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U.S. SUPREME COURT DECIDES THAT PATENT RIGHTS END WHEN THE PATENTED PRODUCT IS FIRST SOLD

On May 30, 2017, in *Impression Products Inc. v. Lexmark International, Inc.* the U.S. Supreme Court decided whether a patent owner's right to control the use of a patented product ends when that product was first sold to a customer, or whether the patent owner could still control the product after its sale, such as by entering into a restrictive agreement with the purchaser. Under 35 U.S.C. 154(a), a U.S. patent entitles its owner to "exclude others from making, using, offering for sale or selling [its] invention throughout the United States or importing the invention into the United States" for a period of 20 years (15 years for design patents). In general, when a patent owner sells a product that is covered by its patents, the patent owner can no longer control the use of that item after the sale by enforcing its right under the patent laws. Its patent rights are considered to be "exhausted." The original purchaser and all other subsequent owners are then free to use or resell the product just like any other item of personal property, and the patent owner cannot sue them for patent infringement.

In *Lexmark,* the Supreme Court was asked to decide two issues regarding the scope of the "exhaustion doctrine:" 1) whether a patent owner that sells an item under an express restriction on the purchaser's right to reuse or resell the product may enforce that restriction through a patent infringement lawsuit; and 2) whether a patent owner exhausts its patent rights by selling its patented product outside of the United States, where U.S. patent laws do not apply.

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The dispute in this case arose because Lexmark, which designs and manufacturers patented toner cartridges for printer applications, objected to the use of its empty, spent toner cartridges by Impression Products. Impression Products acquired used, empty Lexmark toner cartridges, refilled them with toner, and resold them at a price that was lower than the price of new Lexmark toner cartridges. In order to prevent the undercutting of its prices, Lexmark regularly entered into agreements with its purchasers whereby the purchaser could obtain a 20% discount off of the price of a new toner cartridge if the purchaser agreed to only use the cartridge once, and return it back only to Lexmark. Lexmark enforced this agreement by placing a microchip on each restricted toner cartridge which prevented reuse once the new toner cartridge is emptied. Recyclers of the toner cartridges responded by designing methods to defeat the microchip and continued to profit from the remanufactured Lexmark cartridges. In response, Lexmark sued Impression Products and a group of other toner cartridge recyclers for patent infringement.

Impression Products defended the lawsuit by arguing that Lexmark's sales, both in the United States and abroad, exhausted its U.S. patent rights in the cartridges, so that Impression products was free to refurbish and resell them, and to import them back into the U.S. if the toner cartridges were acquired abroad. The District Court agreed with Impression Products' with respect to Lexmark cartridges sold in the U.S., but disagreed with respect to Lexmark cartridges that had been sold outside the U.S.

The parties appealed the District Court's ruling to the U.S. Court of Appeals for the Federal Circuit. The Federal Circuit heard the case *en banc* (i.e., with all of the Judges taking part in the decision), and ruled in favor of Lexmark with respect to both the U.S. and imported cartridges. The Federal Circuit stated that a patent owner may sell an item and retain some of its rights, such as the right to enforce, through patent infringement lawsuits, "clearly communicated … lawful restrictions as to post-sale use or sale."

The Court reasoned that the exhaustion doctrine is derived from the prohibition of the Patent Act, 35 U.S.C. 271(a) on making, using, selling or importing patented items "without authority." Although when a patented item is purchased, it is presumed that the purchaser also acquires the authority to use and resell the item as it sees it,

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that presumption may be overcome if the seller restricts post-sale use or resale, as Lexmark did with respect to its patented toner cartridges.

The Federal Circuit held that Lexmark's restrictions were lawful, and were known to Impression Products. Therefore, Lexmark's sales had not exhausted all of its patent rights and it could sue Impression Products for patent infringement to stop the use and resale of Lexmark cartridges that were made in violation of Lexmark's restrictive agreement. The Court also held that the cartridges that Lexmark sold outside of the U.S. could also be the included in the lawsuit, because a patent owner's decision to sell a product abroad did not terminate its ability to bring a patent infringement suit against a buyer that imported the items and sold them in the U.S.

The Supreme Court disagreed with the Federal Circuit's ruling, both with respect to the U.S. sales, and also with respect to the foreign sales. The Supreme Court found with respect to Lexmark's U.S. sales that it exhausted its patent rights in those cartridges the moment that it sold them. Although Lexmark's single-use/no resale restrictions in its agreements with customers may be enforceable under contract law, they did not entitle Lexmark to retain patent rights in an item that it had freely chosen to sell. Relying on its 1853 decision in *Bloomer v. McQuewan*, the Court stated that when a patent owner chooses to sell an item, that product is no longer within the limits of the patent monopoly, and instead becomes the "private, individual property" of the purchaser, with all of the rights and benefits that come with ownership. A patent owner cannot use its patent to control the use or resale of the product after ownership passes to the purchaser.

With respect to the toner cartridges that Lexmark sold outside of the U.S., the Supreme Court relied in part on similar principles in copyright law to hold that authorized sales outside of the United States, just as ones within the United States, exhaust all rights under the Patent Act. Since the patent exhaustion doctrine reflects the law's general aversion to any restrictions on the alienation (i.e., transfer) of property, the Court reasoned, and this doctrine makes no geographical distinctions, there is no reason not to apply it to sales made abroad. The Court noted that Congress has not stated an intention anywhere in the text or history of the Patent Act to confine the exhaustion doctrine to domestic U.S. sales. In making its ruling, the Supreme Court, again relying in part on doctrines of copyright law, rejected Lexmark's argument that there should be territorial restrictions on the exhaustion doctrine, because the patent rights which protect its products are not enforceable outside of the United States. To the contrary, the Court reasoned, a purchaser buys an item, not a bundle of patent rights. According to the Court, exhaustion is triggered by the patentee's decision to give that item up anywhere in the world, and receive whatever fee it decides to accept, even if that fee is less than it would have demanded had the product been sold in the U.S. under the protection of its patents. The patent monopoly does not guarantee any specific fee or reward, only that a reward be received. As a result, the Court found, restrictions on sale and the location of the sale are irrelevant to whether exhaustion occurs.

The consequences of the Supreme Court's decision in Lexmark may be far-reaching and multi-faceted. It will certainly have a significant impact on the economics of the market for printer and copier toner cartridges. Prices of new toner cartridges may rise in the short term to reflect the manufacturer's need to extract maximum value from each sale in anticipation of later recycling of the cartridges by third parties. The Lexmark decision ends the ability of patent owners to maximize their economic position by using the credible threat of an expensive patent infringement lawsuit to extract a restrictive agreement from purchasers that limits their ability to use, remanufacture, and resell the patented product as they see fit.

Although the Court expressly stated that restrictive agreements relating to use of the cartridges may be enforced through contract law, Lexmark had no contractual agreement with Impression Products, only the initial purchaser of the toner cartridge. Therefore, Lexmark could not sue Impression Products for breach of contract. Without the ability to enforce its patent rights, Lexmark is left without a practical remedy. Given the prevalence of conditional use sales across many industries, many manufactures will now be in the same position. They will face uncertain challenges in negotiating the terms of supply agreements with purchasers. Without the threat of a patent infringement lawsuit, their bargaining leverage may be substantially reduced.

The Court's ruling may also affect the pricing of goods sold in international commerce, as the patent owner may wish to extract as much economic value from those sales as possible, since they will no longer have any protection from the patent laws if those goods are reimported into the U.S. Prices may also rise for foreign sales in order to equalize the price with domestic sales in order to prevent price arbitrage, whereby products sold more cheaply abroad are reimported into the U.S. as gray-market products to compete with higher-priced domestically sold products. Consumers in foreign countries may suffer consequences from this as well regarding the pricing and availability of imported products.

Left unresolved is the status of restrictive terms in licensing agreements. Lexmark focused on actual sales of the patented product, not licenses of the product. Although the Supreme Court hinted that a patent owner may restrict a licensee's ability to use and sell the licensed product, under threat of a patent infringement lawsuit, the Court indicated that once the licensee sells the product to a third party, it is the same type of sale. Left undecided is whether a license to use a product, which is prevalent in the software industry, will be considered a "sale" where exhaustion will apply. Before Lexmark¸ a breach of such a use license was typically remedied with a patent infringement lawsuit as well as a breach of contract lawsuit. Similar issues may be implicated by lease agreements which include use restrictions based on geography or type of industry or application.

U.S. SUPREME COURT NARROWLY INTERPRETS OBAMACARE LAW ON BIOSIMILAR DRUG PATENT LITIGATION

In its June 12, 2017 decision in *Sandoz, Inc. v. Amgen, Inc.,* the U.S. Supreme Court interpreted for the first time the Biologics Price Competition and Innovation Act of 2009 ("BPCIA"), an Obamacare law that governs the conduct of patent infringement litigation relating to the sale of newly FDA-approved generic biologic and biosimilar drugs. The BPCIA was intended to provide a streamlined procedure for obtaining FDA approval and commercial marketing of a generic biologic drug that is biosimilar to a brand-name drug that had already received FDA approval. It does so, in part, by providing procedures for the expedited resolution of patent disputes between the generic biosimilar manufacturer and the brand-name drug manufacturer. According to those procedures, such patent infringement litigation may occur during the 12-year period of exclusivity from biosimilar competition that the brand-name drug enjoys under the BPCIA, so that the parties do not have to wait for actual commercial marketing of the generic biosimilar drug to resolve their patent disputes. Under the BPCIA, the mere submission to the FDA of an application for approval of a biosimilar drug constitutes an artificial act of patent infringement that sets in motion defined procedures for the parties to exchange information about the generic drug product and its manufacture, and to commence discussion of patent issues that may include patent infringement litigation.

The BPCIA requires that an applicant seeking FDA approval of its biosimilar drug must provide its application and manufacturing information to the brand-name drug manufacturer within 20 days of the FDA's acceptance of the application for review. This exchange of information triggers a requirement for the parties to engage in the so-called "patent dance," whereby the parties exchange technical information that is intended to enable them to create a list of patents that are relevant to the biosimilar drug, and to enable them to develop their respective legal arguments with regard to whether those patents are valid, enforceable and infringed. The parties are then directed by the BPCIA to use this patent list to identify patents that may be included in the immediate filing of patent infringement litigation against the biosimilar applicant. In a second phase of the "patent dance," the biosimilar applicant is required to give 180 days' notice to the brand-name drug manufacturer of its intention to commercially market the approved generic biosimilar drug product. This provides the parties the opportunity to take a "second look" at the list of relevant patents to determine whether any additional patents (including those that issued after the patent list was created) may be litigated as well. This procedure is intended to speed the introduction of generic versions of biologic drugs to the market, by removing any patent infringement issues that may stand in the way.

Failure to comply with these disclosure and notification requirements of the BPCIA are supposed to bring with them several consequences that are spelled out in the BPCIA. For instance, if a biosimilar applicant fails to provide a copy of its FDA application and manufacturing information to the brand-name manufacturer, then the brand-name manufacturer, but not the applicant may immediately bring an action against the applicant for infringement of any patent that covers the biosimilar drug product or its use in federal district court. If an applicant does provide a copy of the FDA application and manufacturing information, but fails to provide the other required notices, such as its intention to commercially market the generic drug, then the brand-name manufacturer may bring a patent infringement litigation against the applicant with respect to any patent on the brand-name manufacturer's patent list.

In *Sandoz*, the Supreme Court was asked to decide two questions regarding the enforcement of these provisions of the BPCIA. The first question was whether a brand-name drug manufacturer could obtain a federal court injunction requiring a biosimilar applicant to provide its FDA application and manufacturing information when it had failed to do so within the 20-day time period specified by the BPCIA. The second question was whether the biosimilar applicant must give notice to the brand-name drug manufacturer of its intention to commercially market the generic biosimilar product after, rather than before, obtaining approval of that generic product from the FDA. The Supreme Court's decision of these issues could determine who has the tactical advantage with respect to the marketing of such generic biosimilar drugs.

With respect to the first issue, the Supreme Court held that an injunction is not available under federal law, but such an injunction may be available under state law. If the biosimilar applicant fails to provide copies of the FDA application and manufacturing information, then the BPCIA provides that the brand-name drug manufacturer may file suit for infringement of any patent that could have been placed on the patent list. This is the sole federal remedy for this failure that is provided by the BPCIA, and an injunction is not mentioned. The Court did not determine the circumstances under which state law may provide injunctive relief, but instead remanded the case back to the U.S. Court of Appeals for the Federal Circuit for a determination of whether the biosimilar applicant's failure to provide copies of the FDA Application and manufacturing information was "unlawful" under California unfair competition law, and if so, whether the BPCIA preempted any additional state law remedy, such as an injunction.

With respect to the second issue, the Court held that a biosimilar applicant may provide the required notice of commercial marketing before obtaining FDA approval for its generic biosimilar drug. The Court did not find any requirement in the BPCIA that such notice must be given after the FDA approves the biosimilar drug. According to the Court, the "plain language" of the BPCIA only requires that the notice be given at least 180 days before commencement of "commercial marketing," not FDA approval.

In the wake of the *Sandoz* decision, many commentators have expressed their opinions regarding the significance of the Supreme Court's ruling. Representatives of the brand-name drug manufactures believe that the Sandoz decision will place them at a disadvantage, because there will be no sanction against generic biosimilar applicants who refuse to disclose their FDA application and manufacturing data within the time frame set forth in the BPCIA. Therefore, many biosimilar applicants will not do so. This may require the brand-name drug manufactures to select patents form their portfolios to assert in patent infringement lawsuits without the benefit of technical details regarding the composition of the generic biologic compounds and their manufacturing methods. Brand-name drug manufacturers appear concerned that they will not be able to select the optimal patents to assert against their generic competitors, which may require them to be overly inclusive regarding the number of patents that are included in the lawsuit, therefore increasing the risks, uncertainties and costs of the litigation to them.

Other commentators believe that the Supreme Court "gutted" the provisions of the BPCIA which require the parties to meaningfully work together through the "patent dance" procedures in order to commence and conduct efficient patent litigation proceedings that are directed to the most relevant patents, so that generic drugs that successfully overcome the asserted patents can come to market sooner. Also, there is a risk that the Court's ruling will have rendered meaningless the 180-day notice period for commercial marketing, because there is similarly no provision for an injunction in the BPCIA for enforcing that provision either. It is unclear what remedy, if any, a brand-name manufacturer would have in light of Sandoz if the biosimilar applicant refused to pride it with the required 180 degree notice.

Makers of biosimilar drugs may be given the tactical upper hand by the *Sandoz* decision, because they are not required to cooperate with the "patent dance" process, and they may choose to provide the required 180-day notice of intent to commercially market their generic product well before they receive FDA approval, so that they can begin marketing as soon as FDA approval is granted. As a result, the biosimilar applicant has been given substantial powers to determine the timing of when it will inform the brand-name manufacturer of its actions, and thus trigger a patent infringement lawsuit. Therefore, the biosimilar applicant may have many more opportunities to "work the system" to its greatest advantage. However, if that occurs, then the brand-name drug manufacturer may commence the patent infringement lawsuit later in the process, thus delaying the entry of the lower-cost generic drug product into the market. Without the requirement to engage in the "patent dance", the parties will also miss the opportunity to settle certain patent issues early in the process rather than litigate them. As a result, the *Sandoz* decision may end up creating much more risk and uncertainty for brand-name manufacturers, their generic competitors and the consuming public than Congress intended when it enacted the BPCIA.

U.S. SUPREME COURT DECIDES WHERE A U.S. CORPORATION MAY BE SUED FOR PATENT INFRINGEMENT

The U.S. Supreme Court on May 22, 2017 decided the case of *T.C. Heartland, LLC. v. Kraft Food Group Brands, LLC* (2017), which may have a substantial impact on the strategies and tactics that are used by patent owners to bring lawsuits for patent infringement against corporations that are incorporated in the United States. In *T.C. Heartland,* the Court was asked to decide the issue of what the proper "venue" or location should be for a patent infringement lawsuit that is brought against a domestic U.S. corporation. In other words, the Court was asked to decide the location of the court in which such a corporate defendant can be sued. The requirements for proper venue in a patent infringement case are defined in a federal statute, 28 U. S. C. §1400(b), which provides that "[a]ny civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business." For purposes of the federal patent venue statute, the Supreme Court ruled that a domestic U.S. Corporation resides in the state in which it is incorporated.

Kraft Foods sued T.C. Heartland, a competitor in the market for flavored drink mixes, for patent infringement in the U.S. District Court for the District of Delaware. At the time that the lawsuit was filed, Kraft Foods was incorporated in Delaware and headquartered in Illinois, while T.C. Heartland was organized under Indiana law and headquartered in Indiana. Although T.C. Heartland was not registered to conduct business in Delaware, and had no meaningful local presence there, it did ship the allegedly infringing products into that state for sale. After being served with Kraft Foods' complaint, T.C. Heartland moved the Delaware Court to dismiss the case, or to transfer the case to the U.S. District Court for the Southern District of Indiana where it was located, arguing that venue for the lawsuit was not proper in Delaware.

Relying on a Supreme Court decision from 1957, *Fourco Glass Co. v. Transmirra Products Corp,* T.C. Heartland argued that a U.S. corporation resides only in its state of incorporation for purposes of patent infringement lawsuits, and therefore it did not reside in Delaware under the first clause of Section 1400(b). T.C. Heartland further argued that it has no "regular and established place of business" in Delaware, as required under the second clause of Section 1400(b). The Delaware district court rejected these arguments and denied T.C. Heartland's motion. T.C. Heartland then sought a writ of mandamus from the U.S. Court of Appeals for the Federal Circuit, which would have required the Delaware district court to dismiss or transfer the case to the federal district court in Indiana.

The Federal Circuit declined to issue the requested writ of mandamus. That court reviewed the history of the federal civil venue states and found that although Section 1400(b) had not been amended by Congress since the Supreme Court's decision in *Fourco,* the general civil venue statute, Section 1391(c), had been amended to include a definition of the term "resides" which extended venue to any jurisdiction in which a corporation could be subject to personal jurisdiction, because that corporation had sufficient business contacts with that state. Although this was contrary to the Supreme Court's definition of that term in *Fourco,* the Federal Circuit determined that Congress had effectively amended the definition of "resides"

in Section 1400(b) when it amended the definition of that term in Section 1391(c). Since the Delaware district court properly had personal jurisdiction over T.C. Heartland, because it sold infringing products in Delaware, the Federal Circuit found that venue for the lawsuit was proper there as well.

The Supreme Court disagreed. In determining whether its *Fourco* decision had been overruled by Congress with its amendments to Section 1391(c), the Court undertook an analysis of the history of the federal civil venue statutes, dating back **to** the Judiciary Act of 1789. Congress did not enact a patent-specific venue statue until 1897, thus "placing patent infringement cases in a class by themselves, outside the scope of general venue legislation." That patent-specific legislation provided that a defendant may only be sued in a federal district where it was an "inhabitant," or where the defendant both maintained a "regular and established place of business" and committed an act of infringement. The Supreme Court had found in an 1892 case that a corporation was understood to "inhabit" only the state in which it was incorporated. In a later 1942 case, the Supreme Court interpreted the scope of the 1897 predecessor to Section 1400(b), and found that the patent venue statute was "the exclusive provision controlling venue in patent infringement proceedings," and thus it could not be supplemented or modified by the general civil venue statute. In its 1942 decision, the Court found that the patent venue statute was therefore adopted to define the exact jurisdiction of the federal courts over actions to enforce patent rights, and interpreting that specific statute so that it was consistent with the general civil venue statue would undermine that purpose.

In its *Fourco* decision, which was handed down by the Supreme Court after Congress had enacted Sections 1391(c) and 1400(b), the Court found that the definition of "residence" in Section 1391(c) cannot be used to define the term "resides" in Section 1400(b), because the Court's 1942 decision had found the patent venue statute to be the "sole and exclusive provision" governing venue in patent infringement cases. Congress had enacted Section 1400(b) as an independent, standalone venue statute. In *Fourco,* the Court also determined that the term "resides" in Section 1400(b) had the same meaning as "inhabit" in the original 1897 patent venue statute, *i.e.,* that venue was limited to a corporation's state of incorporation.

Congress then amended the general civil venue statute, Section 1391(c), in 1988 so that venue was coextensive with a Court's personal jurisdiction over a defendant. In its 1990 decision in *VE Holdings Corp. v. Johnson Gas Appliance Co.,* the Federal Circuit found that the expansion of federal civil venue that resulted from the amendments to Section 1391(c) should apply to all other venue statutes, including the patent venue statute, so that those amendments broadly redefine the term "resides" in Section 1400(b). In its decision to deny a writ of mandamus in *T.C. Heartland,* the Federal Circuit effectively reaffirmed its ruling in *VE Holdings.* In making its decision in *T.C. Heartland,* the Supreme Court overruled the Federal Circuit's *VE Holdings* case, and with it 27 years of patent litigation practice, whereby a U.S. corporate defendant could be sued in any federal district court that had personal jurisdiction over it, regardless of the State in which it was incorporated or had a regular and established place of business. In doing so, the Supreme Court found that there was no indication that Congress intended to alter the meaning of Section 1400(b) as interpreted by the *Fourco* decision, when it enacted the amendments to Section 1391(c).

Although it may appear on the surface that the Supreme Court's ruling in *T.C. Heartland* relates to an obscure, esoteric procedural matter in patent infringement litigation, but nothing could be farther from the truth. Under the Federal Circuit's *VE Holdings* decision, a U.S. corporation could be sued in any federal district which had personal jurisdiction over it, which meant that suit could be brought in any judicial district in which the corporate defendant did substantial business or sold the accused infringing product. This provided patent owners with great power to "forum shop" by selecting the federal district court in which to sue the accused infringing defendant in order to gain the greatest advantage.

Naturally, patent owners typically select forums which were convenient for them, such as their home jurisdiction, or federal districts which were known to be favorable to patent owners, including so-called "patent trolls" who sought licensing revenue from their patents. This broad definition of proper patent venue enabled certain federal district courts to establish themselves as experts in patent infringement litigation, in order to attract patent owners to file suit there against corporations that were located throughout the United States. Such courts included "rocket dockets" like the Eastern District of Texas or the Eastern District of Virginia, or technology-savvy courts, such as the Northern District of California (located near Silicon Valley), which became hot-beds of patent infringement litigation. Additionally, popular choices included the District of Delaware, where many corporations are incorporated, and the District of New Jersey, which had developed particular expertise in pharmaceutical and medical device patent litigation due to the location of many members of those industries in that State. Large cottage industries were developed around these patent-friendly courts, even in out-of-the-way places such as Marshall or Tyler Texas, which included law firms that acted as local counsel, litigation consultants, hotels, restaurants and copy vendors which catered to the patent litigation clientele.

These cottage industries, as well as the strategic and tactical options available to patent owners, have been called into question by *T.C. Heartland.* Patent owners will now be limited in their to filing patent infringement lawsuits against U.S. corporations only in their states of incorporation, or in a jurisdiction where they ***both*** have a regular and substantial place of business and where they have committed acts of infringement, which may include making, selling and/or distributing the infringing products. This may shift the center of the patent litigation universe to states like New York, New Jersey, California, Delaware, and several Southern states, where most major corporations are incorporated and/or have substantial operations, and away from venues like Texas and Virginia. Therefore, many will predict the end of "forum shopping" in patent infringement cases. Although the federal courts in Delaware, New Jersey and Northern California may have substantial experience with patent infringement cases, the same cannot be said for the federal courts in New York, which have gained a reputation for being unfavorable to owners of intellectual property rights, and courts in the middle and southern regions of the U.S. Patent owners may now be limited to filing suit in unfavorable or inexperienced courts far from their home states, thus increasing the cost of litigation to potentially prohibitive levels.

Attorneys for patent owners may look for more favorable options by finding forums where the defendant corporation has substantial operations and has committed acts of infringement. Efforts to expand the types of corporate activities that may meet those standards should be anticipated as well, particularly with respect to a company's "virtual" internet and eCommerce presence in a particular State.

FEDERAL CIRCUIT DETERMINES THAT TRADEMARK FAME IS NOT NECESSARILY FLEETING

On May 24, 2017, the U.S. Court of Appeals for the Federal Circuit in *Joseph Phelps Vineyards, LLC v. Fairmont Holdings, Inc.,* decided the circumstances under which a federally registered trademark can be considered famous, so that it may be used to cancel the federal registration of a competing trademark. Under U.S. trademark law, a federal trademark registration may be cancelled from the U.S. trademark register if it is determined that the continued registration of the mark would create confusion regarding the source of origin of the goods or services that were associated with another registered trademark that had been used in commerce for a longer period of time. An action to cancel a federally registered trademark is typically initiated by the trademark owner by filing a petition for cancellation with the Trademark Trial and Appeal Board (TTAB) of the U.S. Patent and Trademark Office. When determining whether one registered trademark is confusingly similar to another registered trademark, the TTAB applies the 13-factor test that was adopted by the predecessor to the Federal Circuit in *In re E.I. du Pont de Nemours & Co.*, 476 F.2d 1357, 177 USPQ 563 (CCPA 1973). Those 13 factors are the following:

1. The similarity or dissimilarity of the marks in their entireties as to appearance, sound, connotation, and commercial impression.
2. The similarity or dissimilarity and nature of the goods described in an application or registration or in connection with which a prior mark is in use.
3. The similarity or dissimilarity of established, likely-to-continue trade channels.
4. The conditions under which and buyers to whom sales are made, i.e. "impulse" vs. careful, sophisticated purchasing.
5. The fame of the prior mark.
6. The number and nature of similar marks in use on similar goods.
7. The nature and extent of any actual confusion.
8. The length of time during and the conditions under which there has been concurrent use without evidence of actual confusion.
9. The variety of goods on which a mark is or is not used.
10. The market interface between the applicant and the owner of a prior mark.
11. The extent to which applicant has a right to exclude others from use of its mark on its goods.
12. The extent of potential confusion.
13. Any other established fact probative of the effect of use.

In *Fairmont Holdings*, John Phelps Vineyards, LLC had produced and sold fine wines bearing the trademark INSIGNIA since 1978. In 2012, Fairmont Holdings received a federal registration for the mark ALEC BRADLEY STAR INSIGNIA for cigars and cigar products. Phelps Vineyards filed a petition with the TTAB to cancel Fairmont Holding's registration. The TTAB denied the petition, finding that "while it appears that Petitioner's INSIGNIA branded wine has met with success in the marketplace, we are not persuaded on this record that Petitioner's mark is a famous mark." Therefore, the TTAB gave the fame of

the INSIGNIA mark no weight in its consideration of the *DuPont* factors. In doing so, the TTAB determined that the fame of the trademark is "an-all-or nothing factor" (*i.e.,* either the mark was famous, or it was not) within the DuPont factors, which allowed the TTAB to disregard this factor entirely in reaching its conclusion that there was no likelihood of confusion.

The Federal Circuit determined that the TTAB committed error in interpreting the fame of a trademark as an all-or-nothing factor, and as a result the Court found that the TTAB did not properly consider the "totality of the circumstances" that are relevant to the *DuPont* factors, which requires that the TTAB consider "all relevant factors on a scale appropriate to their merits." Under U.S. trademark law, a mark is "famous" for purposes of determining likelihood of confusion if "a significant portion of the relevant consuming public … recognizes the mark as a source indicator." Fame among the general public is not considered. While the fame of the mark is an all-or-nothing factor in the context of determining whether a trademark has been diluted, fame for purposes of determining likelihood of confusion is a relative term, which "varies along a spectrum from very strong to very weak" The existence of fame must be determined from the perspective of the relevant market.

In applying the proper standards, the Federal Circuit considered the evidence of fame that Phelps Vineyards presented to the TTAB. The record showed that INSIGNIA wine is well-known in the wine market and among consumers of fine wine. INSIGNIA wine is also generally viewed positively by consumers, and it earned several prestigious awards and high ratings for its quality and desirability. INSIGNIA wine had also received positive reviews in the general and wine-specific media, and was also served during several official dinners at the White House. Therefore, the Federal Circuit was "perplexed" at the TTAB's finding that INSIGNIA had no "fame." Since consumers in the relevant market showed appreciation for INSIGNIA brand wine, the Federal Circuit found that it was error for the TTAB not to accord any "fame" to the INSIGINA mark.

The Court therefore remanded the case back to the TTAB for a reassessment of likelihood of confusion based on the *DuPont* factors, while giving due consideration to the "fame" of the mark. Judge Newman, in her concurring opinion, also suggested that the TTAB consider the "relatedness" of the goods that are sold under the parties' respective trademarks, noting that such relatedness may be based on use of those goods (*i.e.,* wine and cigars) together, their complementary nature, or their simultaneous consumption. Judge Newman observed that the evidence suggested that the parties' goods were sold in the same channels of trade to the same purchasers. Finally, Judge Newman found that the Board did not consider Fairmont Holdings' actual use of its registered mark. The way in which the mark actually appears on packaging and on advertising should be a factor that is given appropriate weight.

Although not groundbreaking, the Federal Circuit's ruling in *Fairmont Holdings* provides further insight into the proper analysis of the "fame" factor as it pertains to the likelihood of confusion between trademarks, and it provides a useful review of the evidence that is relevant to the *DuPont* factors that may support a finding of confusion.

FEDERAL CIRCUIT CLARIFIES REQUIREMENTS FOR CLAIM CONSTRUCTION, INVENTOR AND EXPERT TESTIMONY, AND CORROBORATING EVIDENCE IN *INTER PARTES* REVIEW

In *Intellectual Ventures v. Motorola Mobility, LLC,* the U.S. Court of Appeals clarified the scope of permissible testimony and documentary evidence that may be offered by the owner of a U.S. Patent that is being subjected to *inter-partes* review, where the patent's claims are challenged based on allegedly prior art. The Patent Trial and Appeal Board ("the Board") of the U.S. Patent and Trademark Office held that the claims of Intellectual Ventures' patent, U.S. Patent No. 7,382,771 ("the '771 Patent"), were unpatentable for anticipation, based on the prior art that was cited by the Petitioner, Motorola Mobility. The Board had excluded testimony from the inventor of the Intellectual Ventures patent and its expert witness, as well as supporting documents, which may have established that the claimed inventions were conceived of and reduced to practice prior to the critical publication date of the prior art reference that was relied on to find the claims unpatentable. The Federal Circuit disagreed with the Board's analysis, and found that it had committed legal error regarding whether there was prior conception of the patented inventions.

The '771 Patent is directed to a mobile wireless hotspot system that provides mobile wireless access points for use with high-speed wireless devices. Since the application for the '771 Patent was effectively filed prior to March 2013, the version of the law on these issues that was applied was the version that existed before the American Invents Act ("AIA") became the law. Under the pre-AIA law, if a patent owner could prove that it "invented" the claimed invention prior to the critical publication date of the prior art reference, then that reference would be disqualified as prior art, and the invention would be found patentable. Under pre-AIA law, in order to show such prior invention, a patent owner (or patent applicant) would have to prove that the patented invention was ***both*** conceived of, and reduced to practice prior to the critical publication date of the prior art reference. The testimony of the inventor(s) was often used to establish invention, as long as that testimony was corroborated by documentary evidence, such as engineering notebooks, blueprints or technical specifications that were dated at the time of the invention.

Under pre-AIA law, an inventor was allowed to claim priority for the invention back to the earliest date of conception, as long as the inventor was able to prove that he or she worked diligently after the conception to reduce the patented invention to practice, such as by creating a working prototype, or preparing a complete patent application for filing.[1] Although the evidence may clearly show the date of conception, diligence in reducing the invention to practice was often difficult to prove, as there were often gaps in the continuity of the effort to reduce the invention to practice, or that a significant period of months or years elapsed between conception and reduction to practice. Either or both of those occurrences would weigh against a finding of diligence that could defeat an early date of invention.

In *Intellectual Ventures,* the patent owner (Intellectual Ventures) argued to the Board that its predecessor had conceived of the claimed inventions, and had actually reduced them to practice prior to filing its patent application. Intellectual Ventures asserted that both the conception and reduction to practice occurred

before the critical publication date of the cited prior art reference. The Board ruled that Intellectual Ventures had not proven that all of the elements of the claimed invention had been conceived of prior to the critical publication date of the reference. However, the Federal Circuit found that the Board's analysis was erroneous.

The Federal Circuit faulted the Board for relying on an incorrect claim construction, which determined the elements of conception that Intellectual Ventures was required to prove. Since the patentablity of a claimed invention is evaluated during an *inter-partes* review proceeding according to the same legal standards that are applied to the original prosecution of the patent application before the USPTO, the Board was required to give the patent claims the broadest reasonable interpretation that was consistent with the disclosure of the invention.

Claim 1 of the '771 Patent requires, *inter alia,* a Local Area Network (LAN) routing system managing the data path between the wireless access points and an internet access interface. The Federal Circuit found that the Board erred by requiring Intellectual Ventures to present evidence that it had conceived of "authentication and control features" of the LAN routing system. This was found to conflict with the Board's prior construction of the LAN limitation according to its broadest reasonable interpretation to only require "managing" the data path, and not to require an additional "authentication and control feature." The Board could not adopt a broad claim construction that would apply to assessing whether the prior art reference disclosed the claimed invention, and then apply a narrower, more detailed claim construction when assessing the evidence supporting the date of invention, as it had done in *Intellectual Ventures*.

The Federal Circuit also discussed the Board's exclusion of the testimony of an inventor and Intellectual Ventures' expert witness on whether the Windows 98 version used by the inventors in the reduction to practice of the invention in fact had the capability to provide the LAN limitation, which would support an early date of invention. The Board excluded the testimony of the expert on this issue because he relied, in part, on information that had been provided to him by the inventor. The Board determined that even if the relevant version of Windows 98 had included the alleged functions of the claimed invention, Intellectual Ventures failed to show that the inventors knew of, and intended to use those functions. Although the Federal Circuit indicated that this evidence was not direct corroboration of the conception of the invention, because Windows 98 itself was not part of the claimed invention, this was corroborating evidence that played at least a minor role. Therefore, the Federal Circuit found that the Board was "too dismissive" in refusing to consider this evidence.

Under pre-AIA law, evidence of invention must demonstrate the conception of every feature or limitation of the claimed design. Inventor testimony must be corroborated by other evidence. The Federal Circuit

[1] Under the AIA, the patenting system in the United States was changed from one that was based on the "first-inventor-to-invent" what was claimed in a patent application to a system that was based on the "first-inventor-to-file" a patent application which claimed the invention. Therefore, under the AIA, with a few exceptions, the date of invention is the earliest effective filing date of the patent application, and evidence of prior conception and reduction to practice is no longer relevant.

in *Intellectual Ventures* reviewed the law on this standard and indicated that "the corroboration requirement has never been so demanding, such that the corroborating evidence must constitute definitive proof of the inventor's account or disclose each claim limitation as written." Instead, the focus should be on whether the totality of the evidence makes the inventor's testimony credible. The evidence must be evaluated based on a "rule of reason" standard where the Board was required to consider all pertinent evidence. According to the Court, this standard should not impose "an impossible standard of 'independence' on corroborative evidence by requiring that every point 'be corroborated by evidence having a source totally independent of the [inventor].'"

The Federal Circuit also applied this "rule of reason" analysis to the Board's determination of whether there was prior conception of the "stand-alone system" limitation of Claim 9 of the '771 Patent. The Court ruled that the Board had erred by refusing to consider the primary document providing evidence of conception for this limitation, and the related testimony of Intellectual Venture's expert. The Board found that this document did not provide corroborating evidence, because it was created about one month after the critical date of invention. The Federal Circuit noted that documents that are created shortly after the critical date and even undated documents may be relevant to corroborate an inventor's testimony.

Finally, the Federal Circuit found that the Board erred in refusing to consider Windows 98 product guides, and the testimony of Intellectual Ventures' expert about them, in order to corroborate the conception of the "stand alone system" limitation. The Board had reasoned that the inventor of the '771 Patent did not testify that he selected and used Windows 98 to provide the stand-alone system functionality, but that he used Windows 98 and that Windows 98 had such functionality. The Board also found that these documents were "entitled to little or no weight" because they were last reviewed several years after the date of conception. The Federal Circuit found that this was an "overly narrow, element-focused attack" that was inconsistent with the rule of reason. In the end, the Federal Circuit remanded the case back to the Board with the instruction that it give this evidence the proper weight under the rule of reason standard.

The Federal Circuit's decision in *Intellectual Ventures* is notable for several reasons. First, it provides insight into the Court's current thinking on the application of the pre-AIA conception and reduction to practice standards in cases where an early date of "invention" is required in order to disqualify a prior art reference. The Court seeks to retain the flexibility of these standards to the point where every benefit of the doubt should be given to whether an inventor's testimony is properly corroborated, in terms of all of the evidence that is available. Such evidence would include documents and expert testimony regarding what such an inventor would have known about the state of the art of the technology at the time he/she created the invention, as well as the tools that were available to the inventor that would have enabled the inventor to properly conceive of and reduce the invention to practice. The Court strenuously disagreed with the narrow, strict approach that the Board took to weighing the evidence, and to determine whether it corroborated the inventor's testimony. Therefore, the principles discussed in *Intellectual Ventures* may make it easier for a patent owner in a future pre-AIA *inter-partes* review case to establish an earlier date of conception and reduction to practice to avoid the prior art.

Secondly, the Federal Circuit's decision may also highlight a strategic approach that a patent owner may take when faced with a pre-AIA *inter-partes* review proceeding that requires an earlier date of invention to avoid the prior art. In a typical *inter-partes* review proceeding where prior invention is not an issue, the Board's determination of the broadest possible interpretation of the claims will generally make it easier for the Board to apply the disclosure found in the prior art to the claimed invention to find it unpatentable. Commentators have opined that this has allowed the Board to find patent claims to be unpatentable at an unusually high rate. Therefore, patent owners generally advocate during *inter-partes* review proceedings for the narrowest construction that they are able to convince the Board to adopt, in order to include additional elements for the claimed invention that will be more difficult to find in the prior art.

However, in pre-AIA cases, in instances where the patent owner has the opportunity to establish a date of invention which predates the prior art, the patent owner may consider advocating for a broader construction of the claims, so that there are fewer elements of evidentiary proof that must be presented through inventor and expert testimony, and through corroborating documents, in order to establish an early date of conception and reduction to practice. Of course the risk is that such a broad interpretation is more likely to include the prior art within its scope, and therefore result in a finding of unpatentability if the efforts to predate the references are unsuccessful.

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