

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

New Standard for Appellate Review of Patent Claim Construction

In the past two months, the Supreme Court handed down a significant patent-law decision establishing the standard of appellate review for claim-construction decisions, and resolved a circuit split by holding that a jury, not the court, should decide whether modifications to a trademark change the commercial impression of the mark. We also address appellate decisions about the evolving doctrine of patent exhaustion, and about copyright damages in the lawsuit between Korean War Memorial sculptor Frank Gaylord and the U.S. Postal Service.

Patent: Claim Construction

Claim construction—the definition of terms in a patent claim—can be the most important event in a patent case, because the scope of the invention guides infringement, invalidity and damages issues. Such an important substantive issue necessarily raises important procedural questions: Who decides claim construction, and how is that decision reviewed on appeal?

The Supreme Court's landmark *Markman* decision held that claim construction is the province of the court, not a jury. *Markman v. Westview Instruments*, 517 U.S. 370, 388 (1996). And in *Teva Pharmaceuticals v. Sandoz*, decided Jan. 20, 2015, the Supreme Court answered



By
**Lewis R.
Clayton**



And
**Eric Alan
Stone**

the appellate-review question, reversing 20 years of Federal Circuit precedent and holding that while claim construction itself is reviewed de novo, a district court's subsidiary fact-findings based on extrinsic evidence (anything other than the patent's claims, specification, and prosecution history) are reviewed for clear error under Fed. R. Civ. P. 52(a)(6).

The Supreme Court held that while claim construction is reviewed de novo, a district court's subsidiary fact-findings based on extrinsic evidence are reviewed for clear error.

The U.S. Court of Appeals for the Federal Circuit had established de novo review for claim construction in *Cybor Corp. v. FAS Techs.*, 138 F.3d 1448, 1454-55 (Fed. Cir. 1998) (en banc). That standard, coupled with the lack of interlocutory review, meant that many

patent cases went through trial only to have bedrock claim construction issues reversed and the case sent back to the trial court to start over. The reversal rate was estimated to be as high as 30-50 percent. Repeated calls to reassess the de novo review standard—from parties, commentators, and members of the court itself—led to the Federal Circuit's en banc decision in *Lighting Ballast Control v. Philips Elecs. N. Am. Corp.*, 744 F.3d 1272, 1276-95 (Fed. Cir. 2014) to reassess *Cybor*. To the surprise of many, the Federal Circuit reaffirmed de novo review, on stare decisis grounds and because de novo review by a nationwide court would promote uniformity in claim construction.

The *Teva v. Sandoz* case presented a claim construction issue—the meaning of the words “molecular weight”—on which the district court received conflicting expert testimony. The trial court credited Teva's expert over Sandoz's, and relied on that fact-finding for its decision. The Federal Circuit, applying de novo review, reversed, and the Supreme Court granted Teva's certiorari petition.

A broad range of amici offered opinions on the appropriate standard of review and the implications of the court's decision. The United States, as amicus, argued for clear error review of fact-findings based on extrinsic evidence, but de novo review of findings based on intrinsic evidence (the patent claims, specification, and prosecution history) and of the ultimate claim construction

LEWIS R. CLAYTON and ERIC ALAN STONE are litigation partners at Paul, Weiss, Rifkind, Wharton & Garrison.

decision. The American Intellectual Property Law Association agreed.

The American Bar Association, noting the increased cost and length of patent litigation caused by de novo review, argued that all subsidiary fact-finding should be reviewed for clear error. On the other hand, a broad range of tech-

Alito dissented. They agreed that Rule 52(a)(6) has no exception for claim construction, but would have held that claim construction is purely a question of law no matter the basis for subsidiary fact-findings. That standard of review would also help drive uniformity in claim construction decisions.

In *Hana Financial*, the Ninth Circuit held that the issue of tacking is a matter of fact for the jury, rather than an issue of law for the court. The Supreme Court affirmed, reasoning that “application of a test that relies upon an ordinary consumer’s understanding of the impression that a mark conveys falls comfortably within the ken of a jury.”

nology companies argued that all claim construction issues should be reviewed de novo. They warned that establishing clear-error review for subsidiary facts would encourage the submission of extrinsic evidence and turn claim construction into a battle of paid experts. And they argued that the public-notice function of patent documents counsels limiting claim construction to intrinsic evidence, and that if credibility assessments and disputed extrinsic evidence are needed to construe the claims then the claims are indefinite and thus invalid.

Justice Stephen Breyer’s majority opinion rested principally on Rule 52(a)(6), which mandates clear-error review of a trial court’s “[f]indings of fact.” The court found no exception for patent cases. Noting that *Markman* had recognized that claim construction is a question of law with “evidentiary underpinnings,” “somewhere between a pristine legal standard and a simple historical fact,” the court held that when a district court reviews only intrinsic evidence its decision is solely a determination of law to be reviewed de novo on appeal, but where the court consults extrinsic evidence, for example to understand the science or the meaning of a term of art at the relevant time, the court’s subsidiary fact-findings based on that extrinsic evidence must be reviewed only for clear error under Rule 52(a)(6).

Justices Clarence Thomas and Samuel

The next few years will reveal how clear-error review of fact-findings based on extrinsic evidence affects claim construction. The technology amici warned that this will encourage litigants to proffer expert testimony and turn claim construction hearings into mini-trials, and that the prospect of deferential review will drive district judges to prefer such evidence. The substantive law of claim construction, however, strongly prefers intrinsic evidence to extrinsic. Thus far, the Federal Circuit has issued three claim construction rulings since *Teva*, and none of them involved extrinsic evidence and thus clear-error review. See *Pacing Tech. v. Garmin Intern.*, (Feb. 18, 2015); *Fenner Investments v. Celco Partnership*, (Feb. 12, 2015); *In re Pabst Licensing Digital Camera Patent Litigation*, (Feb. 2, 2015).

Trademark: Juries and Tacking

In *Hana Financial v. Hana Bank*, 135 S.Ct. 907 (Jan. 21, 2015), the Supreme Court resolved a circuit split on an arcane issue: whether the issue of “tacking” trademark use should be determined by the court or instead by the jury.

Trademark rights sometimes depend upon the date on which a mark is first used in commerce—the first user typically has priority over latecomers. As the Supreme Court noted, the doctrine

of tacking recognizes “that trademarks users ought to be permitted to make certain modifications to their marks over time without losing priority.” As long as the original and modified marks “create the same, continuing commercial impression” in the market, the trademark owner can claim the benefit of the original priority date. The two marks must be “legal equivalents,” so that consumers “consider both as the same mark.”

In *Hana Financial*, a dispute between two financial institutions that used trademarks including the word “Hana,” the U.S. Court of Appeals for the Ninth Circuit (disagreeing with the Federal and Sixth circuits) held that the issue of tacking is a matter of fact for the jury, rather than an issue of law for the court. The Supreme Court affirmed, reasoning that “application of a test that relies upon an ordinary consumer’s understanding of the impression that a mark conveys falls comfortably within the ken of a jury.”

The court rejected the argument that assigning this issue to the jury would compromise the “predictability required for a functioning trademark system”—“the same could be said about the tort, contract, and criminal justice systems: In all of these areas, juries answer often-dispositive factual questions or make dispositive applications of legal standards to facts.”

An open question is whether *Hana Financial* will have an impact on a related, and more significant, trademark issue: whether the issue of likelihood of confusion, which is often a central element in a trademark case, is a question of fact, reviewed with deference on appeal, or instead an issue of law reviewed de novo. Most courts of appeal treat it as a factual issue, while a few, including the U.S. Court of Appeals for the Second Circuit, apply de novo review.

Patent Exhaustion

Under the doctrine of patent exhaustion, an authorized sale of a patented item allows the purchaser or any sub-

sequent owner to use or sell that item however she sees fit. For example, a wholesaler who buys a patented item from the patent-holding manufacturer may resell it, as may subsequent sellers. Patent exhaustion is a judicially created doctrine with no statutory source, and Supreme Court and Federal Circuit precedent has not clearly defined its limits. The issue is becoming more important, as complex electronic devices can embody hundreds of patented inventions. In *Helferich Patent Licensing v. The New York Times Company*, 2015 WL 527851 (Feb. 10, 2015), the Federal Circuit distilled several useful guidelines from the case law.

Helferich concerned wireless-communications patents in two groups: “handset” patents, which covered inventions regarding receiving and requesting content by portable electronic devices like cellular phones; and “content” patents, which covered methods for storing and sending content to handsets, such as a message containing a news headline and a hyperlink to the article. *Helferich Patent Licensing* licensed the “handset” patents to every manufacturer of mobile handsets. Under the doctrine of patent exhaustion, that eliminated any restriction under the “handset” patents for purchasers or resellers of the phones.

Helferich sued content providers, including The New York Times, CBS, and Bravo Media, alleging that their transmission of information to handsets infringed the “content” patents. The defendants argued that if *Helferich* could restrict their ability to send content to handsets, then the handsets would be of no value to the people who purchased them, and thus that patent exhaustion should bar the assertion of the content patents. The district court agreed, granting summary judgment and holding that by granting licenses to handset manufacturers, *Helferich* exhausted its ability to assert the content patents against content providers.

Supporting that decision on appeal, the defendants argued that exhaustion turns on a practical inquiry into wheth-

er enforcement of the patent would constrain an authorized acquirer’s use of the patented article it acquired. The Federal Circuit rejected this position and reversed the district court. While establishing no precise test for patent exhaustion, it focused on the identity of the accused infringer and the authorized acquirer, and on whether the patents at issue claimed the same or related inventions.

Thus, the court noted that in all prior cases finding patent exhaustion, the accused infringers included the authorized acquirers of the patented item. Here, however, the handset owners were not alleged to infringe the content patents. Moreover, the content providers’ infringement of the content patents did not even require the handset owners to practice the handset claims. The court also focused on the fact that the Patent Office had found the content and handset claims to be separate inventions, and suggested that patent exhaustion will not apply where the alleged infringement involves distinct inventions, even if they are commercially related.

The court noted that the defendants did not argue that the content patents were obvious over or anticipated by the handset claims. To the extent that they embody separate inventions, the court found no basis to extend the doctrine of patent exhaustion.

Copyright: Damages

Frank Gaylord’s *The Column*, a sculpture of 19 soldiers on patrol, is a central and iconic part of the Korean War Veterans Memorial in Washington, D.C. It is also a central part of a years-long lawsuit between Gaylord and the U.S. Postal Service, which—without Gaylord’s permission—used a photograph of *The Column* as its 2002 stamp commemorating the then-upcoming 50th anniversary of the Korean War armistice. The case has produced three Federal Circuit decisions, the most recent on Feb. 4.

In the first Gaylord decision, the court held that the government was liable to Gaylord for copyright infringement,

rejecting a fair use defense. The second decision vacated the Court of Federal Claims’ decision awarding Gaylord \$5,000 in damages, remanding for determination of the fair market value of a license for *The Column* in a hypothetical negotiation with the government.

The most recent decision affirms the Court of Claims’ finding, after a two-day damages trial, that Gaylord and the government would have agreed on a royalty of 10 percent of revenue from the sale of unused stamps purchased by collectors (the sole category of damages at issue on appeal), and that \$5.4 million was a reasonable calculation of the revenue base to which that percentage applies. The court rejected the government’s assertion that only a one-time, lump-sum payment would be appropriate because it had never before agreed to pay a per-stamp royalty. The court found it would have been feasible to monitor the number of sales or the amount of revenue so that a per-unit royalty would not have been inefficient.

The court also rejected the government’s argument that it could have avoided infringement by using another image, finding that substituting the image of one celebrity with another was very different than trying to replace the image of the only nationally recognized Korean War memorial. The court then affirmed the 10 percent figure by looking at the comparable rates that Gaylord had obtained to license *The Column* for use on T-shirts, miniature replicas, and collectibles. From the perspective of the government, the court found that the Postal Service knew that these stamps would be a significant source of revenue, and that an “arrangement under which it kept 90% of the profits from this opportunity was a good economic deal.” As Supreme Court review is quite unlikely, the Federal Circuit’s decision should bring to an end this long-running controversy.