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|| ALICE CORP. V. CLS BANK INTERNATIONAL || 

## CHEAT SHEET

- *Alice Corp. v. CLS Bank*. The Supreme Court further solidified the use of its two-part inventive concept test when conducting a patentability analysis.
- *Medtronic v. Mirowski Family Ventures*. Carefully consider language in any patent license agreement relating to the ability of the licensee to bring a declaratory judgment action.
- *Limelight Networks v. Akamai Technologies*. Patent prosecutors should draft method claims that will be performed only by a single entity.
- *Nautilus v. Biosig Instruments*. For those involved in patent prosecution, draft patent claims using express definitions located within the specification.

# US PATENT LAW AND THE SUPREME COURT: A YEAR IN REVIEW

By Rebecca Hanovice and Jonathan A. Muenkel

The last few years have seen a tremendous uptick in the US Supreme Court's interest in patent law. Indeed, in the 2013–2014 term, the High Court agreed to hear an unprecedented seven patent cases and issued unanimous decisions in six of them.

This article reviews the patent cases heard by the Supreme Court within the last year. They are discussed not in the order in which they were decided, but rather as the issues would likely appear in a patent litigation. It is important to understand how these decisions will affect US patent law going forward, and the impact they could have on strategic decision-making by in-house counsel and businesses who frequently deal with patent issues. Therefore, we also provide practice tips and key takeaways from each decision.

## *Alice Corp. v. CLS Bank International*: § 101 patent eligibility

We begin with *Alice Corp. v. CLS Bank*, a case addressing when an invention is eligible to be patented under US law. While *Alice* was the last patent opinion of the Supreme Court's 2013–2014 term, it was arguably the most anticipated.

### Background

The patent statute, specifically 35 U.S.C. § 101, allows one to obtain a patent for “any new and useful process, machine, manufacture, or composition of matter.” The Supreme Court further interpreted § 101 to prohibit the patenting of any laws of nature, natural phenomena and abstract ideas (i.e., one cannot patent a product found in nature such as a specific wood, or the scientific theory such as  $E=MC^2$ ). Moreover, in *Mayo v. Prometheus*<sup>1</sup>, the Supreme Court created a test, commonly known as the “inventive concept” test, for determining whether a specific type of invention — in *Mayo*, diagnostic method claims — can obtain patent protection.<sup>2</sup> This test has two parts: (1) does the patent claim recite one of the three prohibitions to patent eligibility; and (2) if so, does the patent claim recite additional elements sufficient to transform the otherwise prohibited claim into an patent eligible invention?<sup>3</sup> At issue in *Alice* was whether “computer-implemented” inventions, including system claims involving a computer, were patent eligible utilizing the *Mayo* test.

The invention in *Alice* concerned a computerized trading platform for managing risk in financial transactions. The patent claims were directed to methods of exchanging obligations, computer-readable media and data processing systems. CLS Bank filed a non-infringement declaratory judgment action, and *Alice* counter-claimed for infringement. The district court held that certain claims were invalid since they were not eligible for

patenting under the law. On appeal, a three judge Federal Circuit panel reversed, finding that the claims were indeed eligible for patenting.

On May 10, 2013, an *en banc* Federal Circuit issued a 135-page decision with seven separate opinions and no consensus as to how computer-related claims should be evaluated under § 101.<sup>4</sup> The per curiam opinion lacked any substantive legal analysis, but affirmed the district court's holding that all claims were not eligible for patenting.

### Supreme Court decision

On June 19, 2014, the Supreme Court affirmed the per curiam decision below finding that all of *Alice*'s claims were not eligible for patenting. Specifically, the Court found that the claims at issue were drawn to an abstract idea — an express prohibition to patenting — and that merely adding “generic computer implementation” did not transform such an abstract idea into a patent-eligible invention.

In arriving at its decision, the Supreme Court utilized its *Mayo* two-part “inventive concept” test. First, the Court found that the *Alice* patent claims were drawn to the abstract idea of “intermediated settlement,” a “fundamental economic practice long prevalent in our system of commerce.” Next, the Court considered whether *Alice*'s claims contained an “inventive concept” that sufficiently transformed the abstract idea into a patent eligible invention. On this point, the Court determined that *Alice*'s “mere recitation

of a generic computer [did not] transform [the] patent-ineligible abstract idea into a patent-eligible invention.” As the Court explained, something more is needed. By example, the Court cited the decision in *Diamond v. Diehr*, where the invention was deemed patent eligible not because of its use of a computer, but because the patent applicant “improved an existing technological process. ...”

### Practical tips and takeaways

Unfortunately for patent practitioners, the Supreme Court's decision in *Alice* has done little to clarify what makes a claim too abstract to be patent-eligible. The decision also makes it more difficult to circumvent a potential eligibility problem by using system, instead of method, claims.

And while *Alice* did not per se bar software or business method patents, the decision certainly weakens the patentability position of such inventions. Indeed, district courts have already begun to use *Alice* to strike down many patents that were likely previously acceptable, with 11 software patents being invalidated by courts in just the first three months following the decision. The Supreme Court's decision has also further solidified the use of its two-part “inventive concept” test when conducting a patent eligibility analysis, regardless of the technology at issue. This is further shown by the PTO's recently issued Examination Instructions on this subject (see sidebar on p. 94).

Patent practitioners should also be mindful of the discussion of *Diamond*



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## Important events following *Alice*

On June 25, 2014, the US Patent and Trademark Office issued Preliminary Examination Instructions in light of the *Alice* decision, stating that the PTO will use the *Mayo* two-part “inventive concept” test as part of its § 101 analysis for all types of inventions and claims, going forward. The PTO also provided guidance to its examiners to aid in determining when a claim will fail under this test. From June 30 through July 31, 2014, the PTO accepted public comment on this examiner guidance, with the goal of publishing further examination guidelines in the Fall 2014.

*v. Diehr* in *Alice*, specifically the suggested importance of showing inventive use of an idea to solve a technological problem as a way to overcome the § 101 hurdle.

### *Teva Pharmaceuticals USA v. Sandoz: Claim construction*

*Teva v. Sandoz* was the seventh and final patent case of the 2013–2014 term for which the Supreme Court granted certiorari. Oral argument occurred Oct. 15, 2014, and a decision should issue in the winter of 2014–2015, which will address the amount of deference owed to a district court’s claim construction determination.

#### Background

In *Teva*, patent-holder Teva brought a patent infringement action against several generic drug manufacturers relating to Teva’s multiple-sclerosis drug, Copaxone. During claim construction, the parties disputed the meaning of the claim term “average molecular weight.” The generic manufacturers argued that this term was “insolubly ambiguous,” and that any claims

containing this term were invalid as indefinite. Teva argued that a person of ordinary skill in the art at the time would be able to understand the meaning of this term, and thus no explicit description was required. After considering the evidence, including expert testimony, the district court agreed with Teva, particularly crediting Teva’s expert witness. A permanent injunction was subsequently entered against the defendants.

Federal Rule of Civil Procedure 52(a) (“Findings and Conclusions”) states that in an action tried on the facts without a jury or with an advisory jury, the findings of fact “must not be set aside unless clearly erroneous, and the reviewing court must give due regard to the trial court’s opportunity to judge the witnesses’ credibility.” In apparent conflict with this Rule, the Federal Circuit reviews patent claim construction — often involving issues of fact — de novo, offering little-to-no deference to the district court’s findings below, and based on its 1998 decision in *Cybor Corp. v. FAS Tech*. Critics have called for *Cybor* to be overturned, arguing that factual findings by the district court pertaining to claim construction deserve deference on appellate review.

On appeal in *Teva*, the Federal Circuit followed its longstanding practice and reviewed the district court’s decision, including claim construction, de novo. After discounting much of the evidence and expert testimony offered at trial, the Federal Circuit held that the claims with the term “average molecular weight” were invalid as indefinite.

#### Supreme Court decision

As stated above, the Supreme Court will likely not decide this case until late Fall or Winter 2014. Given its track record so far, however, it is fair to expect that the Supreme Court will overrule the Federal Circuit’s de novo claim construction standard.

#### Practical tips and takeaways

If the Supreme Court does reject the de novo standard of review imposed by the Federal Circuit on issues of claim construction, it is possible that the average cost of patent litigation will decrease due to a reduced chance of the Federal Circuit reversing claim construction decisions on appeal. Such a ruling would also encourage earlier settlement of patent infringement cases. In the meantime, litigants should carefully document any apparent errors made by a district court during claim construction so that they can increase the likelihood of the Federal Circuit reviewing the decision on appeal.

### *Medtronic v. Mirowski Family Ventures: Burden of proof and declaratory judgment actions*

In *Medtronic*, the Supreme Court was faced with the question of whether the burden of proving patent infringement, normally residing with the patentee, shifts when a potential infringer commences a non-infringement declaratory judgment action, and the patentee cannot raise an infringement counterclaim.

#### Background

Mirowski Family Ventures (MFV) licensed several patents to Medtronic in exchange for royalty payments. Under the license agreement, Medtronic could hold certain royalty payments in escrow if MFV accused any new Medtronic product of infringing the MFV licensed patents. Under such a scenario, Medtronic would not be in violation of the license agreement and could bring a declaratory judgment action of non-infringement. Notably, however, MFV could not counterclaim for infringement against Medtronic based on the continued existence of a valid patent license.

In 2007, Medtronic filed a declaratory judgment complaint against MFV. After a bench trial, the district

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court ruled for Medtronic, based on MFV's failure to meet its burden to show infringement of the Medtronic products. On appeal, the Federal Circuit vacated the district court's decision and remanded. While acknowledging that the patentee, not the accused infringer, normally bears the burden of proving infringement, the Federal Circuit reasoned that here, where the patentee is the declaratory judgment defendant and cannot bring an infringement counterclaim due to the continued existence of a license, the party seeking a declaration of non-infringement bears the burden of proving non-infringement.

### Supreme Court decision

On Jan. 22, 2014, the US Supreme Court reversed the Federal Circuit's decision that Medtronic bore the burden of proving non-infringement. The Supreme Court arrived at this conclusion for three reasons. First, it is well established that the patentee bears the burden of proving infringement, and that the burden of proof is a "substantive" — versus "procedural" right — unchanged by operation of the Declaratory Judgment Act.

Second, shifting the burden of persuasion based on the form of action could create post-litigation uncertainty about the patent's scope. For example, failure by the alleged infringer to prove non-infringement in a declaratory judgment action, followed by similar failure by the patentee to prove infringement of the alleged infringer in a separate action, leaves the parties, and the public, in a state of uncertainty as to what products or processes they are free to use.

Third, shifting the burden of proof to the alleged infringer in a declaratory judgment suit would "create a significant obstacle to the use" and purpose of bringing a DJ action, in lieu of refusing to pay royalties and risking enhanced liability and damages under a theory of willful infringement.

### Practical tips and takeaways

Licensors and licensees should carefully consider language in any patent license agreement relating to the ability of the licensee to bring a declaratory judgment action and, under such a situation, who bears the burden of proof. It may be possible to structure an agreement where the licensee would bear the burden of proving non-infringement should it challenge the patent in a DJ action, but it is an open question of whether such a contractual provision would be deemed unenforceable on public policy grounds.

Patent licensors should also carefully consider any communications with existing licensees that could be perceived as threatening infringement, and thus prompt a declaratory judgment action filed by the licensee. The use of "threatening language" should only be used if the patentee is prepared for, and willing to risk, full-blown infringement litigation.

### *Limelight Networks v. Akamai Technologies: Inducement and joint infringement*

The *Limelight* holding is an important one both for patent prosecutors focusing on method-based technologies and for targets of non-practicing entity (NPE) litigation, in that it conclusively addresses whether a defendant can be held liable for inducing infringement of a patent if no one person or entity has practiced each and every step of the patent (i.e., committed direct infringement).

### Background

Akamai is the exclusive licensee of a patent that claims a method of delivering data from multiple available servers using a content delivery network to prevent internet slowdown. Akamai sued Limelight for infringement of several method claims, each of which required the step of "tagging" objects on a web page.

While Limelight did not directly perform the tagging step of Akamai's asserted method claims, its customers did. Therefore, Akamai pursued a direct infringement claim based on the theory that, together, Limelight and its customers were committing joint infringement by practicing each and every element of the method claims. A district court jury agreed and awarded Akamai \$40 million in damages. The district court judge reversed the jury's decision and found no infringement based on *Muniauction v. Thomson Corp.*,<sup>5</sup> in which the Federal Circuit held that direct infringement occurs in the joint infringement context only if "one party exercises 'control or direction' over the entire process such that every step is attributable to the controlling party" — in other words, there must be an agency relationship instead of an arms-length business arrangement.

A unanimous Federal Circuit panel affirmed the finding of non-infringement. However, upon *en banc* review, the Federal Circuit held that induced infringement could be found even if there was no direct infringement, reasoning that there was a difference between requiring "proof that there has been direct infringement" and "proof that a single party would be liable as a direct infringer."

### Supreme Court decision

In a stinging rebuke, the Supreme Court reversed and remanded the case, and chastised the Federal Circuit for "fundamentally misunderstand[ing] what it means to infringe a method patent." The Court confirmed that a patent is not infringed unless all the method's steps are carried out by a single entity, and it pointed out that the Federal Circuit's ruling would "require the courts to develop two parallel bodies of infringement law: one for liability for direct infringement and one for liability for inducement." The Court also noted that since Congress

has not spoken on joint infringement, the Federal Circuit should refer to its holding in *Muniauction*, and find direct infringement only where a single entity has practiced each step of the claimed method, either by itself or an agent. The Supreme Court did point out, however, that on remand the Federal Circuit could reconsider the requirements of “single actor” direct infringement based on its *Muniauction* holding.

### Practical tips and takeaways

The law on divided infringement is still evolving, and it remains to be seen whether the Federal Circuit will reconsider the strict “single actor” requirement for direct infringement that it imposed in *Muniauction*. In the meantime, patent prosecutors should take care to draft method claims that will be performed only by a single entity, in addition to claims that cover the entire inventive process.

On the litigation side, patentees seeking to assert method patent claims should carefully investigate whether their target defendants perform each and every step of the claimed invention by themselves and, if not, whether the third parties performing the missing steps are in an agency relationship with the target. Similarly, defendants who have been charged with infringement of a method patent should closely examine the claims and determine if any of the steps are practiced by a third party over which the defendant does not have agency control. This can be particularly helpful in defending against NPEs, many of whom assert internet-based method claims that cannot, in practice, be performed by a single entity.

### *Nautilus v. Biosig Instruments*: Indefiniteness

In its 2013–2014 term, the Supreme Court also addressed the issue of when a patent claim is invalid as indefinite under 35 U.S.C. § 112. Section 112 mandates that a patent have claims that

“particularly point out and distinctly claim the subject matter which the applicant regards as his invention.”<sup>6</sup> The Federal Circuit has long interpreted this requirement to mean that a patent claim is indefinite only when it is either “not amenable to construction or insolubly ambiguous.”<sup>7</sup> Critics of this test, however, say that it is too difficult to prove and undermines the very purpose of § 112, which is to provide the public with a clear notice and understanding of the scope of the patented invention.

### Background

Biosig filed an action accusing Nautilus of infringing its patent for use of a heart rate monitor with exercise equipment. The asserted claims of the patent-in-suit required the electrodes used in the monitor to be “in a *spaced relationship* with each other.” (i.e., think of the metal strips on the handle of an exercise bike or treadmill that are a certain distance apart from each other). Following a claim construction order from the district court, Nautilus filed a summary judgment motion, arguing that the term “spaced relationship” was indefinite and, therefore, invalid. The district court agreed with Nautilus and found the asserted claims of the Biosig patent invalid.

Using its test for whether a patent claim is indefinite, the Federal Circuit reversed the lower court. In so holding, the Federal Circuit found the following: (1) the term “spaced relationship” was capable of being construed (i.e., defined), as shown by the district court’s own claim construction order; and (2) the evidence provided one of ordinary skill in the art (i.e., one familiar with the underlying technology of the patent) sufficient clarity to understand the meaning of “spaced relationship.”<sup>8</sup> The Federal Circuit also emphasized the flexibility of the indefiniteness standard by saying, “we have not insisted that claims be plain on their face in order to avoid a determination of invalidity

for indefiniteness. ‘If the meaning of a claim is discernible, even though the ... conclusion may be one over which reasonable persons would disagree, we have held the claim sufficiently clear to avoid invalidity on indefiniteness grounds.’”

### Supreme Court decision

The Supreme Court vacated the Federal Circuit’s decision, and it stated that the Federal Circuit’s test for indefiniteness did not sufficiently satisfy the statutory meaning and purpose of the statute. Specifically, the Court found that the Federal Circuit’s test could be applied inconsistently, thus allowing for some ambiguous claims but not others. Accordingly, the Supreme Court rejected the Federal Circuit’s standard and created the following new test for deciding whether a patent claim is indefinite and, therefore, invalid:

[A] patent is invalid for indefiniteness if its claims, read in light of the specification delineating the patent, and the prosecution history, *fail to inform, with reasonable certainty*, those skilled in the art about the scope of the invention.

In creating this new test, the Supreme Court focused on the importance that a patent should have boundaries that are sufficiently clear. To ignore this policy encourages the drafting of ambiguous patent claims, and it risks creating a “zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims,” a result some might argue would undermine the incentive to innovate. The Court, however, also recognized that “[s]ome modicum of uncertainty” is inherent in the basic understanding of human language, and it is the “price of ensuring the appropriate incentives for innovation.” The Supreme Court remanded the case for the Federal Circuit to decide whether the disputed patent claim term was indefinite under the High Court’s new standard.

Case name	Docket # (Opinion)	Issue	Holding	Practice tips
<i>Alice Corp. v. CLS Bank</i>	13-298 (6/19/14)	Whether claims to computer-implemented inventions, including claims to systems and machines, processes and items of manufacture, are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101 as interpreted by this Court.	<ul style="list-style-type: none"> <li>Affirmed (9-0).</li> <li>All of Alice's patent claims are drawn generally to a patent-ineligible abstract idea under 35 U.S.C. § 101. Moreover, the mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention. Accordingly, the claims are not patent eligible under § 101.</li> </ul>	<ul style="list-style-type: none"> <li>Alice did not bar software or business method patents <i>per se</i>.</li> <li>The Supreme Court, and PTO, solidified the use of <i>Mayo's</i> two-part "inventive concept" test when conducting a § 101 analysis, regardless of the technology at issue.</li> <li>Look carefully at the recent PTO guidance to further understand how examiners will consider § 101 issues under the "inventive concept" test.</li> <li>Pay special attention to the Supreme Court's discussion of <i>Diehr</i> in its <i>Alice</i> decision, for keys as to what might constitute patent-eligible subject matter even where an arguable abstract idea and computer are used. Specifically, the Court noted the importance of showing <i>inventive use of the idea to solve a technological problem</i>.</li> </ul>
<i>Teva v. Sandoz</i>	13-854 (Pending)	Whether a district court's factual finding in support of its construction of a patent claim term may be reviewed <i>de novo</i> , as required by the Federal Circuit, or only for clear error, as set forth in Federal Rule of Civil Procedure 52(a).	<ul style="list-style-type: none"> <li>Oral argument scheduled for Oct. 14, 2014.</li> </ul>	<ul style="list-style-type: none"> <li>Litigants should be careful to document any errors made by the district court in claim construction in the likely event that the Supreme Court overturns the Federal Circuit's <i>de novo</i> review standard.</li> </ul>
<i>Medtronic v. MFV</i>	12-1128 (1/22/14)	Whether, in a declaratory judgment action brought by a licensee under <i>MedImmune, Inc. v. Genentech, Inc.</i> , the licensee has the burden to prove that its products do not infringe the patent, or whether (as is the case in all other patent litigation, including other declaratory judgment actions) the patentee must prove infringement.	<ul style="list-style-type: none"> <li>Reversed and remanded (9-0).</li> <li>When a licensee seeks a declaratory judgment against a patentee to establish that its products do not infringe the licensed patent, the patentee bears the burden of persuasion on the issue of infringement.</li> </ul>	<ul style="list-style-type: none"> <li>Carefully consider language in any patent license agreement relating to the ability of the licensee to bring a declaratory judgment action and, under such a situation, who bears the burden of proof.</li> <li>As a patent licensor, carefully consider any communications with existing licensees that could risk being perceived as threatening infringement, and thus prompting a declaratory judgment action filed by the licensee.</li> </ul>

### Practical tips and takeaways

The *Nautilus* decision arguably makes it easier for a patent challenger to invalidate a claim as indefinite. In fact, the PTO and Patent Trial and Appeal Board (PTAB) are both taking a stricter stance on ambiguous patent claims. Only two days after the *Nautilus* opinion issued, the PTAB issued a decision affirming a patent examiner's indefiniteness rejection based on the use of the term "can be" in a whereby clause involving highway monitoring systems.

Accordingly, it is important for those involved in patent prosecution to draft patent claims as clearly as possible and to consider using express definitions located within the specification. Moreover, practitioners

should carefully watch for how the Federal Circuit, and lower courts, interpret the Supreme Court's *Nautilus* opinion and further flesh out the new standard for indefiniteness. As of August, 2014, the parties in *Nautilus* were filing supplemental briefing with the Federal Circuit on remand. Accordingly, we will likely see a decision on this case in the fall or winter of 2014.

### *Octane Fitness v. Icon Health & Fitness*

35 U.S.C. § 285 allows a court to "award reasonable attorney fees to the prevailing party" in a patent litigation in "exceptional cases." The *Octane* decision overrules a strict test promulgated by the Federal Circuit, and it leaves the

district court to determine what types of litigation misconduct create an "exceptional case," while also lowering the burden of proof, thus making it much easier for district courts to punish patent litigants for bad behavior.

### Background

In its 2005 *Brooks Furniture* decision, the Federal Circuit held that a case is "exceptional" under the law and thus merits the award of reasonable attorney's fees in two limited circumstances: (1) "when there has been some material inappropriate conduct" (e.g., conduct that would be sanctionable under Rule 11); or (2) when the litigation is "brought in subjective bad faith" and is "objectively baseless."<sup>9</sup> Furthermore, the Federal Circuit

Case name	Docket # (Opinion)	Issue	Holding	Practice tips
<i>Limelight v. Akamai</i>	12-786 (6/2/14)	Whether the Federal Circuit erred in holding that a defendant may be held liable for inducing patent infringement under 35 U.S.C. § 271(b) even though no one has committed direct infringement under § 271(a).	<ul style="list-style-type: none"> <li>Reversed and remanded (9-0).</li> <li>Yes: A defendant cannot be held liable for inducing infringement when no single party has committed direct infringement.</li> </ul>	<ul style="list-style-type: none"> <li>Patent prosecutors should draft claims that can or will be performed only by one party.</li> <li>Defendants charged with infringing method patents should determine whether they actually have control over each step of the claims when considering non-infringement arguments.</li> </ul>
<i>Nautilus v. Biosig</i>	13-369 (6/2/14)	Whether the Federal Circuit's acceptance of ambiguous patent claims with multiple reasonable interpretations — so long as the ambiguity is not “insoluble” by a court — defeats the statutory requirement of particular and distinct patent claiming under 35 U.S.C. § 112.	<ul style="list-style-type: none"> <li>Vacated and remanded (9-0).</li> <li>A patent is invalid for indefiniteness if its claims, read in light of the patent's specification and prosecution history, <i>fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention.</i></li> </ul>	<ul style="list-style-type: none"> <li>Draft patent claims as clearly as possible, and even consider using express definitions located within the specification. This is even more important during prosecution before the Patent Office since the claims are given their “broadest reasonable interpretation.”</li> </ul>
<i>Highmark v. Allcare</i>	12-1163 (4/29/14)	Whether the two-part test for determining whether a case is exceptional under 35 U.S.C. § 285 (does clear and convincing evidence show that the case (1) involves material inappropriate conduct or is (2) both objectively baseless and brought in subjective bad faith) improperly encumbers the statutory grant of discretion to district courts.	<ul style="list-style-type: none"> <li>Vacated and remanded (9-0).</li> <li>Yes: The two-part test is discarded; district courts may determine what “exceptional” means on a case-by-case basis in view of the facts of each case.</li> <li>The “clear and convincing” standard of proof is not justified by § 285 and is discarded.</li> </ul>	<ul style="list-style-type: none"> <li>Courts now have greater leeway to find an exceptional case in patent litigation. Targets of patent infringement claims should put the accuser on notice of their intent to seek attorney's fee sanctions as soon as possible after receiving, for example, a vague patent infringement demand letter, or suffering from abusive litigation conduct.</li> <li>Courts will likely be more willing to find an exceptional case without the threat of <i>de novo</i> review on appeal.</li> <li>The deterrent effect of the attorney's fee statute may increase.</li> </ul>
<i>Octane Fitness v. ICON Fitness</i>	12-1184 (4/29/14)	Whether a district court's exceptional-case finding under 35 U.S.C. § 285, based on a judgment that a suit is objectively baseless, is entitled to deference.	<ul style="list-style-type: none"> <li>Reversed and remanded (9-0).</li> <li>Yes: A decision by a district court that a patent lawsuit is “objectively baseless” is reviewable only for abuse of discretion; such decisions may not be reviewed <i>de novo</i>.</li> </ul>	

required that the improper conduct supporting a finding of an “exceptional case” be established by clear and convincing evidence.

In *Octane*, Icon, a manufacturer of exercise equipment, sued Octane for allegedly infringing a patent claiming an elliptical exercise machine. After obtaining a favorable claim construction, defendant Octane successfully moved for summary judgment of non-infringement of the patent-in-suit. Octane then moved for attorneys fees, pointing to Icon's failure to inspect the accused product, the allegedly untenable positions taken by Icon throughout the case, and Icon's continued prosecution of the case after an unfavorable claim construction.

The district court denied Octane's motion for attorneys' fees, relying on the *Brooks Furniture* test, and finding that Icon would have had to actually know that its case had no merit in order to justify a finding of an exceptional case. The Federal Circuit affirmed the district court's denial of fees, and Octane filed a petition for a writ of certiorari, arguing that the *Brooks Furniture* standards were impossible to meet for an accused infringer.

#### Supreme Court decision

In reversing and remanding the Federal Circuit, the Supreme Court agreed with Octane that the *Brooks Furniture* standard was unreasonably restrictive and “so demanding that it would render the law

permitting the award of attorney's fees largely superfluous.” The Supreme Court examined the legislative history of the attorney fees statute and found that the *Brooks Furniture* standard “impermissibly encumbers the statutory grant of discretion to district courts” in that the statute itself leaves it to the district court to determine what an “exceptional case” would look like.

The Supreme Court also disagreed with the clear and convincing standard of proof required by the Federal Circuit, noting that the statute imposes no specific burden of proof, and suggesting that “preponderance of the evidence” would be sufficient to support an exceptional case finding.

### *Highmark v. Allcare Health Management Systems*

The *Highmark* case reduces the risk that district court judges will have their attorney's fees decisions reversed on appeal by clarifying the standard of review of such decisions. One also hopes that this ruling will further dissuade potential plaintiffs, particularly NPEs, from aggressively asserting vague patents without first carefully comparing the claims of those patents with their targets' products and services.

#### Background

In 2002, Allcare accused Highmark of infringing its patent on utilization review in managed health care systems and demanded that Highmark take a license or face litigation. Highmark instead sued Allcare for a declaratory judgment of non-infringement, and Allcare counterclaimed for infringement. After four years of litigation,

Highmark successfully moved for summary judgment of non-infringement. Allcare appealed, and the Federal Circuit affirmed without comment. Highmark then moved for attorney's fees, and the district court found that the case was exceptional for being "objectively baseless," in part because "Allcare had not done its homework [by investigating the case against Highmark] when it began trolling for dollars and threatening litigation," and because Allcare continued to pursue "meritless allegations after the lack of merit became apparent." The court also called out Allcare's "vexatious and deceitful" conduct during the litigation as further justification for its award of attorney fees.

On appeal of the \$ 285 fee award, the Federal Circuit decided that objective baselessness involved a question of law and thus should be reviewed de novo. The Federal Circuit refused

to defer to the district court's decision and, instead determined that Allcare had a reasonable basis for asserting one of its patent infringement claims against Highmark. The Federal Circuit thus reversed the district court's award of fees in part and remanded for further consideration.

#### Supreme Court decision

In a short decision that heavily referenced its *Octane* opinion, the Supreme Court vacated and remanded the Federal Circuit. The Supreme Court reiterated that "district courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances," and that a court's decision regarding attorney's fees "is to be reviewed on appeal for abuse of discretion" — not de novo. The Supreme Court also commented that while "questions of law may in some cases

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be relevant to the § 285 inquiry, that inquiry generally is, at heart, 'rooted in factual determinations'”

### Practical tips and takeaways of *Octane* and *Highmark*

The petitioners in both the *Octane* and *Highmark* cases cited the recent proliferation of abusive patent lawsuits in their petitions to the Supreme Court. Therefore, it follows that the Supreme Court's holdings in these cases are particularly helpful for targets of vague license demand letters and abusive litigation, as they increase the deterrent effect of the attorney's fees statute.

In fact, district courts across the nation have cited these cases in support of awarding attorneys' fees for abusive litigation tactics. This includes filing and continuing to prosecute an infringement case, despite knowing that the defendant's software provider had a license to the asserted patents — thus making it impossible for the defendant to induce infringement,<sup>10</sup> failing to withdraw meritless defenses, and advancing unsupported theories of infringement at summary judgment.<sup>12</sup>

In view of the *Octane* and *Highmark* case, recipients of vague demand letters that do not compare the claims of the asserted patents with the accused products, and/or that take unreasonable claim construction positions, should immediately put the patent holder on notice that they plan to seek attorney's fees and costs if the patent holder chooses to pursue a claim. Similarly, if a party engages in abusive tactics during patent litigation, the opposing party should record each bad behavior, notify the abusive party of the threat of attorney's fees sanctions and move for fees under § 285 at the close of litigation. **ACC**

### NOTES

- 1 *Mayo Collaborative Svcs. v. Prometheus Labs., Inc.*, 132 S.Ct. 1289 (2012).
- 2 A patent's claims are the numbered paragraphs at the end of the patent that define the scope of the invention disclosed therein. There are various types of claims depending on the invention patented; for example, a claim to a specific device or product (commonly known as a "product claim"), a claim describing a way of making something (called a "process claim"), or a claim describing a way of doing something (called a "method claim"). Different types of claims can each come with their own set of legal issues within the context of US patent law, including whether such claim is eligible to receive patent protection. Moreover, even after a party receives a patent from the US Patent and Trademark Office, the Federal Courts may invalidate one or more of the patent's claims based on the patent statute rendering such claim as if it never existed.
- 3 In *Mayo*, the Supreme Court specifically distinguished *application* of an otherwise prohibited abstract concept, to the prohibited abstract concept on its own.
- 4 *CLS Bank Int'l v. Alice Corp.*, 717 F.3d 1269 (Fed. Cir. 2013).
- 5 532 F.3d 1318.

- 6 As previously stated, a patent's claims define the metes and bounds of the patented invention. The claims allow the public to better know what is — and is not — covered by the patent, and therefore, whether one does — or does not — infringe the patent. In exchange for receiving a patent, one must comply with certain requirements, including clearly defining the terms and phrases used in a patent's claims. This is known as the definiteness requirement, and is found in 35 U.S.C. § 112. Failure to comply with this requirement will render a claim unpatentable and thus invalid.
- 7 *Datamize, LLC v. Plumtree Software, Inc.*, 417 F.3d 1342, 1347 (Fed. Cir. 2005) ("Only claims 'not amenable to construction' or 'insolubly ambiguous' are indefinite."); see also, *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1371 (Fed. Cir. 2008) ("In and of itself, a reduction of the meaning of a claim term into words is not dispositive of whether the term is definite. ... And if reasonable efforts at claim construction result in a definition that does not provide sufficient particularity and clarity to inform skilled artisans of the bounds of the claim, the claim is insolubly ambiguous and invalid for indefiniteness.") (Internal citations omitted.)
- 8 Such "evidence" includes the patent's specification (text within the patent that is not the claims but further explains the invention and the problem it sets out to solve) and prosecution history (the back and forth exchange between the inventor and US Patent and Trademark Office when attempted to obtain an issued patent).
- 9 *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005).
- 10 *Summit Data Systems LLC v. EMC Corporation*, et. al., 1-10-cv-00749 (E.D. DE, Sept. 25, 2014, Order) (Sleet, J.).
- 11 *Romag Fasteners, Inc. v. Fossil, Inc.*, et. al., 3-10-cv-01827 (D. CT., Aug. 14, 2014, Order) (Arterton, J.).
- 12 *Medtrica Solutions Ltd. v. Cygnus Medical LLC*, 2-12-cv-00538 (WAWD July 10, 2014, Order) (Lasnik, J.).

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#### Practice Resources

For more information on IP issues, read ACC Alliance Partner Thomson Reuters' article regarding mergers and acquisitions and IPOs in intellectual property-intensive industries, such as technology and media/entertainment. [bit.ly/1Pready](http://bit.ly/1Pready)

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