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IP Newsflash

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FEDERAL CIRCUIT CASES

Federal Circuit Has Jurisdiction to Decide Non-Patent Causes of Action That Involves a Substantial, Non-Hypothetical Disputed Patent Law Issue

On September 16, 2014, a Federal Circuit panel consisting of Circuit Judges Dyk, Plager and Linn denied petitioners Boston Scientific Corporation and Scimed Life Systems ("petitioners") petition for interlocutory review of the denial of its summary judgment motion by the Central District of California District Court. The respondent Dr. Yang (Yang), who assigned his rights to certain patents in exchange for upfront and possible royalty payments, filed a breach of contract action in federal court on the basis of diversity of citizenship alleging petitioners failed to compensate him for the sale of its stent products. During the pendency of the action, the petitioners initiated reexamination of the assigned patents, which were rejected and canceled when the petitioners failed to respond to an Office Action. The petitioners moved for summary judgment arguing that pursuant to *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), they are not required to pay for practice of claims that were later held to be invalid. The district court denied the motion and concluded that Jang could seek royalties prior to the challenge of validity of the patents.

The majority of the opinion focused on whether the Federal Circuit had jurisdiction to decide this petition because the underlying cause of action is a breach of contract dispute. The Federal Circuit ultimately found that it has exclusive jurisdiction because the case raises a patent issue that is "(1) necessarily raised, (2) actually disputed, (3) substantial, and (4) capable of resolution in federal court without disrupting the federal-state balance approved by Congress." *Id.* at *4 (quoting *Gunn v. Minton*, 133 S. Ct. 1059, 1065 (2013)). In contrast to Gunn, the current federal patent law dispute is "substantial and neither entirely backward-looking nor hypothetical" because the court may need to ascertain both infringement and validity of the patents to resolve the breach of contract dispute. Moreover, allowing regional circuit courts to decide issues of validity may result in inconsistent judgments across the regions. Therefore, the Federal Circuit has jurisdiction to hear such claims. On the issue of interlocutory appeal, the Federal Circuit stated that it rarely grants such appeals and denied the request without taking any position on the merits.

Jang v. Boston Scientific Corp., No. 2014-134 (Fed. Cir. Sep. 16, 2014).

- *Author*: Melissa Gibson

Federal Circuit Vacates Damages Award, Clarifies "Smallest Salable Unit," and Asks for More when Invoking the Nash Bargaining Solution

On September 16, 2014, the Federal Circuit vacated a jury's damages award and remanded the case to district court for further proceedings. VirnetX, Inc. sued Apple, Inc. in the Eastern District of Texas, alleging that Apple's FaceTime and VPN On Demand features collectively infringe four patents. The jury awarded VirnetX $368 million in damages, using iOS devices (i.e., iPhone, iPod, and iPad) as the base.

The Federal Circuit clarified the application of the "smallest salable unit" to determine the royalty base. The smallest salable unit approach is a way to apportion damages tied to the claimed invention, rather than using the entire market value. But it is not applicable to multi-component products (in this case, iOS devices) with several non-infringing features (e.g., web browser, email, iMessage) with no relation to the allegedly infringing features (i.e., FaceTime and VPN On Demand). Because the iOS devices are multi-component products, damages must be apportioned, even though the iOS device is the smallest salable unit. That is why the court held that the jury instruction, which allowed the jury to rely on the entire market value without apportioning for the allegedly infringing features, was erroneous.

In determining a royalty base, you should not use the value of the entire apparatus or product unless either: (1) the patented feature creates the basis for the customers' demand for the product, or the patented feature substantially creates the value of the other component parts of the product; or (2) the product in question constitutes the smallest saleable unit containing the patented feature.

Relatedly, the Federal Circuit ruled that the district court should have excluded VirnetX's expert testimony on damages as inadmissible because it was based on the entire market value without apportioning damages to the allegedly infringing features.

The Federal Circuit also took issue with using the Nash Bargaining Solution to determine the profit split between VirnetX and Apple. Much like the "25 percent rule of thumb," the Nash Bargaining Solution is based on several premises. But the premises are not necessarily met by the facts in every case. That is why the court rejected the "25 percent rule of thumb" *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1315 (Fed. Cir. 2011) ("Evidence relying on the 25 percent rule of thumb is thus inadmissible … because it fails to tie a reasonable royalty base to the facts of the case at issue"). And, for similar reasons, the court ruled that VirnetX's use of the Nash Bargaining Solution was inappropriate because its expert failed to "sufficiently establish that the premises of the theorem

actually apply to the facts of the case at hand."

VirnetX, Inc. v. Cisco Systems, Inc., No. 2013-1489 (Fed. Cir. September 16, 2014).

- *Author*: John Wittenzellner

PATENT TRIAL AND APPEAL BOARD

U.S. Patent Office Denies *Inter Partes* Review of Incentive Program Patent

On September 11, 2014, the U.S. Patent and Trademark Office denied an *inter partes* review request regarding an incentive program patent after finding that the petitioners failed to show there was a reasonable likelihood that they would prevail on their invalidity claims. Grocery store chains Safeway and Kroger sought *inter partes* review under the America Invents Act, which allows parties to challenge patent claims based on certain types of prior art. Kroy IP sued Kroger and Safeway in the United States District Court for the Eastern District of Texas alleging the defendants infringed U.S. Patent No. 7,054,830 by providing an incentive program to their customers which allowed them to redeem accumulated points for automated awards at certain locations. In seeking *inter partes* review, Kroger and Safeway alleged the '830 Patent was invalid for obviousness and anticipation based on four prior art references, but the USPTO panel sided with Kroy, holding that Safeway and Kroger presented merely conclusory statements regarding their invalidity claims, thus failing to show a reasonable likelihood of prevailing on their patentability challenges.

Safeway, Inc. et al. v. Kroy IP Holdings, LLC, Case No. IPR2014-00685, at the U.S. Patent and Trademark Office's Patent Trial and Appeal Board.

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