

Σummations:

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U.S. SUPREME COURT EXPANDS GEOGRAPHIC SCOPE OF DAMAGES FOR PATENT INFRINGEMENT

The U.S. Supreme Court recently expanded the geographic reach of the U.S. patents laws to allow for the recovery of lost profit damages for sales of an infringing system that took place outside of the United States. In *WesternGeco LLC v. Ion Geophysical Corp.*, the Court was asked to decide whether a patent owner could recover damages for the sale of component parts of a system that were manufactured in the United States, but were assembled abroad and used to commit infringement of the patents outside of the United States, thus implicating the extraterritorial reach of the U.S. patent laws.

WesternGeco owned four U.S. patents relating to a system that it developed for surveying the ocean floor. WesternGeco's invention utilized lateral-steering technology to produce higher quality data than previous survey systems. WesternGeco used this technology itself to provide surveys for oil and gas companies, rather than licensing or selling it to others. Icon Geophysical then began selling a competing survey system, using components that were manufactured in the United States which were then shipped to companies located abroad for use outside of the United States. Those foreign companies assembled the components to create a surveying system that was indistinguishable from the system that WesternGeco had patented.

WesternGeco sued Icon in federal district court under 35 U.S.C. 271(f)(1) and (f)(2), alleging that it had lost 10 specific survey contracts due to Icon's infringement. The jury found that Icon infringed

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WesternGeco's patents, and awarded \$12.5 million in royalties and \$93.4 million in lost profits under 35 U.S.C. 284. Icon filed a post-trial motion to set aside the jury's verdict, arguing that WesternGeco could not recover damages for lost profits because Section 271(f) does not apply extraterritorially. The District Court denied Icon's motion, but the U.S. Court of Appeals for the Federal Circuit, relying on its recent precedent, found that Section 271(f) does not allow patent owners to recover damages for lost foreign sales. The U.S. Supreme Court then granted *certiorari*.

The Supreme Court began its analysis by reviewing the general principle that federal statutes "apply only within the territorial jurisdiction of the United States." This presumption rests on the principle that Congress generally legislates with domestic concerns in mind, and it prevents unnecessary clashes between U.S. laws and those of other nations. The Supreme Court has established a general, two-step test for deciding questions of whether a U.S. federal statute should have extraterritorial effect. The first step asks "whether the presumption against extraterritoriality has been rebutted, but only if the text of the statute provides a "clear indication of an extraterritorial application." If the presumption against extraterritoriality has not been rebutted, then the second step asks "whether the case involves a domestic application of the statute," such as by identifying the statute's focus and whether the conduct relevant to that focus occurred in the U.S. territory. If it did, then the case involves a permissible domestic application of the statute.

The Court jumped right to the second step of the extraterritoriality test, in order to avoid deciding several difficult issues that would have been raised by addressing the first step. Under the second step, the focus of the statute is "the object of its solicitude," which can include the conduct that it seeks to regulate, as well as the parties and interests that it seeks to protect or vindicate. If the conduct relevant to the statute's focus occurred in the United States, then the case involves permissible domestic application, even though other conduct occurred abroad. However, if the relevant conduct occurred in another country, then the case involves an impermissible extraterritorial application of the statute regardless of any other conduct that occurred in the U.S.

Applying these principles to the facts of *WesternGeco*, the Supreme

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Court concluded that the relevant statutory focus is domestic. The Court noted that Section 284 of the Patent Act provides a general damages remedy for the various types of patent infringement that are described in that Act. Since Section 284 directs that “the court shall award the claimant damages adequate to compensate for the infringement,” the Court found that “the infringement” is the focus of that statute. Stated differently, since the overriding purpose of Section 284 is to “affor[d] patent owners complete compensation for infringement,” the question posed by that statute is “how much has the patent holder ... suffered by the infringement, making “infringement” the focus.

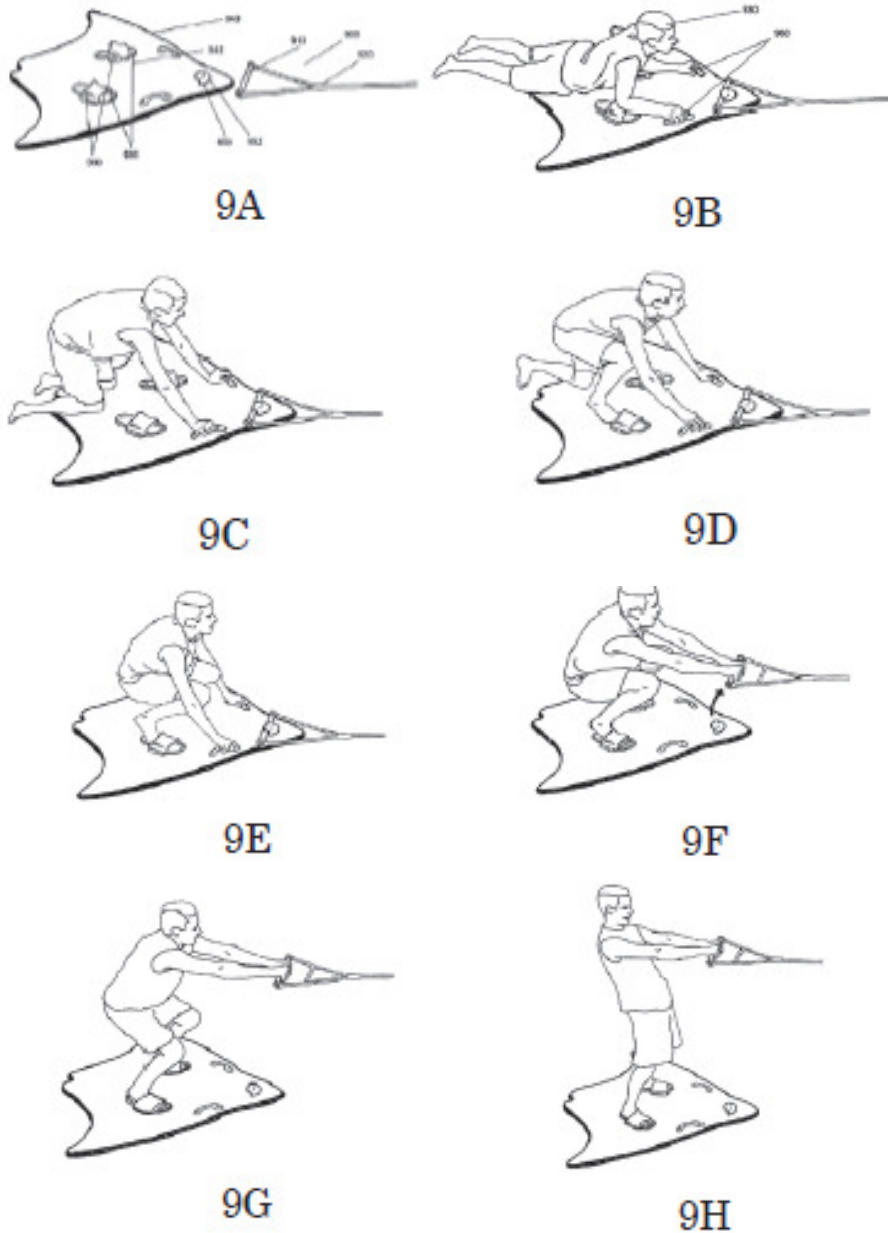
The Supreme Court next looked at the nature of the infringement of WesternGeco’s patents by Icon Geophysical that was found to have taken place under Section 271(f)(2), which focuses on domestic conduct. Under Section 271(f)(2), a company “shall be liable as an infringer” if it “supplies” certain components of a patented invention “in or from the United States,” with the intent that they “will be combined outside of the United States in a manner that would infringe if such combination occurred within the United States.” Since the conduct that Section 271(f)(2) regulates must occur in the United States, that statute vindicates domestic interests, because it protects against “domestic entities who export components ... from the United States.” As a result, remedying domestic infringement is “the object of the statute’s solicitude” in this context. Therefore Icon’s domestic act of supplying the components that infringed WesternGeco’s patents clearly occurred in the United States, so that the lost profits damages that were awarded to WesternGeco by the jury were a domestic application of Section 284, and were not an impermissible extraterritorial application of that statute.

The Supreme Court’s decision in *WesternGeco* plugs yet another loophole in the U.S. patents laws that will make it even more difficult, if not impossible, for a domestic U.S. manufacturer to avoid paying both reasonable royalty and lost profits damages for the sale of component products that are intended for assembly and use in an infringing manner outside of the United States under Section 271(f) of the Patent Act. This decision will both enhance the value of patents with global applications, and provide greater deterrence to would-be foreign infringers and their U.S. partners.

FEDERAL CIRCUIT APPLIES STANDARDS FOR USING SECONDARY INDICIA OF NONOBVIOUSNESS TO AVOID PATENT INVALIDITY

The U.S. Court of Appeals for the Federal Circuit in *Zupp, LLC v. Nash Manufacturing, Inc.*, Appeal No. 2017-1601, recently discussed and applied the legal standards for finding a utility patent obvious under 35 U.S.C. 103, in particular the available evidence of so-called “secondary indicia of nonobviousness,” which may be used to overcome a finding that the patent was invalid.

ZUP owned a U.S. patent that generally covered a recreational wakeboard and a method of riding such a board in which a rider simultaneously uses side-by-side handles and side-by-side foot bindings to help maneuver between various riding positions. According to the ZUP patent, this allows a rider to more readily move from lying prone on the board, to kneeling, to crouching, and then standing.



ZUP's direct competitor, Nash, had discussed with ZUP the possibility of jointly manufacturing this patented wakeboard. However, business negotiations broke down, and Nash began manufacturing and selling its own version of ZUP's innovative wakeboard design, the Versa Board.

ZUP then sued Nash for patent infringement in the U.S. District Court for the Eastern District of Virginia. Nash subsequently filed a motion for summary judgment that the asserted claims of ZUP's patent were invalid for obviousness under 35 U.S.C. 103 based on the prior art, and that Claim 9 of that patent was not infringed by the competing Nash product. The District Court granted Nash's motion and found ZUP's patent invalid and not infringed. ZUP then appealed that decision to the U.S. Court of Appeals for the Federal Circuit.

The Federal Circuit's discussion and analysis focused on whether the asserted claims of the ZUP patent were invalid for obviousness. The Federal Circuit reviewed the requirements for obviousness that were set forth by the U.S. Supreme Court in its *Graham v. John Deere Co.* decision, *i.e.*, that the Court must consider 1) the scope and content of the prior art; 2) the difference between the claims and the prior art; 3) the level of ordinary skill in the pertinent art; and 4) any secondary considerations of non-obviousness. The Federal Circuit also noted that a person of ordinary skill in the art must also have had a motivation to combine multiple pieces of prior art in the way that their features are claimed by ZUP's patent, before obviousness may be found.

The Federal Circuit found that there was no dispute between ZUP and Nash concerning the scope and content of the prior art, the differences between the prior art and the ZUP patent, and the level of ordinary skill (*i.e.*, the educational and experiential training) that was possessed by an ordinarily-skilled person in the art of recreational wakeboard design. Therefore, the Federal Circuit was left to determine whether there was sufficient motivation for a person of ordinary skill to combine the prior art references that were cited against the ZUP patent, and whether ZUP had presented sufficient evidence of secondary indicators of nonobviousness to support the validity of its patent.

The Federal Circuit noted that a "motivation to combine [prior art references] may be found explicitly or implicitly in market forces; design incentives; the 'interrelated teachings of multiple patents'; 'any need or problem known in the field of endeavor at the time of the invention and addressed by the patent'; and the background, knowledge, creativity, and common sense of the person of ordinary skill." The District Court had found that the prior art references disclosed all of the elements and features of the ZUP patent: a riding board, a tow hook, handles, foot bindings, and a plurality of rails on the bottom surface of the riding board. These elements and features aided in rider stability while riding a wakeboard on the water, so that it was easy to simply combine them into one apparatus and method, as ZUP had done. The District Court therefore concluded that one of ordinary skill in the art would have been motivated to combine the various individual elements disclosed in the prior art references, due to a desire "to aid rider stability, to allow a wide variety of users to enjoy the device, and to aid users in maneuvering between positions on a water board," which was seen as a "driving force throughout the prior art and have been shared by many inventors in the water recreational device industry."

The Federal Circuit agreed, and concluded that there was motivation to combine the prior art references, due to the consistent desire for riders to safely change positions while riding recreational wakeboards (and the need to maintain stability while doing so), and the fact that the elements of the ZUP patent were used in the prior art for this exact same purpose.

However, the Federal Circuit focused the majority of its analysis on whether ZUP had presented sufficient evidence of secondary indicators of nonobviousness to support the validity of its patent. The Court reviewed the types of secondary considerations that were relevant to the obviousness inquiry: 1) a long-felt but unresolved need in the marketplace for the invention; 2) copying; 3) failure of others to achieve the results of the patent; 4) the criticality or unexpected results achieved by the patented invention; 5) licenses or praise showing industry respect for the patented invention; 6) skepticism of skilled artisans before the invention; and 7) the commercial success of the patented product.

ZUP had presented evidence of long-felt but unresolved need, copying and commercial success, but only relied on the first two indicia at the Federal Circuit. For long-felt need, ZUP presented the testimony of its technical expert, who explained that for over 50 years the focus in the water-sports market was creating stability in tubing, knee boarding, or skiing/wakeboarding, and that “it was a general frustration of the industry that there was no product that would enable the weakest and most athletically challenged members of the boating community to ski or wakeboard.” ZUP also presented the admission of Nash’s President that ZUP has “... a great product by the way!” On that basis, ZUP argued that the ZUP board demonstrates the existence of a long-felt but unresolved need for a water recreation device that eases the process of achieving a standing position.

The Federal Circuit disagreed, and held instead that “[w]here the differences between the prior art and the claimed invention are as minimal as they are here, however, it cannot be said that any long-felt need was unsolved.” The Court noted that the ZUP invention was not the first to achieve the goal of helping users maneuver between positions on a recreational board.

The Federal Circuit also found that ZUP presented even less compelling evidence of copying. According to the Court, such copying requires evidence of efforts to replicate a specific product, which may be demonstrated through internal company documents, direct evidence such as disassembling a patented prototype, photographing its features, and using the photograph as a blueprint to build a replica, or access to the patented product combined with substantial similarity of the product. Although Nash obtained a sample of the ZUP product during the parties’ business negotiations, the Court found that the products were not sufficiently similar, because a user would have to ignore Nash’s instructions for how to use the Versa Board, which discouraged the user from keeping the handles attached to the board while standing.

In sum, the Federal Circuit found that the “weak” evidence of secondary considerations presented in this case were not sufficient to overcome the strong showing of obviousness based on a comparison of the claimed invention to the prior art. The showing of obviousness was strong because the patented invention was considered to do no more than combine the predictable use of prior art elements according to established functions. Therefore, the Federal Circuit’s decision in *ZUP* represents yet another instance where the Court has considered the scope and content of the prior art; the difference between the claims and the prior art; and the level of ordinary skill in the pertinent art to be the primary considerations in the obviousness determination, and only considers the relative depth and breadth of the evidence of secondary considerations of non-obviousness only to the extent that they are sufficient to rebut the relative strength of the evidence of the primary factors. This resulted in a strong dissent from Judge Newman, who would consider the secondary considerations to be co-equal with the other factors, in order to guard against improper judicial hindsight, which she accuses the other two presiding Judges of engaging in in this case. Therefore, the proper role of the secondary considerations of non-obviousness will continue to be the subject of lively debate at the Court.

FEDERAL CIRCUIT FINDS THAT SPREADSHEET PATENTS CLAIM PATENT ELIGIBLE SUBJECT MATTER

On October 9, 2018, the U.S. Court of Appeals for the Federal Circuit decided that three U.S. patents directed to improvements in the operation of a computerized spreadsheet were eligible for patent protection under 35 U.S.C. 101. In *Data Engine Tech. LLC v. Google, Inc.*, Appeal No. 2017-1135, Data Engine obtained three U.S. patents that were directed to an improved systems for navigating through complex three-dimensional electronic spreadsheets, and a fourth patent which claimed methods for tracking changes to data in such spreadsheets. Data Engine’s patents claimed systems and methods for making complex electronic spreadsheets more accessible by providing familiar, user-friendly interface objects, in this case notebook tabs, to navigate through spreadsheets, without the need to search for, memorize and enter complex commands. The so-called Tab Patents, which included system claims, allowed the complexities of these three-dimensional electronic spreadsheets to be “hidden under ordinary, everyday object metaphors,” providing a “highly intuitive interface – one in which advanced features (e.g. three-dimensionality) are easily learned.” The use of tabs to navigate between and among spreadsheet pages was shown in FIGS 4G and 2D of the Tab Patents:

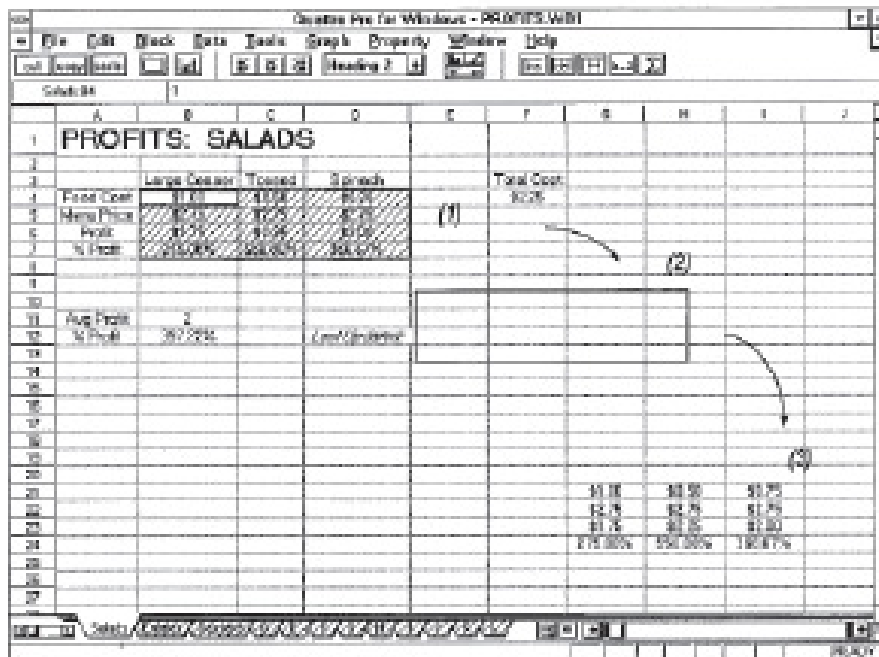


FIG. 4G



FIG. 2D

In the preferred embodiment of the invention that was disclosed in the patents’ specification, “each page identifier is in the form of a tab member ... situated along the bottom edge of the notebook,” and can be

given descriptive names by the user. To move to different spreadsheet pages, the user selects the corresponding tab for that page. Therefore, “instead of finding information by scrolling different parts of a large spreadsheet, or by invoking multiple windows of a conventional three-dimensional spreadsheet, the present invention allows the user to simply and conveniently ‘flip through’ several pages of the notebook to rapidly locate information of interest.” This new interface thus allows for “rapidly accessing and processing information on the different pages, including, for example, displaying a plurality of page identifiers for selecting individual pages.”

Although by today’s standards, this invention would hardly be considered innovative, it must be kept in mind that the Tab Patents claim invention priority to a U.S. patent application that was originally filed on April 8, 1992, which is nearer to the beginning of the business computing automation revolution. The original commercial embodiment of the Tab Patents, the Quattro Pro product, was highly acclaimed at that time as having revolutionized three-dimensional electronic spreadsheets. The improvements over existing technology and the problems that were solved by the inventions claimed in the Tab Patents were well documented by contemporaneous articles in trade publications, such as *PC World* and *InfoWorld*.

Data Engine’s method patent was directed to methods that allow electronic spreadsheet users to track their changes. According to the specification of the method patent, prior art spreadsheets provided little or no tools for creating and managing a multitude of hypothetical scenarios that were based on projections or assumptions regarding the level of sales, the corporate tax rate and the like. Instead, users of prior art systems had to manually create separate copies of the underlying model for each different scenario, which made it difficult for the user to track any modifications made in the various copies. The invention claimed in the method patent attempted to solve this problem by providing an electronic spreadsheet with tools for creating and tracking various versions or “scenarios” of a data model. Specific sets of information cells may be tracked to automatically identify changes between a baseline model and a new scenario in which the data for particular cells is changed.

Data Engine filed suit against Google, asserting that Google infringed various groupings of claims of each of its four Patents. Google answered Data Engine’s complaint and immediately filed a motion for judgment on the pleadings at the very beginning of the case, arguing that the asserted claims of the Tab Patents and the method patent are not directed to patent-eligible subject matter under Section 101. The Federal District Court which heard the case granted Google’s motion with respect to the Tab Patents, finding that their claims were directed to the abstract idea of using notebook-type tabs to label and organize spread-sheets or to the abstract idea of tracking changes in spreadsheet data that humans have commonly performed entirely in their minds, with the aid of columnar pads made of paper and writing instruments, so that they failed to recite an inventive concept. With respect to the method patent claims, the District Court found that they are directed to the abstract idea of “collecting spreadsheet data, recognizing changes to spreadsheet data, and storing information about the changes,” so that they cover mere inputting of information in a (computerized) columnar pad, recognition of changes in later versions of the inputted information, and storage of information about the changes. The method patent was therefore found not to provide an inventive concept sufficient to confer patent eligibility.

Data Engine appealed the District Court’s decision to the Federal Circuit. Under the U.S. patent laws, Section 101 provides that “[w]hosoever invents or discovers any new and useful process, machine,

manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor.” In its well-known decision in *Alice Corp. v. CLS Bank Int’l*, the U.S. Supreme Court set forth a two-step test for examining patent eligibility under Section 101: 1) determine whether the patent claims at issue are directed to a patent-ineligible concept,” where laws of nature, natural phenomena, and abstract ideas are not patentable, recognizing that an idea itself is not patentable; and 2) if the claims are directed to a patent-ineligible concept, then consideration must be given to whether the elements of each claim both individually and ‘as an ordered combination,’ transform the nature of the claim into a patent-eligible application. For the second step, this amounts to a “search for an inventive concept,” to ensure that the patent in actual practice amounts to significantly more than a patent upon the ineligible concept itself.

With respect to the Tab Patents, the Federal Circuit reversed the District Court’s decision and held that they were directed to patent eligible subject matter. When considered as a whole, and in light of the specification, the Tab Patents were not directed to an abstract idea, but rather to a specific method for navigating through three-dimensional electronic spreadsheets. The Court found that this system provides a specific solution to then-existing technological problems in computers and prior art electronic spreadsheets, which were not user friendly and required the user to “master many complex and arbitrary operations.” For example, users of prior art systems were required to search through many complex menu systems to find appropriate commands to execute even simple computations, which was viewed as burdensome, and hindered the user’s search for information. The Court found that the claims of the Tab Patents precisely recited the solution to this problem, which provided a “highly-intuitive, user-friendly interface with familiar notebook tabs for navigating the three-dimensional work-sheet environment, which allowed computers, for the first time, to provide rapid access to and processing of information in different spreadsheets, as well as easy navigation in three-dimensional spreadsheets.” These innovations were acknowledge by wide-spread praise in the industry.

Comparing the claims of the Tab Patents to inventions discussed in several of the Federal Circuit’s other Section 101 decisions, the Court found that the Tab Patents were not simply directed to displaying a graphical user interface, or collecting, manipulating, or organizing information to improve navigation to three-dimensional spreadsheets, which are features which may not be patentable themselves. Instead, the Tab Patent’s claims recite a specific structure (*i.e.*, notebook tabs) within a particular spreadsheet display that performs a specific function (*i.e.*, navigating within a three-dimensional spreadsheet). Therefore, the Court found, when the claims of the Tab Patents are read as a whole, they are directed to a specific function – an improved manner of navigating through a spreadsheet – which is more than a generic or abstract idea, as they claim a particular manner of navigating three-dimensional spreadsheets, thereby implementing an improvement in electronic spreadsheet functionality.

However, with respect to the method patent, the Federal Circuit found that it ***was not*** eligible for patent protection, because the claims were directed to the abstract idea of identifying and storing electronic spreadsheet pages and changes to those pages. The claims generally recite “associating each of the cell matrices with a user-settable page identifier” and they do not recite the specific implementation of a notebook tab interface.” The Court also found that the claims of the method patents failed to recite an inventive concept, because they merely recite collecting spreadsheet data, recognizing changes to spreadsheet data and storing information about the changes. Merely automating the process of the previously manual process of tracking changes to data across cells and pages (which is itself an abstract

idea), does not render the invention patentable. Unlike the Tab Patents, nothing in the method patent claims viewed in light of the specification demonstrates that the claimed methods improve spreadsheet functionality in a specific way to render the claims not abstract. The method patents merely recite the generic steps of creating a base version of the spreadsheet, creating a new version of the spread sheet, and determining changes made to the original version, which is no more than the statement of the abstract idea, while adding words to apply it. This is the type of invention that the *Alice* decision found not to be patentable.

As a result, *Data Engine* joins a lengthening line of Federal Circuit cases which apply the *Alice* test to determine whether a computer-based invention is patent eligible under Section 101 based on whether it contributes a specific, concrete improvement to the computer technology that it operates, or whether it merely automates a series of abstract mental steps or processes that were previously implemented manually.

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