Intellectual Property and Tech Transactions Update

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Notable Developments

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Notable Developments

Supreme Court Denies Certiorari Regarding Federal Circuit Decision Finding Lost Profits from Foreign Sales Not Recoverable under § 271(a)

On June 24, 2019, the U.S. Supreme Court denied certiorari in *Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics America, Inc.*, a case in which the Federal Circuit affirmed that "offers to sell" patented inventions made within the territorial United States that result in sales outside U.S. territory do not violate § 271(a) of the Patent Act, which provides that "whoever without authority … offers to sell or sells any patented invention, within the United States…infringes the patent." The Supreme Court's refusal to hear the case allows for continued uncertainty regarding the calculation of damages under § 271(a), particularly in light of the Court's decision in *WesternGeco*, which held that lost profits for foreign sales are recoverable under § 271(f).

The case arose over a patent owned by Texas Advanced Optoelectronic Solutions, Inc. ("**TAOS**") covering a monolithic optical sensor for detecting ambient light used in smartphones and other electronic devices to automatically adjust screen brightness. During merger negotiations between TAOS and Renesas Electronics America, Inc. f/k/a Intersil Corporation ("**Intersil**") that ultimately failed, TAOS shared certain confidential technical information regarding the sensor with Intersil. Intersil then developed a similar sensor and competed with TAOS for supply contracts with Apple Inc. TAOS sued Intersil in the Eastern District of Texas for patent infringement under § 271(a). Before trial, the district court excluded 98.8% of Intersil's sales of the allegedly infringing products from evidence because they were sold outside of the United States, despite TAOS's arguments that the inquiry should focus on the fact that Intersil's offers to sell the products were made within the United States. Although the jury found for TAOS and awarded $73.6 million in reasonable royalty damages, TAOS appealed the district court's grant of summary judgment regarding the 98.8% of Intersil's sales that were excluded from evidence. On appeal, the Federal Circuit affirmed the district court's decision, stating that "[a]n offer to sell in the United States must be an offer to make a sale that will occur in the United States; it is not enough that the offer is made in the United States." TAOS filed a petition for a writ of certiorari to the Supreme Court.

The U.S. Solicitor General filed an amicus brief arguing that "Congress has granted the patentee exclusive rights 'only over the United States market' for its invention" and that "[a] U.S. patent does not protect the patentee against the sale of its invention in foreign markets, even by American competitors." The Solicitor General stated that he supported the Federal Circuit's interpretation of the "offer to sell" clause of the Patent Act to mean "an offer made anywhere to sell a patented invention within the United States," and therefore certiorari should be denied. The Supreme Court agreed and denied TAOS's petition.

Notably, however, one month after the Federal Circuit's decision in the *TAOS* case, the Supreme Court issued its opinion in *WesternGeco LLC v. Ion Geophysical Corp.* WesternGeco LLC ("**WesternGeco**") sued ION Geophysical Corp. ("**ION**") in the Southern District of Texas, alleging the infringement of four of WesternGeco's patents under §§ 271(f)(1) and (f)(2), which prohibit exporting components of patented technology for assembly into an infringing product abroad. The jury awarded WesternGeco $93.4 million in lost profits based on foreign contracts. ION challenged the jury's finding that ION was liable for the post-sale, extraterritorial use of the infringing technology by its customers, arguing that the performance of a patented method abroad does not constitute infringement of a U.S. patent under § 271(f)(1). On appeal, the Federal Circuit agreed with ION and reversed the district court's award of lost profit damages, finding that the Patent Act does not cover losses resulting from extraterritorial acts of infringement. The Supreme Court, however, reversed the Federal Circuit's denial of lost profits, finding that ION's domestic act of exporting the components infringed WesternGeco's patents, and thus any award of lost profits (foreign or otherwise) based on such domestic infringement constitutes a valid application of the Patent Act.

Some lower courts have applied the reasoning of *WesternGeco* to instances of direct infringement under § 271(a), taking into account revenue generated abroad in calculating lost profits and potentially applying the holding more broadly to the calculation of reasonable royalty damages. It remains to be seen whether the Federal Circuit will agree with such lower courts' expansion of *WesternGeco*, especially in light of its decision in *TAOS*.

TAOS's petition for a writ of certiorari can be found **here**. The Solicitor General's amicus brief can be found **here**.

Supreme Court to Determine Whether 35 U.S.C. § 314(d) Permits Appeal of a PTAB Decision to Institute *Inter Partes* Review upon Finding that the Time Bar Does Not Apply

On August 16, 2018, the U.S. Federal Circuit issued a decision in *Click-to-Call Technologies, LP v. Ingenio, Inc., YellowPages.com, LLC* holding that the U.S. Patent and Trademark Office's (the "**USPTO**") authority to institute *inter partes* review ("**IPR**") under the Leahy-Smith America Invents Act ("**AIA**") was subject to judicial review with respect to the time bar imposed by 35 U.S.C. § 315(b). This decision is currently on appeal to the U.S. Supreme Court.

On September 14, 2001, Inforocket.com, Inc. ("**Inforocket**") filed a patent infringement action against Keen, Inc. ("**Keen**"), alleging infringement of a patent claiming a "method and system for establishing anonymous telephone communications." In July 2002, the District Court for the Southern District of New York found in favor of Inforocket. Keen appealed the decision and, while the appeal was pending, acquired Inforocket, and the parties subsequently agreed to dismiss the suit without prejudice. On May 29, 2012, Click-to-Call Technologies, LP ("**CTC**") filed a patent infringement action against Ingenio, Inc. (as successor in interest to Keen) ("**Ingenio**") and its parent YellowPages.com ("**YellowPages**") in respect of the aforementioned patent. Within one year of commencement of CTC's patent infringement suit, on May 28, 2013, Ingenio and YellowPages filed a petition for IPR with the USPTO Patent Trial and Appeal Board (the "**PTAB**"). In CTC's preliminary response to the IPR petition, it argued that no IPR could be instituted on the basis that Ingenio and YellowPages had been served with a complaint alleging infringement of the patent at issue in 2001 and therefore IPR was precluded by the one-year time bar under 35 U.S.C. § 315(b). Notwithstanding CTC's response, the PTAB instituted IPR on the basis that a dismissal without prejudice is consistently interpreted by the Federal Circuit as though no action had ever been brought. The PTAB ultimately issued a final written decision invalidating 13 claims of the patent.

CTC appealed the PTAB's decision, alleging that the Director of the USPTO had erred in its determination of whether Ingenio's and YellowPages' petition was timely. The key question put before the Federal Circuit was whether the Federal Circuit has jurisdiction to review a PTAB finding that the time bar of 35 U.S.C. § 315(b) does not apply. The Federal Circuit in the first instance held that U.S.C. § 314(d), which provides that "[t]he determination by the Director whether to institute an IPR under this section shall be final and nonappealable," did operate as an ouster clause of the Federal Circuit's supervisory function. The Federal Circuit subsequently issued an *en banc* decision in *Wi-Fi One, LLC v. Broadcom Corp.*, holding that the PTAB's time bar determinations under 35 U.S.C. § 315(b) are appealable. Following *Wi-Fi One*, the present case was granted a rehearing upon which the Federal Circuit decided *en banc*, following its decision in *Wi-Fi One* with respect to the reviewability of the PTAB's time bar decisions, that a complaint served upon a defendant that is voluntarily dismissed without prejudice remains "served" and so still triggers the time bar of 35 U.S.C. § 315(b).

In its opening appellate brief to the Supreme Court, Thryv, Inc. (successor to Ingenio and Yellow Pages) ("**Thryv**") argued that 35 U.S.C. § 314(d) has the effect of making the PTAB's decision to institute IPR non-reviewable on any grounds. Thryv additionally asserted that allowing the Federal Circuit to overturn PTAB findings of unpatentability on procedural grounds is counterproductive to the AIA's goal of creating a fast and inexpensive mechanism for invalidating improperly issued patents, particularly where, as in the present case, the patent owner does not challenge the PTAB's decision on the merits. The Supreme Court has previously been persuaded in *Cuozzo Speed Technologies, LLC v. Lee* that 35 U.S.C. § 314(d) barred judicial review of the PTAB's decision to institute IPR on the basis of 35 U.S.C. § 312(a)(3), which requires that a petitioner identify with sufficient particularity each claim being challenged, the grounds on which the challenge to each claim is based, and the evidence that supports the grounds for the challenge to each claim. It remains to be seen whether the Supreme Court will take a similar view with respect to 35 U.S.C. § 315(b).

The Federal Circuit's opinion can be found **here**. Thryv's opening appellate brief to the Supreme Court can be found **here**.

Supreme Court to Decide Whether Showing of Willful Infringement is Necessary to Award Defendant's Profits in Trademark Infringement Cases

In January 2020, the U.S. Supreme Court is scheduled to hear arguments in *Romag Fasteners, Inc. v. Fossil, Inc.* to determine whether a showing of willful infringement is required for a plaintiff to recover a defendant's profits in a trademark infringement suit. The Court's ruling is expected to resolve a six-to-six circuit split on this issue.

In 2010, Romag Fasteners, Inc. ("**Romag**") filed suit against Fossil, Inc. ("**Fossil**") for patent and trademark infringement. A jury found Fossil liable for infringement, noting that none of Fossil's violations were willful, and awarded Romag a portion of Fossil's profits as damages. The district court struck the jury's award of the defendant's profits, holding that "a finding of willfulness remains a requirement for an award of defendants' profits in this Circuit." The Federal Circuit affirmed.

Section 35 of the Lanham Act provides that a plaintiff may recover a defendant infringer's profits, "subject to the principles of equity," upon a showing of trademark infringement under 15 U.S.C. § 1125(a). The Third, Fourth, Fifth, Sixth, Seventh and Eleventh Circuits allow a plaintiff to recover an infringer's profits without requiring a showing of willful infringement, but the Second, Eighth, Ninth, Tenth and District of Columbia Circuits allow such recovery only once the plaintiff has made a threshold showing of willful infringement. The First Circuit follows the latter approach only in instances where the parties are not direct competitors. In circuits that do not require a showing of willful infringement, the infringer's intent is just one factor considered in determining whether such an award is equitable.

The Court's decision will clarify whether an award of a defendant's profits is predicated on a finding of the higher bar of willfulness, which will have important practical and policy consequences in trademark disputes and settle a long-standing split among the lower courts.

The Federal Circuit's opinion can be found **here**.

European Commission Determines the EU-U.S. Privacy Shield is Adequate in its Annual Review, but Recommends Further Action

On October 23, 2019, the European Commission ("**Commission**") issued its findings from its third annual review of the functioning of the EU-U.S. Privacy Shield ("**Privacy Shield**"), a framework on which over 5,000 U.S. companies rely in order to be able to transfer the personal data of EU citizens from the EU into the U.S. in compliance with the EU General Data Protection Regulation ("**GDPR**").

The GDPR requires certain conditions for the transfer of personal data out of the EU into any third country. Such transfers are governed by the extra-territoriality provisions of Chapter V of the GDPR, which provides a number of safe harbors through which a transfer is permissible. First, transfers are permitted under Article 45 into a third country, or into specified sectors within a third country, if such country's data protection framework has been deemed adequate by the Commission. Such third countries include Japan, Israel, New Zealand and the United States (under the Privacy Shield). If an adequacy decision has not been made, the transferor may make a transfer by implementing one of a number of "appropriate safeguards" provided by Article 46, including "binding corporate rules" for transfers within a corporate group or the use of standard data protection clauses published by the Commission. Should a transfer of data not meet the requirements of either of the foregoing articles, a transferor may seek to rely on Article 49 "derogations for specific situations." The derogations under Article 49 are very narrow, and as the European Data Protection Board's guidance indicates, are to be interpreted restrictively. Such specific derogations include where the data subject has explicitly consented to such transfer; where the transfer is necessary for the performance of a contract between the data controller and the data subject; or where the transfer is necessary for the establishment, exercise or defense of legal claims. As a last resort, a transfer may be permitted where it is necessary for the purposes of "compelling legitimate interests" in restricted circumstances.

The Privacy Shield was developed by the U.S. Department of Commerce in collaboration with the Commission, following the decision of the European Court of Justice invalidating the Commission's adequacy decision regarding the previous U.S. transfer framework, the International Safe Harbors Privacy Principles. The Privacy Shield was declared adequate by the Commission on July 12, 2016, subject to annual review of all aspects of the functioning of the framework, enabling companies to transfer personal data into the U.S. under Article 45 of the GDPR. In order to benefit from the Privacy Shield, companies are required to self-certify to the U.S. Department of Commerce and publicly commit to comply with the Privacy Shield's requirements. In its third annual review of the Privacy Shield, the Commission was satisfied that the framework continued to provide adequate protection for EU data subjects. The Commission did, however, list a number of recommended steps to ensure the continued functionality and adequacy of the Privacy Shield. These steps include reducing the time afforded to companies for the re-certification process; applying greater scrutiny to the compliance of U.S. companies with the GDPR requirement that any transfer of personal data to a third party subsequent to a transfer pursuant to the Privacy Shield be subject to the same level of protection as required under the Privacy Shield; developing mechanisms to detect false claims by companies of certification under the Privacy Shield; and improving communication mechanisms between the U.S. Federal Trade Commission and the Commission and EU regulators. While the Privacy Shield remains a crucial safe harbor by which U.S. companies can receive personal data of EU data subjects, it is clear that the Commission will continue to scrutinize its implementation.

The European Commission's annual review can be found **here**.

New York Passes SHIELD Act Amending Data Breach Notification Law

On July 25, 2019, the Stop Hacks and Improve Electronic Data Security Act (the "**SHIELD Act**") was signed into law, amending New York's existing cybersecurity and data privacy laws and creating new cybersecurity obligations for applicable businesses.

The SHIELD Act amends New York's existing cybersecurity and data privacy laws, N.Y. Gen. Bus. Law § 899-aa and N.Y. State Tech. Law § 208, in four significant ways. First, the SHIELD Act requires companies to adopt substantial administrative, technical and physical safeguard requirements to protect the security, confidentiality and integrity of private information. Second, and relatedly, the SHIELD Act expands the definition of "private information" to include identifying information in conjunction with account numbers, credit card numbers or debit card numbers (even without a security code, access code or password, if the account could be accessed without such information) or biometric data, as well as a user name or email address in combination with a password or security question and answer that would permit access to an online account. Third, the SHIELD Act broadens the definition of a "breach of the security of [a] system" to require notification in the event of unauthorized "access" of computerized data that compromises the security, confidentiality or integrity of private information. The definition of "breach" was previously defined only as unauthorized "acquisition" of computerized data. Under this expanded definition, the mere viewing of data may trigger a notification requirement. Finally, the SHIELD Act extends the territorial application of the breach notification requirement to any person or business that owns or licenses private information of a New York resident, regardless of whether the business otherwise operates in New York State.

The breach notification amendments took effect on October 23, 2019 and the data security requirements will take effect on March 21, 2020. Companies that are already in compliance with certain existing state or federal data security laws that govern their data—such as the Gramm-Leach-Bliley Act ("**GLBA**") Safeguards Rule, the Health Insurance Portability and Accountability Act ("**HIPAA**") or the NYDFS cybersecurity requirements—are considered compliant with the SHIELD Act. Additionally, the Act contains a safe harbor for certain qualifying small businesses.

The bill can be found **here**. The Davis Polk Cyber Blog has recently published an article summarizing the impact of the SHIELD Act on companies worldwide. A copy of the article can be found **here**.

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your regular Davis Polk contact.

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