

FEDERAL CIRCUIT UPDATE – MAY 2018

To Our Clients and Friends:

This May 2018 edition of Gibson Dunn's Federal Circuit Update discusses the proposed elimination of the broadest reasonable interpretation standard during post-issuance proceedings before the PTAB, provides a summary of the pending *WesternGeco* case before the Supreme Court regarding extraterritorial damages, and briefly summarizes the differences between precedential and non-precedential opinions. This Update also provides a summary of the pending *en banc* case involving the PTO's ability to recover attorneys' fees. Also included are summaries of recent decisions regarding the burden in venue disputes, the pleading standard for patent infringement following the abrogation of Form 18, and whether equitable estoppel applies after substantial claim amendments.

Federal Circuit News

On May 8, 2018, the PTO announced proposed rulemaking that would change its prior policy of using the broadest reasonable interpretation (BRI) standard for construing unexpired and proposed amended patent claims in post-issuance proceedings before the PTAB. Instead, the PTAB would use the *Phillips* standard applied in district courts and ITC proceedings. The Notice of Proposed Rulemaking states: "The Office's goal is to implement a fair and balanced approach, providing greater predictability and certainty in the patent system." Judges Prost, Moore, O'Malley and Reyna, who dissented from the denial of the petition for rehearing *en banc* in *In re Cuozzo Speed Technologies*, and Judge Newman, who dissented in the panel opinion and from the denial of the petition for rehearing *en banc*, have historically supported the use of the *Phillips* standard in post-issuance proceedings. The notice of proposed rulemaking is available [here](#).

On April 26, 2018, the PTO also released guidance on the impact of *SAS Institute Inc. v. Iancu*, where the Supreme Court mandated that "the Board [] address every claim the petition has challenged. 138 S. Ct. 1348, 1354, 1358 (2018). In light of this decision, the PTO announced that the Board will now "institute as to all claims or none" and, in addition, if the Board institutes, it "will institute on all challenges raised in the petition." Furthermore, "[t]he final written decision will address, to the extent claims are still pending at the time of decision, all patent claims challenged by the petitioner and all new claims added through the amendment process." For pending trials that had only been partially instituted, the panels may "issue an order supplementing the institution decision to institute on all challenges raised in the petition" and "may take further action to manage the trial proceeding, including, for example, permitting additional time, briefing, discovery, and/or oral argument, depending on various circumstances and the stage of the proceeding" and even, in some cases, extend the statutory 12-month deadline. The PTO's guidance is available [here](#).

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Supreme Court. The Supreme Court has decided two cases from the Federal Circuit this Term (*Oil States v. Greene's Energy* and *SAS v. Iancu*); we are awaiting the Court's decision on a third case:

Case	Status	Issue
<i>WesternGeco LLC (Schlumberger) v. ION Geophysical Corp.</i> , No. 16-1011	Argued on Apr. 16, 2018	Recoverability of lost profits for foreign use in cases where patent infringement is proven under 35 U.S.C. § 271(f)

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 district court. 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

Precedential vs. Non-Precedential Opinions. Internal Operating Procedure ("IOP") No. 10 governs the use of precedential opinions vs. non-precedential opinions and Rule 36 affirmances. IOP No. 10 provides that "the purpose of a precedential disposition is to inform the bar and interested persons other than the parties." IOP No. 10 at ¶ 2. Precedential opinions should not be used merely to explain the reasons for the disposition to the parties; that can be conveyed through the use of a non-precedential opinion. *Id.*

The IOP identifies fourteen situations in which a precedential opinion is appropriate. *See id.* at ¶ 4. Reasons include: resolution of an issue of first impression; the criticism, clarification, alteration, or modification of an existing rule of law; an actual or apparent conflict in or with past holdings of the court or other courts that is created, resolved or continued; the correction of procedural errors; or the case has been returned by the Supreme Court for disposition, requiring more than mere ministerial obedience to directions of the Supreme Court. *Id.*

The decision to make an opinion non-precedential is generally governed by a majority vote of the panel. But, if the decision includes a dissenting opinion, the judge authoring the dissenting opinion may elect to have the entire opinion issue as precedential, regardless of the preferences of the majority judges. *Id.* at ¶ 6. All three judges must agree to use a Rule 36 judgment in order to do so. *Id.*

Key Case Summaries (April – May 2018)

***In re ZTE (USA) Inc.*, No. 18-113 (Fed. Cir. May 14, 2018) (Motion Panel Order):** Burden of persuasion for venue for foreign defendants.

American GNC filed a complaint against ZTE in the Eastern District of Texas, and ZTE moved to dismiss for improper venue under 28 U.S.C. § 1406. While that motion was pending, ZTE moved to transfer to the Northern District of Texas or the Northern District of California under 28 U.S.C. § 1404(a). The first magistrate judge denied ZTE's motion to transfer. A second magistrate judge denied ZTE's motion to dismiss for improper venue after finding that ZTE failed to show it did not have a regular and established place of business in the Eastern District of Texas. The magistrate judge noted the lack of uniformity among courts in who bears the burden of proof with respect to venue but determined that, under Fifth Circuit law, the burden lies with the objecting defendant. Over ZTE's objections regarding the burden of proof, the district court denied ZTE's motion to dismiss.

ZTE petitioned for a writ of mandamus, which the Federal Circuit granted. The Court first determined that Federal Circuit—not regional circuit—law governs the placement of the burden of persuasion on the propriety of venue under § 1400(b). It then held as a matter of Federal Circuit law that, upon motion by the Defendant challenging venue in a patent case, the Plaintiff bears the burden of establishing proper venue and that this holding "best aligns with the weight of historical authority among the circuits and best furthers public policy." The Court remanded to the district court to consider whether venue was proper in light of its holding that the plaintiff, American GNC, bears the burden.

***Disc Disease Solutions Inc. v. VGH Solutions, Inc.*, No. 2017-1483 (Fed. Cir. May 1, 2018):** Pleading standard for patent infringement following the abrogation of Form 18.

In December 2015, certain amendments to the Federal Rules of Civil Procedure took effect. Among them was the abrogation of Rule 84 (stating that the "Forms in the Appendix suffice under these rules") and Form 18 (a form adequate to plead a direct patent infringement claim). Absent Form 18, complaints now must meet the *Iqbal/Twombly* standard for pleading to survive a 12(b)(6) motion.

Disc Disease filed its complaint the day before the 2015 amendments became effective. The district court determined that *Iqbal/Twombly*—not Form 18—applied to Disc Disease's complaint and dismissed

the complaint for failure to state a claim. The district court later denied reconsideration because it did not view the 2015 amendments to be an intervening change in the law.

The Federal Circuit reversed. The Federal Circuit did not address whether Form 18 or *Iqbal/Twombly* governed because, it held, the district court erred in dismissing Disc Disease's complaint even under *Iqbal/Twombly*'s pleading standard. The Court noted that the case "involves simple technology" with only four independent claims in the asserted patents. Disc Disease's complaint "specifically identified the three accused products—by name and by attaching photos of the product packaging as exhibits—and alleged that the accused products meet each and every element of at least one claim" of the asserted patents. This was sufficient to state a claim for patent infringement in these circumstances.

***John Bean Technologies Corp. v. Morris & Associates, Inc.*, No. 17-1502 (Fed. Cir. Apr. 19, 2018)**: Equitable estoppel when claims are substantively amended or added following *ex parte* reexamination.

John Bean (and its predecessor) and Morris are competitors in the poultry chiller market. After the patent-in-suit issued to John Bean, Morris sent John Bean's counsel a demand letter on June 27, 2002, informing him that John Bean had been contacting Morris's customers and asserting that Morris's equipment infringes the recently issued patent. The letter demanded that John Bean stop telling Morris's customers that Morris's products infringe John Bean's patent and advised John Bean that the patent was invalid over a specific prior art reference. John Bean did not respond, and Morris continued to develop and sell its product.

Eleven years later, on December 18, 2013, John Bean filed a request for *ex parte* reexamination of the patent-in-suit. During reexamination, John Bean amended the two original claims and added six additional claims in response to a rejection by the PTO. Shortly after the reexamination certificate issued, John Bean filed a complaint in the U.S. District Court for the Eastern District of Arkansas against Morris for patent infringement. The district court granted summary judgment in favor of Morris that John Bean's infringement action was barred by equitable estoppel given John Bean's silence after the demand letter.

The Federal Circuit (Reyna, J.) reversed, holding that the district court abused its discretion in applying equitable estoppel to bar John Bean's infringement action without considering how the *ex parte* reexamination affected the patent claims. The Court explained that the amendments made during reexamination in this case were both substantial and substantive, including by adding new limitations. As a result, the asserted claims did not exist at the time of Morris's demand letter. But the Court recognized that there may be other cases where the asserted claims may be considered identical for the purposes of infringement and also for applying equitable estoppel. The Court also acknowledged that Morris may have recourse under the affirmative defenses of absolute and intervening rights.

Upcoming Oral Argument Calendar

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



Gibson Dunn's lawyers are available to assist in addressing any questions you may have regarding developments at the Federal Circuit. Please contact the Gibson Dunn lawyer with whom you usually work or the authors of this alert:

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