

## FEDERAL CIRCUIT UPDATE – MARCH 2018

To Our Clients and Friends:

This March 2018 edition of Gibson Dunn's Federal Circuit Update discusses the three pending Federal Circuit cases before the Supreme Court that consider issues regarding *inter partes* review proceedings and extraterritorial damages, and a brief summary of the process for seeking an interlocutory appeal. This Update also provides a summary of the pending *en banc* case involving attorneys' fees for litigation involving the PTO. Also included are summaries of recent decisions regarding the fair use defense to copyright infringement, factual issues underlying patent eligibility under 35 U.S.C. § 101, and the jurisdiction of the Federal Circuit over *Walker Process* antitrust claims.

### Federal Circuit News

On Friday, March 16, 2018, the Judicial Conference of the U.S. Court of Appeals for the Federal Circuit was held in Washington, D.C. At the Conference, Judge Pauline Newman was recognized with the 2018 American Inns of Court Professionalism Award. Judge Newman has served on the Federal Circuit in active status for the past 34 years.

**Supreme Court.** The Supreme Court has heard oral argument on two cases from the Federal Circuit this term, and recently granted certiorari on a third case:

Case	Status	Issue
<i>WesternGeco LLC (Schlumberger) v. ION Geophysical Corp.</i> , No. 16-1011	Certiorari granted Jan. 12, 2018; Argument Apr. 16, 2018	Recoverability of lost profits for foreign use in cases where patent infringement is proven under 35 U.S.C. § 271(f)
<i>Oil States Energy Services, LLC v. Greene's Energy Group, LLC</i> , No. 16-712	Argued on Nov. 27, 2017	Constitutionality of <i>inter partes</i> review under Article III and the Seventh Amendment
<i>SAS Institute Inc. v. Matal</i> , No. 16-969	Argued on Nov. 27, 2017	The number of claims that must be addressed by the Patent Trial and Appeal Board in a final written decision during <i>inter partes</i> review

## Upcoming *En Banc* Federal Circuit Cases

***NantKwest, Inc. v. Matal*, No. 16-1794 (Fed. Cir.):** Whether the PTO can recover attorneys' fees in litigation under 35 U.S.C. § 145.

After the PTAB affirmed the examiner's rejection of NantKwest's patent application, NantKwest appealed to the United States District Court for the Eastern District of Virginia under 35 U.S.C. § 145. The PTO prevailed on the merits of the appeal and moved to recover both attorneys' fees and expert fees. Section 145 provides that "[a]ll the expenses of the proceedings shall be paid by the applicant." Applying this provision, the district court granted the PTO's request for expert fees, but rejected the PTO's request for attorneys' fees. A panel of the Federal Circuit reversed the district court's holding as to attorneys' fees, holding that the "[a]ll expenses of the proceedings" provision under § 145 authorizes an award of attorneys' fees. (Decision available [here](#).)

The Federal Circuit *sua sponte* ordered that the panel decision be vacated and that the case be reheard *en banc*. Seven amicus briefs were filed, five in support of NantKwest (the International Trademark Association, the Intellectual Property Owners Association, the Intellectual Property Law Association of Chicago, the Association of Amicus Counsel, and the American Bar Association) and two in support of neither party (Federal Circuit Bar Association and American Intellectual Property Law Association). Oral argument was held on March 8, 2018. (Audio recording is available [here](#).)

### Question presented:

Did the panel in *NantKwest, Inc. v. Matal*, 860 F.3d 1352 (Fed. Cir. 2017) correctly determine that 35 U.S.C. § 145's "[a]ll the expenses of the proceedings" provision authorizes an award of the United States Patent and Trademark Office's attorneys' fees?

## Federal Circuit Practice Update

***How to Appeal from an Interlocutory Decision.*** The Federal Circuit has exclusive jurisdiction over interlocutory orders in patent law cases. *See* 28 U.S.C. § 1292(c)(1). Interlocutory orders are appealable as of right if they relate to an injunction, receivers, or certain admiralty cases. *See* § 1292(a)(1)–(3). All other interlocutory appeals are discretionary and require that both the district court and the appeals court agree to hear the issue on appeal.

The district court judge must first certify that the issue "involves a controlling question of law as to which there is substantial ground for difference of opinion and that an immediate appeal from the order may materially advance the ultimate termination of the litigation." 28 U.S.C. § 1292(b). There is no deadline after the substantive order to move for certification under section 1292(b), but the prospective appellant should move promptly. If the district court declines to issue such a certification order, that is the end of the road (absent mandamus or other extraordinary relief).

If the district court certifies an issue for interlocutory appeal, the appeals court has discretion to permit the appeal. *See* § 1292(b); *see also Regents of U. of Cal. v. Dako N. Am., Inc.*, 477 F.3d 1335, 1336 (Fed. Cir. 2007) ("Ultimately, this court must exercise its own discretion in deciding whether it will grant

permission to appeal an interlocutory order certified by a trial court." ). A party has ten days after the district court's certification order to petition the court of appeals. *See* § 1292(b); *see also* Fed. R. App. P. 5(a)(3). The petition must contain a summary of relevant facts, the question presented, the relief sought, a statement of the reasons why the appeal should be allowed, and copies of the relevant district court orders. Fed. R. App. P. 5(b)(1)(A)–(E). A party then has ten days to file an answer in opposition to the petition. Fed. R. App. P. 5(b)(2). The petition is decided without the benefit of oral argument, unless the court of appeals orders otherwise. Fed. R. App. P. 5(b)(3).

## Key Case Summaries (February – March 2018)

***Oracle Am., Inc. v. Google LLC*, Nos. 17-1118, 17-1202 (Fed. Cir. Mar. 27, 2018)**: Direct copying of a copyrighted work for use in a competing platform using the material for the same purpose and function did not, on the facts of the case, amount to fair use.

After a jury had determined that Google's use of Oracle's copyright in Java API packages was a fair use, the district court denied Oracle's post-trial motions for judgment as a matter of law and for a new trial. Applying the four factors for fair use from 17 U.S.C. § 107, the district court held that a reasonable jury could have concluded that the use was fair because: (1) the purpose and character of Google's use was transformational; (2) the nature of the copyrighted work was not "highly creative"; (3) the amount and substantiality of the portion used was only as much of the work as was necessary for its transformative use; and (4) Google's use of the code did not cause harm to the potential market for the copyrighted work.

The Federal Circuit (O'Malley, J.) reversed. At the outset, the Federal Circuit discussed the standard of review and found that fair use is "primarily a legal exercise" and thus, under the Supreme Court's recent decision in *U.S. Bank Nat'l Ass'n ex rel. CWC Capital Asset Mgmt. LLC*, No. 15-1509 (U.S. Mar. 5, 2018), the inferences to be drawn from the fair use factors are legal in nature and subject to *de novo* review.

In analyzing the first factor, the court found that Google's use of the Java APIs to create its Android platform was commercial under Ninth Circuit law even though Google gave a free open source license to Android because direct economic benefit is not required, and Google profited indirectly from the platform. The court also found that Google's use was not transformative because Google (1) used the API packages for the same purpose as they were used in the Java platform, (2) made no alterations to the expressive content of the copyrighted material, and (3) did not adapt the material for a "new context" when it provided Android for smartphones. As to the second factor, the court found that the evidence presented at trial would allow reasonable jurors to conclude that functional considerations were substantial and important. Addressing the third factor, the court noted that Google directly copied 37 API packages and 11,500 lines of code, even though only 170 lines of code were necessary to write in the Java language. Although the amount of code was a small percentage of the roughly 2.86 million lines of code in Java libraries, the court found the copying qualitatively substantial because it copied 37 APIs in their entirety—even though Google admitted they could have written their own APIs—in order to make the Android platform familiar and attractive to Java programmers. Turning to the fourth factor, the court noted that Android competed directly with Oracle's Java platform and that the free nature of Android caused significant market harm to Oracle's efforts to license Java.

Based on those findings, the court noted that the second factor favored a finding of fair use, whereas the first and fourth factors weighed "heavily against" a finding of fair use. The court considered the third factor to be neutral "at best." In balancing these factors, the court concluded that the factors weighed against a finding of fair use, and the court explained that "[t]here is nothing fair about taking a copyrighted work verbatim and using it for the same purpose and function as the original in a competing platform." The court added the caveat that it was "not conclud[ing] that a fair use defense could never be sustained in an action involving the copying of computer code."

***Berkheimer v. HP Inc.*, No. 2017-1437 (Fed Cir. Feb. 8, 2018):** Patent eligibility under section 101 presents issues of fact and, under the facts of that case, summary judgment was not appropriate.

The Federal Circuit held that the second prong of the *Alice* ineligibility inquiry under 35 U.S.C. § 101—whether the claim elements "transform the nature of the claim" into patent-eligible subject matter if they "involve more than performance of well-understood, routine, [and] conventional activities previously known to the industry"—is "a factual determination" that may not be suitable for summary judgment if facts are disputed.

The district court ruled on summary judgment that eight claims from U.S. Patent No. 7,447,713 were directed to abstract ideas and thus ineligible for patenting under section 101. The '713 Patent describes a means of digitally processing and archiving files by "parsing" the files into multiple parts, comparing those parts, and eliminating redundant material to allegedly improve storage efficiency and reduce storage costs.

The Federal Circuit (Moore, J.) reversed. Berkheimer alleged that the claims at issue covered linking data so as to facilitate "one-to-many" editing (*i.e.*, allowing a single edit to populate to multiple points that use the same data). The patentee asserted that this "inventive feature" operated in an "unconventional manner" versus mere "copy-and-paste" functionality in the prior art. Although the panel agreed that all the challenged claims were directed to the abstract ideas of parsing and comparing data—the first prong of the Supreme Court's *Alice* test—the panel reversed the district court's ruling on the second *Alice* prong for four claims on the basis that the second prong "is a question of fact." Specifically, the Federal Circuit panel held that whether the "one-to-many" editing feature was "well-understood, routine, and conventional" was a disputed factual question that could not be decided on summary judgment. In light of this, the Federal Circuit panel held that whether this added feature was "well-understood, routine, and conventional" was a disputed factual question that could not be decided on summary judgment.

On March 12, HP petitioned for rehearing *en banc*, supported by several amici curiae. On March 15, the Federal Circuit invited a response to HP's petition.

***Aatrix Software, Inc. v. Green Shades Software, Inc.*, No. 2017-1452 (Fed. Cir. Feb. 14, 2018):** Patent eligibility presents issues of fact not amenable to a Rule 12 motion to dismiss.

Following *Berkheimer*, the Federal Circuit (Moore, J.) issued a parallel ruling concerning the appropriateness of deciding patent eligibility at the Rule 12 stage. Judge Reyna wrote separately in partial dissent.

Aatrix Software asserted two patents directed to systems and methods for importing data onto a computer to allow that data to be processed and viewed. The district court granted defendant's motion to dismiss, holding that the claims were not directed to patentable subject matter.

On appeal, the Federal Circuit reversed, holding that the complaint set forth a question of fact as to patentability because the complaint alleged that "the claimed software uses less memory, and results in faster processing speed" and thus is patent eligible because "the claimed invention is directed to an improvement in the computer technology itself."

Judge Reyna dissented, challenging the practical implications of the ruling and arguing that Federal Circuit precedent "is clear that the § 101 inquiry is a legal question" and a question "that can be appropriately decided on a motion to dismiss."

***Xitronix Corp. v. KLA-Tencor Corp.*, No. 2016-2746 (Fed. Cir. Feb. 9, 2018):** Jurisdiction over *Walker Process*-antitrust claims is in the regional circuits, not the Federal Circuit.

Under 28 U.S.C. § 1295(a)(1), the Federal Circuit has appellate jurisdiction over actions arising under "any Act of Congress relating to patents." *Walker Process* claims involve allegations that enforcing a patent procured by fraud on the PTO constitutes an antitrust violation under the Sherman Act. The Federal Circuit has historically treated such claims as presenting "a substantial question of patent law" and thus accepted jurisdiction over them.

In *Gunn v. Minton*, the Supreme Court held that a state law claim alleging legal malpractice in handling a patent case—which likewise implicates U.S. Patent law—did not itself "arise under" or depend on a question of patent law sufficient to convey jurisdiction to federal courts. 568 U.S. 251, 258 (2013).

In *Xitronix*, both sides asserted that the Federal Circuit had appellate jurisdiction over the *Walker Process* claim under appeal in that case. No other patent-related claim was asserted on which to base Federal Circuit jurisdiction. The Federal Circuit, however, raised the question of jurisdiction *sua sponte*, ruling that, given the Supreme Court's analogous view in *Gunn*, jurisdiction for *Walker Process* claims rested with the regional circuits. Accordingly, the Federal Circuit overruled its prior contrary precedent and transferred the appeal to the Fifth Circuit.

## **Upcoming Oral Argument Calendar**

For a list of upcoming arguments at the Federal Circuit, please click [here](#).



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