



IDEAS ON INTELLECTUAL PROPERTY LAW

OCTOBER/NOVEMBER
2016

Supreme Court throws *Seagate* test overboard

Ruling loosens standard for enhanced patent infringement damages

Law of nature: Some genetic diagnostic methods are patent-ineligible

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Dear Infringer...

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Supreme Court throws *Seagate* test overboard

Ruling loosens standard for enhanced patent infringement damages

The U.S. Supreme Court has released its long-awaited decision on the proper criteria for enhanced damages awards in patent infringement cases. The unanimous ruling should make it easier for patent holders to recover such damages — and give some would-be infringers pause for thought.

TWO CASES ON DECK

The Court reviewed two patent infringement cases. The first, *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, involved two electronic component suppliers. Halo sued Pulse for patent infringement, and a jury found that Pulse had infringed the patents and that there was a high probability it had done so willfully. The trial court, however, declined to award enhanced damages because Pulse had presented a defense at trial that wasn't "objectively baseless or a 'sham.'" The U.S. Court of Appeals for the Federal Circuit, which hears all patent case appeals, affirmed.

In the second case, *Stryker Corporation v. Zimmer, Inc.*, the plaintiff sued a competitor in the market for orthopedic pulsed lavage devices for patent infringement. The jury found Zimmer had willfully infringed the patents and awarded Stryker \$70 million in lost profits. The trial court added \$6.1 million in supplemental damages and then trebled (or tripled) the total sum, resulting in an award of more than \$228 million. The Federal Circuit vacated the treble damages award, finding that enhanced damages were unavailable because Zimmer had asserted "reasonable defenses" at trial.

PLANK OF THE PATENT ACT

Section 284 of the Patent Act provides that courts "may increase the damages up to three times the amount found" in infringement cases. The provision, however, doesn't include any explicit criteria for when enhanced damages are appropriate.

In 2007, the Federal Circuit, in *In re Seagate Technology, LLC*, adopted a two-part test for determining whether damages can be increased under Section 284. Under the *Seagate* test, a patent holder must:

1. Show "objective recklessness," or that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent, and
2. Demonstrate "subjective knowledge," or that the risk of infringement was either known or so obvious that it should have been known to the accused infringer.

The Federal Circuit applied this test in both of the cases described above.

WIDER NET CAST

According to the Supreme Court, 180 years of enhanced damages awards under the Patent Act have established that the awards aren't to be given in typical infringement cases but instead are designed to sanction egregious infringement. Although the



Seagate test reflects this in many respects, the Court said, it is also “unduly rigid” and impermissibly restricts the discretion of trial courts.

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The Court focused primarily on the objective recklessness requirement. It found that the requirement excluded many of the most culpable infringers, including the “wanton and malicious pirate” who intentionally infringes a patent, with no doubt about its validity or any notion of a defense, simply to steal the patentee’s business. The Court explained that an infringer’s subjective willfulness — whether intentional or knowing — may warrant enhanced damages, regardless of whether the infringement was objectively reckless.

It further faulted the *Seagate* test for making determinative the infringer’s ability to muster a reasonable defense at trial, even if the infringer didn’t act on the basis of that defense or wasn’t even aware of it. The Court pointed out that culpability is generally measured against the defendant’s knowledge at the time of the challenged conduct.

Ultimately, the Court vacated the Federal Circuit’s judgments in both cases. It sent them back for reconsideration under the new standard.

DIFFERENT COURSE CHARTED

The *Halo* ruling is a major victory for patent holders, and it could prove particularly so in highly competitive fields such as technology and medical devices. Companies in such fields may previously have rolled the dice and infringed patents, secure in the knowledge that they would most likely only be found liable for a reasonable royalty. Now those companies must weigh the possibility of enhanced damages, thus providing patent holders an additional layer of protection. ▣

SCOTUS EASES BURDEN OF PROOF FOR ENHANCED DAMAGES, TOO

One of the things the U.S. Supreme Court did in *Halo Electronics, Inc. v. Pulse Electronics, Inc.* (see main article) is to make it easier for patent holders to recover enhanced damages by loosening the standard of proof. The *Seagate* test, it held, was inconsistent with the enhanced damages provision of the Patent Act because it required clear and convincing evidence to prove recklessness.

The Court cited its earlier ruling in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.* in support of this finding. In that case, the Federal Circuit had adopted a clear and convincing standard of proof for awards of attorneys’ fees in patent litigation. The high court rejected the standard because the relevant provision in the Patent Act supplied no basis for imposing such a heightened standard of proof.

In *Halo*, the Court likewise found that the relevant provision imposes no specific evidentiary standard, “much less such a high one.” Patent infringement litigation has always been governed by a “preponderance of the evidence” (more than 50% of the evidence) standard, the Court said. Enhanced damages are no exception.



Law of nature: Some genetic diagnostic methods are patent-ineligible

Another patent covering genetic diagnostic methods has failed the U.S. Supreme Court’s two-step test for determining whether a patent related to a law of nature is patent-eligible. In general, to transform unpatentable subject matter, a patent must do more than simply state a law of nature and append the words “apply it.” The patent at issue in *Genetic Technologies Ltd. v. Merial L.L.C.* failed to meet this condition because its processes don’t have sufficient additional features to transform an unpatentable law of nature.

CASE GENESIS

Genetic Technologies sued Merial and Bristol-Myers Squibb, alleging infringement of a patent for methods of detecting genetic variations by analyzing DNA. Such detection can be useful for a variety of purposes, including diagnosis and treatment of genetic disorders and diseases.

The district court dismissed the case before trial. It found that patent invalid for claiming a law of nature, which is patent-ineligible subject matter.

DIAGNOSTIC CRITERIA

Section 101 of the Patent Act limits patent-eligible subject matter to new and useful — or new and useful improvements of — processes, machines, manufactures or compositions of matter. Laws of nature, physical phenomena and abstract ideas aren’t patent-eligible.

In 2012, the U.S. Supreme Court established in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* a two-step test for patent eligibility. The test distinguishes patents that claim laws of nature, natural phenomena and abstract ideas from patents that cover patent-eligible applications of those concepts. First, a court must decide if the patent claims a



patent-ineligible concept. If so, the second step of the test determines whether the claim includes an “inventive concept,” meaning a combination of elements sufficient to ensure that the practice of the claim amounts to significantly more than practice of the ineligible concept alone.

A patent related to a newly discovered law of nature can’t rely on the discovery’s novelty for the inventive concept.

FINDING LINKS

In this case, the Federal Circuit found that the patented method’s product was information about a patient’s natural genetic makeup, which depends on the existence of something known as “linkage disequilibrium.” Linkage disequilibrium is an inherent feature of human DNA and therefore relates to a patent-ineligible law of nature.

The court then considered whether the patent contained the requisite inventive concept. It explained that a patent related to a newly discovered law of nature can't rely on the discovery's novelty for the inventive concept — the *application* must provide something inventive beyond mere “well-understood, routine, conventional activity.”

The court evaluated the method's two implementation steps, which involved “amplifying” DNA and then analyzing it to detect a mutation, and found that the steps did *not* provide sufficient inventive concept. It rejected Genetic Technologies' assertion that using the analysis to detect a mutation,

something never done before, satisfied the second step of the patent-eligibility test. Detecting a mutation was a patent-ineligible “mental process step” that could be performed entirely in the human mind, according to the court.

SECOND OPINION?

The Federal Circuit's ruling is another in a series of cases rejecting patents on inventions related to the life sciences under the *Mayo* two-step test. The U.S. Supreme Court was asked to review an earlier case, *Ariosa v. Sequenom*, but didn't take it up. So the life sciences continue to wait for an opportunity to revisit, and potentially refine or rework, the *Mayo* test. □

Scope of design determines whether patent infringement challenge stays afloat

Design patents come with their own set of rules. Maybe that's why they've increasingly become subject to attack by parties that fear they'll be accused of infringement. A recent ruling by the U.S. Court of Appeals for the Federal Circuit in *Sport Dimension, Inc. v. The Coleman Co. Inc.* provides guidance about what to expect when a court considers the scope of design patent claims.

FLOATING A CLAIM

Coleman sells outdoor sporting equipment and owns a design patent on the ornamental design for a personal flotation device. The device has two arm bands connected to a torso piece that sits flat on its back and tapers toward a connecting strap on its sides.

Sport Dimension sells water-sports-related equipment, including its Body Glove line of personal flotation devices. One of its models also has two armbands connected to a torso piece. But unlike Coleman's design, the torso section extends upwards to form a vest that goes over a user's shoulders.

Sport Dimension sought a declaratory judgment that its device didn't infringe Coleman's patent. The trial court ruled in Sport Dimension's favor and Coleman appealed.

SINKING THE PATENT

As the appellate court explained, a trial court can use “claim construction” to help determine the scope of patent claims. In the context of design patents, claim construction can help a court distinguish between the design features that are ornamental and those that are purely functional.

A design patent can't cover a purely functional design. In other words, the patent is invalid if the design's overall appearance is dictated by its





function. However, as long as the design isn't primarily functional the claim may be valid, even if certain design elements have functional purposes. After all, a design patent protects an article of manufacture, which by its very nature serves a utilitarian purpose. But the scope of design patent protection is limited to the ornamental aspects of the article.

In this case, the trial court excluded the armbands and side torso tapering from the claim scope of Coleman's patent. It therefore found the patent had no scope for Sport Dimension's personal flotation device to infringe.

The appellate court found that the trial court had erred by entirely eliminating structural elements from the claimed ornamental design, despite the fact that those elements also served a functional purpose. According to the court, the trial court's claim construction failed to account for the particular ornamentation of Coleman's claimed design.

OFFERING A LIFE PRESERVER

The appellate court also noted that design patents protect the overall ornamentation of a design, not an aggregation of separable elements. By eliminating structural elements from the claim, the district court improperly converted the scope of the design patent from one that covers the overall ornamentation to one covering individual elements.

Looking to the overall design of Coleman's device, the court found that the design included the appearance of three interconnected rectangles and was

minimalist, with little ornamentation. The design also included the shape of the armbands and side torso tapering to the extent that they contributed to the design's overall ornamentation.

A design patent protects
an article of manufacture, which
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utilitarian purpose.

Ultimately, the court rejected the lower court's claim construction, vacated its judgment of noninfringement and sent the case back for consideration of the infringement issue. Because the armbands and side torso serve a functional purpose, though, the appellate court instructed the trial court not to focus on those elements' particular designs when determining infringement. Instead, it should focus on what the elements contribute to the design's overall ornamentation.

EXPECT NARROW PROTECTION

While the appellate court dismissed the notion that Coleman's patent claim had no scope, it also found that the scope was narrow. Patentees with design patents containing many functional elements and minimal ornamentation should likewise expect courts to find that their patents offer narrow protection from infringement. ▣

Court denies trademark holder's damages award

The jury giveth — and the court taketh away. In *Romag Fasteners, Inc. v. Fossil, Inc.*, a trademark holder learned this lesson the hard way when the two courts rejected a jury award of almost \$7 million against an infringer because the infringement wasn't "willful."

TRIAL COURT PULLS PURSE STRINGS

Romag Fasteners owns the registered trademark ROMAG for magnetic snap fasteners. It sells the fasteners to Fossil, which designs, markets and distributes fashion accessories such as handbags and wallets. After seeing a significant decrease in fasteners purchased by Fossil's authorized manufacturers, Romag discovered that certain Fossil products contained counterfeit fasteners. The company sued Fossil for, among other things, trademark infringement.

A jury made an advisory award to Romag of about \$6.8 million of Fossil's profits. But the trial court held that, because the infringement wasn't willful, Romag couldn't recover an award of Fossil's profits. Romag appealed the ruling.

HOLDER LEFT WITH EMPTY POCKETS

Romag argued that a trademark owner isn't required to prove the infringer acted willfully to recover the defendant's profits. The U.S. Supreme Court has never addressed the issue, and the federal courts of appeal have split over the question.

The appeal was heard by the Federal Circuit (the court that handles all patent-related appeals) because the case included a patent claim. But Second Circuit law governed the trademark issue. And the U.S. Court of Appeals for the Second Circuit has ruled that a plaintiff must prove that an

infringer acted with willful deception before the infringer's profits are recoverable by the trademark holder.

Romag contended that 1999 amendments to the Lanham Act, the federal trademark law, made clear that Congress didn't intend for willfulness to be a prerequisite to damages for this type of infringement. But the Federal Circuit pointed out that the Second Circuit restated its rule requiring willful deceptiveness as a prerequisite for awarding profits in a 2014 case. The Federal Circuit therefore concluded that Romag wasn't entitled to recover Fossil's profits.

NOT NECESSARILY IN THE BAG

Although the Federal Circuit found that the willfulness requirement still applies in the Second Circuit, it's important to remember that other appellate courts have taken a different stance. Until the Supreme Court resolves the split, you should take these differences into account when preparing trademark cases for litigation. ▣



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Dear Infringer...

Responding to a Patent Infringement Cease and Desist Letter

Competing in today's business climate is difficult enough without the addition of legal headaches. But legal conflicts are part of modern business and sometimes arise in the form of a cease and desist letter from a patent owner. These letters follow a familiar form where a patent owner identifies the patented invention, claims that your product uses it without permission, and demands that in the very near future you either pay up, stop the activity, or both. Of course the short deadline is meant to turn up the heat and put you on defense.

Sometimes these letters include the unwelcome news that a lawsuit has been filed, but not yet served, pending an opportunity for negotiations. Regardless, it is paramount that you work closely with legal counsel from the beginning to protect yourself. The last thing your business needs is to take an initial position that compromises your ability to later defend yourself in negotiations or litigation.

First ...Call Your Lawyer

Like most things in life, putting off your troubles leads to poor results. A response to an infringement claim is no different. Whether the letter comes from a legitimate competitor looking to strike a license or from a non-practicing entity seeking to extract a cost-of-defense royalty or worse, your first communication should be with your trusted legal advisor, not the patent owner. It is especially important to forward a copy of the letter to your lawyer as soon as you receive it.

Of course your counsel will appreciate the luxury of adequate time to respond, rather than by the close of business that day. But beyond that, strong business considerations dictate prompt action by you. Involving counsel early may protect you from inadvertently failing to take steps needed to protect your interests or admitting something that later hurts your position. For instance, if the patent owner has targeted your entire industry rather than just you, your counsel will be instrumental in facilitating creation of a joint defense among co-defendants.

Second...Do Your Homework

You will need to gather "business" facts to help your lawyer determine how best to respond. These facts include such things as details about your product's operation, where it is manufactured and sold, sales revenues, the importance of the product to your business, and even past dealings with the patent owner. Your counsel may have awareness of some of this information, but the detail you provide is crucial.

Equally important, however, are the "legal" facts that your lawyer will ascertain and discuss with you. Chief among these is a thorough review of the patent and file history. This review will allow counsel to determine the true scope of the claimed invention and determine whether, for example, the patentee made representations to obtain the patent that limit the invention to something less than what it first appears. In addition, counsel can quickly determine whether the patent has been asserted before, and if so, in what jurisdictions, and with what results. Finally, counsel will work closely with you to understand when you first became aware of the patent and what steps you may have taken, if any, to avoid infringement.

Finally ... Respond on Your Terms

Once the "business" and "legal" facts are known, a sober discussion about the merits of the claim must take place. The claim may be nothing more than a thinly-veiled attempt to extract money from you. Or, it may be that product revenues are such that discontinuing the product or accepting a license makes sense. If a legitimate claim is made, an early and thorough review of the situation will allow counsel to confidently advise you whether the asserted claim can be avoided with a simple re-design of the product, successfully defended, or whether a negotiated settlement is the best option. Regardless, by involving your patent counsel at the outset, you allow yourself the ability to respond from a position of strength.

Eric Chadwick chairs Patterson Thuyente IP's litigation department. For more information about responding to a cease and desist letter or other litigation concerns, contact Eric at chadwick@ptslaw.com or (612) 349-5778.