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## Materials for Supreme Court Update

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## Patent Cases and Themes in October Terms 2015 and 2016

### I. Introduction

As of the end of September 2016, the United States Supreme Court had granted certiorari in two patent cases to be heard on the merits in October Term 2016:

- 1) *Samsung Electronics Co. v. Apple Inc.*, 136 S. Ct. 1453 (2016), with oral argument on October 11, 2016, involving a question relating to damages for infringement of a design patent—namely, “Where a design patent is applied to only a component of a product, should an award of infringer’s profits be limited to those profits attributable to the component?”
- 2) *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, 136 S. Ct. 1824 (2016), with oral argument on November 1, 2016, involving the question “[w]hether and to what extent the defense of laches may bar a claim for patent infringement brought within the Patent Act’s six-year statutory limitations period, 35 U.S.C. § 286.”

In October Term 2015, the Court issued two merits decisions in patent cases:

- 1) *Cuozzo Speed Technologies, LLC v. Lee.*, 136 S. Ct. 2131 (2016) (Breyer, J.), addressing questions relating to inter partes review of patents previously issued by the United States Patent and Trademark Office (USPTO)
- 2) *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016) (Roberts, C.J.), for the consolidated cases, *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 356 (2015), and *Stryker Corp. v. Zimmer, Inc.*, 136 S. Ct. 356 (2015), addressing standards for enhancing patent infringement damages.

Opinions issued by the justices in these cases are summarized below.

### II. *Cuozzo* and Inter Partes Review

In *Cuozzo*, the Court made two holdings relating to provisions of the United States Patent Act on inter partes review. First, the Court held that § 314(d) of the Act bars judicial review of a USPTO decision on instituting or not instituting such review when “the grounds for attacking the decision . . . consist of questions that are closely tied to the application and interpretation of statutes related to the Patent Office’s decision” (e.g., the extent to which challenges to patent claims were raised with statutorily required particularity). 136 S. Ct. at 2142; *see also id.* at 2139. The Court reserved, however, questions about “the precise effect of § 314(d) on appeals that implicate constitutional questions, that depend on other less closely related statutes, or that present other questions of interpretation that reach, in terms of scope and impact, well beyond ‘this section.’” *Id.* In the Court’s second holding, it upheld the USPTO’s application of “the broadest reasonable construction standard” in inter partes review, finding the USPTO’s regulation adopting that standard to “represent[t] a reasonable exercise of the rulemaking authority that Congress delegated to the Patent Office.” *Id.* at 2144–45.

Two opinions for subsets of justices accompanied the opinion for the Court. Justice Thomas wrote separately to emphasize that, because the statutory language in question “contains an express and clear conferral of [relevant] authority to the Patent Office,” the Court’s “decision does not rest on” an aspect of *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*,

467 U.S. 837 (1984), regarding implicit delegations of authority that Justice Thomas contended the “Court should reconsider.” *Id.* at 2148 (Thomas, J., concurring). Justice Alito, joined by Justice Sotomayor, dissented in part, contending that, in light of “the strong presumption favoring judicial review,” the Court should have understood the relevant statutory language only to require “that judicial review, including of issues bearing on the institution of patent review proceedings, be channeled through an appeal from the agency’s final decision.” *Id.* at 2149 (Alito, J., concurring in part and dissenting in part).

### III. *Halo* and Enhanced Damages

In *Halo*, the Supreme Court held that a test adopted by the United States Court of Appeals for the Federal Circuit to govern whether a district court may enhance patent infringement damages was inconsistent with the statutory provision on enhancement, 35 U.S.C. § 284. 136 S. Ct. at 1928. The Court found no statutory basis for the Federal Circuit’s specific requirement that a patentee satisfy a “two-part test” for establishing the willfulness of infringement, with the first part of the test requiring a showing of objective recklessness and the second part requiring a showing of actual or constructive knowledge of “the risk of infringement.” *Id.* at 1930–31. The Court acknowledged that the Federal Circuit’s test “reflect[ed], in many respects, a sound recognition that enhanced damages are generally appropriate under § 284 only in egregious cases.” *Id.* at 1932. But the Court found the test to be “unduly rigid” and to have the potentially negative “effect of insulating some of the worst patent infringers from any liability for enhanced damages.” *Id.* (internal quotation marks omitted). The Court noted concerns about “embolden[ing] ‘trolls’” and about chilling innovation by causing “companies [to] steer well clear of any possible interference with patent rights.” *Id.* at 1935. But the Court admonished that “[t]he seriousness of [such] policy concerns cannot justify imposing an artificial construct ... on the discretion conferred under § 284.” *Id.*

In a concurring opinion, Justice Breyer, joined by Justices Kennedy and Alito, agreed that the Federal Circuit’s test was “too mechanical” but emphasized continuing limits on the enhancement of damages for patent infringement: (1) the requirement of egregious conduct by the infringer, *id.* at 1936 (Breyer, J., concurring); (2) a separate statutory provision “specifying that the ‘failure of an infringer to obtain the advice of counsel ... may not be used to prove that the accused infringer wil[l]fully infringed,’” *id.* at 1936 (quoting 35 U.S.C. § 298); and (3) the principle that “enhanced damages may not serve to compensate patentees for infringement-related costs or litigation expenses,” *id.* at 1937 (internal quotation marks omitted). Justice Breyer’s opinion discussed policy concerns that motivated his emphasis on “these limitations.” *Id.* at 1937–38. The opinion further indicated his belief “that, in applying [abuse-of-discretion review of district court awards of enhanced damages], the Federal Circuit may take advantage of its own experience and expertise in patent law” to assess questions such as “the reasonableness of a [potential] defense” to an allegation of infringement. *Id.* at 1938.

### IV. Recurring Themes in Supreme Court Cases

Perhaps unsurprisingly in light of the statutory nature of the U.S. patent law regime, all of the above-mentioned cases or decisions from October Term 2015 and October Term 2016 involve issues of statutory interpretation, albeit sometimes with only minimal statutory language to interpret. A recurring theme is the nature of available infringement remedies, an issue common to *Samsung* and *Halo* as well as, in effect, *SCA Hygiene*. Another theme is the role of discretion in

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