[w]e have not had occasion to review the Federal Circuit’s position.’ *Petrella*, 134 S. Ct. at 1974 n.15 (discussing *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020 (Fed. Cir. 1992) (*en banc*)).

“Following *Petrella*, the Federal Circuit convened en banc in this matter to consider the conflict between *Petrella* and *Aukerman*. All judges of the court agreed that there is “no substantive distinction material to the *Petrella* analysis” between the copyright and patent limitations periods. Pet. App. 18a. Nevertheless, in a 6-5 decision, the court reaffirmed its position in *Aukerman* and held that laches may be used to bar patent infringement claims accruing within the six-year limitations period.

“The question presented is:

“Whether and to what extent the defense of laches may bar a claim for patent infringement brought within the Patent Act's six-year statutory limitations period, 35 U.S.C. § 286.”

Split En Banc Opinion interpreting *Petrella*: The 6-5 *en banc* majority opinion split the court between a majority opinion of Prost, C.J. (joined by Newman, Lourie, Dyk, O’Malley, Reyna, JJ.), and an opinion by Hughes, J. (joined by Moore, Wallach, Taranto, Chen, JJ., concurring-in-part and dissenting-in-part).

The majority opinion explains that the en banc court was convened “to resolve whether, in light of the Supreme Court's recent decision in *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014), laches remains a defense to legal relief in a patent infringement suit. We conclude that Congress codified a laches defense in 35 U.S.C. § 282(b)(1) that may bar legal remedies. Accordingly, we have no judicial authority to question the law's propriety. Whether Congress considered the quandary in *Petrella* is irrelevant—in the 1952 Patent Act, Congress settled that laches and a time limitation on the recovery of damages can coexist in patent law. We must respect that statutory law.”

Implications: No matter the outcome, *SCA Hygiene* is a black eye for the Federal Circuit as a court established to provide a uniform body of case law in the patent field. It reaches a conclusion as to laches that differs from *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S.Ct. 1962 (2014)(copyright law) and does so in badly split *en banc* decision with a six vote majority opinion (Prost, C.J., joined by Newman, Lourie, Dyk, O’Malley, Reyna, JJ.) balanced by a five vote minority opinion (Hughes, J., joined by Moore, Wallach, Taranto, Chen, JJ., concurring in part, dissenting in part).

The majority ruled that “laches remains a defense to legal relief in a patent infringement suit after *Petrella* [*v. Metro-Goldwyn-Mayer, Inc.*, 134 S.Ct. 1962 (2014)]. Laches bars legal relief, and courts must weigh the facts underlying laches in the *eBay* framework when considering an injunction. However, absent extraordinary circumstances, laches does not preclude an ongoing royalty.”

The dissent disagreed with “the majority [which] adopts a patent-specific approach to the equitable doctrine of laches. In doing so, the majority overlooks Congress’ intent and Supreme Court precedent, which demonstrate that laches is no defense to a claim for damages filed within the statutory limitations period established by 35 U.S.C. § 286.”

(4) *Life Techs. v. Promega* -- “Active Inducement”/Extraterritoriality

In *Life Techs. Corp. v. Promega Corp.*, Supreme Court No. 14-1538, “active inducement” and extraterritoriality issues are raised:

Question Presented: “35 U.S.C. § 271(f)(1) provides that it is an act of patent infringement to ‘suppl[y] ... in or from the United States all or a substantial portion of the components of a patented invention, ... in such manner as to actively induce the combination of such components outside the United States.’ Despite this Court’s clear dictate that section 271(f) should be construed narrowly, *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), the Federal Circuit held that Life Technologies is liable for patent infringement for worldwide sales of a multi-component kit made abroad because just a single, commodity component of the kit was shipped from the U.S. The question presented is:

“Whether the Federal Circuit erred in holding that supplying a single, commodity component of a multi-component invention from the United States is an infringing act under 35 U.S.C. § 271(f)(1), exposing the manufacturer to liability for all of its worldwide sales.”

Status: Argument December 6, 2016.

Prior Case Law: Contributory infringement was spawned more than 140 years ago in *Wallace v. Holmes*, 29 F.Cas. 74 (No. 17,100) (CC Conn.1871), as a court-fashioned way for a patentee to sue a third party who supplies a component of the patented invention to numerous third parties, because it would be impossible or next to impossible as a practical matter to sue each of the individual direct infringers. There has never been a prior appellate holding of active inducement other where a third party is induced to infringe.

SELECTED PENDING PETITIONS (AWAITING CERT. VOTE)

Google Inc. v. Arendi S A.R.L., No. 16-626 **Obviousness based on ‘Common Sense’**

Question Presented: “In *KSR International Co. v. Teleflex, Inc.*, this Court rejected the Federal Circuit’s ‘rigid’ approach to analyzing the obviousness of patent claims in favor of the ‘expansive and flexible’ approach of the Court’s own cases. 550 U.S. 398, 415 (2007). The Court stressed that ‘[r]igid preventative rules that deny factfinders recourse to common sense *** are neither necessary under our case law nor consistent with it.’ Id. at 421.

“In this case, the Patent Trial and Appeal Board relied on the common sense of a skilled artisan in determining that it was obvious to search a database for duplicate entries before adding new information to the database. In making that finding, the Board cited expert testimony on both sides, including respondent Arendi’s expert’s concession that checking for duplicates before adding items to databases was commonplace. The Federal Circuit reversed, however, limiting KSR to cases involving the motivation to combine two prior-art references and holding that common sense could not supply a non-‘peripheral’ ‘missing limitation.’

“Did the Federal Circuit err in restricting the Board’s ability to rely on the common sense and common knowledge of skilled artisans to establish the obviousness of patent claims?”

Status: _ Conference January 6, 2017

Merck & Cie v. Watson Laboratories, Inc., No. 16-493
Secret sales as prior art (pre-AIA)

“The Patent Act provides that a ‘person shall be entitled to a patent unless ... the invention was ... in public use or on sale in this country, more than one year prior to the date of the application’ for the patent. 35 U.S.C. § 102(b) (2006).

The question presented is:

“Whether the ‘on sale’ bar found in § 102(b) applies only to sales or offers of sale made available to the public, as Congress, this Court, and the United States have all made clear, or whether it also applies to non-public sales or offers of sale, as the Federal Circuit has held.”

The Scholars Speak: The petition cites with approval the work of two important scholars, Professors Dmitry Karshedt and Christopher A. Cotropia. *See* Dmitry Karshedt, *Did Learned Hand Get It Wrong?: The Questionable Patent Forfeiture Rule of Metallizing Engineering*, 57 VOL L. Rev. 261, 312-13 (2012) (quoting Christopher A. Cotropia, *The Folly of Early Filing in Patent Law*, 61 Hastings L.J. 65, 96 (2009)).

Status: *Certiorari* vote not yet scheduled.

Samsung Electronics Co., Ltd. v. Apple Inc., No. 15-777 (2016)(Sotomayor, J.), *opinion below*, *Apple Inc. v. Samsung Electronics Co., Ltd.*, 786 F.3d 983 (Fed. Cir. 2015)(Prost, C.J.):

* * *

Section 289 of the Patent Act provides a damages remedy specific to design patent infringement. A person who manufactures or sells “any article of manufacture to which [a patented] design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit.” 35 U.S.C. § 289. In the case of a design for a single-component product, such as a dinner plate, the product is the “article of manufacture” to which the design has been applied. In the case of a design for a multicomponent product, such as a kitchen oven, identifying the “article of manufacture” to which the design has been applied is a more difficult task.

This case involves the infringement of designs for smartphones. The United States Court of Appeals for the Federal Circuit identified the entire smartphone as the only permissible “article of manufacture” for the purpose of calculating § 289 damages because consumers could not separately purchase components of the smartphones. The question before us is whether that reading is consistent with § 289. We hold that it is not.

* * *

II

Section 289 allows a patent holder to recover the total profit an infringer makes from the infringement. It does so by first prohibiting the unlicensed “appli[cation]” of a “patented design, or any colorable imitation thereof, to any article of manufacture for the purpose of sale” or the unlicensed sale or exposure to sale of “any article of manufacture to which [a patented] design or colorable imitation has been applied.” 35 U.S.C. § 289. It then makes a person who violates that prohibition “liable to the owner to the extent of his total profit, but not less than \$250.” *Ibid.* “Total,” of course, means all. See American Heritage Dictionary 1836

(5th ed.2011) (“[t]he whole amount of something; the entirety”). The “total profit” for which § 289 makes an infringer liable is thus all of the profit made from the prohibited conduct, that is, from the manufacture or sale of the “article of manufacture to which [the patented] design or colorable imitation has been applied.”

Arriving at a damages award under § 289 thus involves two steps. First, identify the “article of manufacture” to which the infringed design has been applied. Second, calculate the infringer's total profit made on that article of manufacture. This case requires us to address a threshold matter: the scope of the term “article of manufacture.” The only question we resolve today is whether, in the case of a multicomponent product, the relevant “article of manufacture” must always be the end product sold to the consumer or whether it can also be a component of that product. Under the former interpretation, a patent holder will always be entitled to the infringer's total profit from the end product. Under the latter interpretation, a patent holder will sometimes be entitled to the infringer's total profit from a component of the end product.

A

The text resolves this case. The term “article of manufacture,” as used in § 289, encompasses both a product sold to a consumer and a component of that product.

“Article of manufacture” has a broad meaning. An “article” is just “a particular thing.” J. Stormonth, *A Dictionary of the English Language* 53 (1885) (Stormonth); see also *American Heritage Dictionary*, at 101 (“[a]n individual thing or element of a class; a particular object or item”). And “manufacture” means “the conversion of raw materials by the hand, or by machinery, into articles suitable for the use of man” and “the articles so made.” Stormonth 589; see also *American Heritage Dictionary*, at 1070 (“[t]he act, craft, or process of manufacturing products, especially on a large scale” or “[a] product that is manufactured”). An article of manufacture, then, is simply a thing made by hand or machine.

6 So understood, the term “article of manufacture” is broad enough to encompass both a product sold to a consumer as well as a component of that product. A component of a product, no less than the product itself, is a thing made by hand or

machine. That a component may be integrated into a larger product, in other words, does not put it outside the category of articles of manufacture.

7 This reading of article of manufacture in § 289 is consistent with 35 U.S.C. § 171(a), which makes “new, original and ornamental design[s] for an article of manufacture” eligible for design patent protection.³ The Patent Office and the courts have understood § 171 to permit a design patent for a design extending to only a component of a multicomponent product. See, e.g., *Ex parte Adams*, 84 Off. Gaz. Pat. Office 311 (1898) (“The several articles of manufacture of peculiar shape which when combined produce a machine or structure having movable parts may each separately be patented as a design ...”); *Application of Zahn*, 617 F.2d 261, 268 (CCPA 1980) (“Section 171 authorizes patents on ornamental designs for articles of manufacture. While the design must be *embodied* in some articles, the statute is not limited to designs for complete articles, or ‘discrete’ articles, and certainly not to articles separately sold ...”).

This reading is also consistent with 35 U.S.C. § 101, which makes “any new and useful ... manufacture ... or any new and useful improvement thereof” eligible for utility patent protection. Cf. 8 D. Chisum, *Patents* § 23.03[2], pp. 23–12 to 23–13 (2014) (noting that “article of manufacture” in § 171 includes “what would be considered a ‘manufacture’ within the meaning of Section 101”). “[T]his Court has read the term ‘manufacture’ in § 101 ... to mean ‘the production of articles for use from raw or prepared materials by giving to these materials new forms, qualities, properties, or combinations, whether by hand-labor or by machinery.’” *Diamond v. Chakrabarty*, 447 U.S. 303, 308, 100 S.Ct. 2204, 65 L.Ed.2d 144 (1980) (quoting *American Fruit Growers, Inc. v. Brogdex Co.*, 283 U.S. 1, 11, 51 S.Ct. 328, 75 L.Ed. 801 (1931)). The broad term includes “the parts of a machine considered separately from the machine itself.” 1 W. Robinson, *The Law of Patents for Useful Inventions* § 183, p. 270 (1890).

B

The Federal Circuit's narrower reading of “article of manufacture” cannot be squared with the text of § 289. The Federal Circuit found that components of the infringing smartphones could not be the relevant article of manufacture because consumers could not purchase those components separately from the smartphones. See 786 F.3d, at 1002 (declining to limit a § 289 award to a component of the

smartphone because “[t]he innards of Samsung's smartphones were not sold separately from their shells as distinct articles of manufacture to ordinary purchasers”); see also *Nordock, Inc. v. Systems Inc.*, 803 F.3d 1344, 1355 (C.A.Fed.2015) (declining to limit a § 289 award to a design for a “ ‘lip and hinge plate’ “ because it was “welded together” with a leveler and “there was no evidence” it was sold “separate[ly] from the leveler as a complete unit”). But, for the reasons given above, the term “article of manufacture” is broad enough to embrace both a product sold to a consumer and a component of that product, whether sold separately or not. Thus, reading “article of manufacture” in § 289 to cover only an end product sold to a consumer gives too narrow a meaning to the phrase.

The parties ask us to go further and resolve whether, for each of the design patents at issue here, the relevant article of manufacture is the smartphone, or a particular smartphone component. Doing so would require us to set out a test for identifying the relevant article of manufacture at the first step of the § 289 damages inquiry and to parse the record to apply that test in this case. The United States as *amicus curiae* suggested a test, see Brief for United States as *Amicus Curiae* 27–29, but Samsung and Apple did not brief the issue. We decline to lay out a test for the first step of the § 289 damages inquiry in the absence of adequate briefing by the parties. Doing so is not necessary to resolve the question presented in this case, and the Federal Circuit may address any remaining issues on remand.

III

The judgment of the United States Court of Appeals for the Federal Circuit is therefore reversed, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.