Recent Developments in Patent Law From the Supreme Court

January 30, 2015
Presented By
Eric M. Acker and Brian M. Kramer
An Expanding Docket

• 2013-14 Term Decisions
  • Alice v. CLS
    • Subject Matter Eligibility
  • Nautilus v. Biosig
    • Indefiniteness
  • Limelight v. Akamai
    • Divided Infringement for Inducement
An Expanding Docket

• 2013-14 Term Decisions (continued)
  • Highmark v. Allcare
    • Attorneys’ Fees

• Octane v. Icon
  • Attorneys’ Fees

• Medtronic v. Boston Scientific
  • Burden of Proving Infringement in Declaratory Judgment Actions
An Expanding Docket

- 2014-15 Term Decisions/Arguments
    - Standard of Review for Claim Construction

- *Commil v. Cisco*
  - Good Faith Defense to Infringement

- *Kimble v. Marvel*
  - Patent Misuse
2013 – 2014
Term Decisions
Subject Matter Eligibility

Alice v. CLS Bank
• A Rare Trend
  • Supreme Court typically goes decades without revisiting patent issues.
  • Alice marks the 4th time the Court addressed subject matter eligibility in the past 5 years:
    • Bilski – rejected Federal Circuit’s analysis, but affirmed
    • Prometheus – reversed Federal Circuit
    • Myriad – reversed Federal Circuit, in part
    • Alice – affirmed Federal Circuit
Subject Matter Eligibility

Alice v. CLS Bank (continued)

- **Question Presented:** Whether claims directed to abstract ideas are patent-eligible under Section 101

- **Background:** Patents claim:
  - Method for exchanging financial obligations between parties
  - Computer system configured to carry out method for exchanging obligations
  - Computer-readable medium containing program code for performing exchange
Subject Matter Eligibility

*Alice v. CLS Bank (continued)*

- **Rule:** Section 101 specifically excludes from protection “[l]aws of nature, natural phenomena, and abstract ideas.”
  - Building block of human ingenuity is not eligible.
  - Patent must integrate building block into something more.

- **Supreme Court Analysis:**
  1. Court must determine whether claims at issue are directed toward a patent-ineligible concept, and
  2. If so, do the claim’s limitations nevertheless transform the nature of the claims into a patent-eligible invention?
Subject Matter Eligibility

Alice v. CLS Bank (continued)

• Here, the claims are not directed toward a patent-eligible concept because intermediated settlement is an abstract idea.
  • It is a “fundamental economic practice long prevalent in our system of commerce[,] . . . a building block of the modern economy.

• The claims do not contain an inventive concept sufficient to transform the claimed abstract idea into a patent-eligible application
  • Introduction of a computer into the claims is not sufficiently inventive
Indefiniteness

Nautilus v. Biosig Instruments

• **Question Presented:** Is the Federal Circuit’s “insolubly ambiguous” approach the correct test for indefiniteness?

• **Background:**
  
  • Patent describes a heart rate monitor that contains a “live electrode and a common electrode mounted … in spaced relationship with each other.”

  • Federal Circuit affirmed summary judgment that claimed term “in spaced relationship with each other” was indefinite.
**Indefiniteness**

*Nautilus v. Biosig Instruments (continued)*

- **Rule:** “The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.” 35 U.S.C. § 112.

- Federal Circuit had stated a claim is indefinite only when
  1. It is not amenable to construction or
  2. Is insolubly ambiguous

- **Supreme Court Analysis:**
  - Supreme Court rejects Federal Circuit standard as more amorphous than the statutory definiteness requirement allows.
Indefiniteness

**Nautilus v. Biosig Instruments (continued)**

- Section 112 definiteness requirement must take into account the inherent limitations of language.

- But patent must be precise enough to afford clear notice of what is claimed and thus apprise the public of what is open to them.

- New rule: courts should ask whether the claims, when read in light of the patent’s specification and prosecution history, “fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention.”
Divided Infringement for Inducement

**Limelight Networks v. Akamai Technologies**

- **Question Presented:** Can one induce infringement of a method patent when multiple actors performed the claimed steps?

- **Background:** Akamai licenses a patent that claims a method of delivering electronic data using a content delivery network
  
  - Limelight’s customers, rather than Limelight itself, perform a step of the patent
Divided Infringement for Inducement

*Limelight Networks v. Akamai Technologies (continued)*

- **Rules:** Liability for direct infringement requires performance of all the steps of a method patent to be attributable to a single party.

- Federal Circuit had held that, unlike direct infringement, liability for inducement may exist when multiple actors carry out the multiple steps of a method claim.
Divided Infringement for Inducement

*Limelight Networks v. Akamai Technologies (continued)*

- **Supreme Court Analysis:**
  - Congress knew how to extend liability for inducement for supplying components of a patented invention. § 271(f)(1).
  - Congress chose not to extend liability for inducement in section governing method patents. § 271(b).
  - Method patents confer rights in a particular set of steps. Each step is material to defining the scope of the patent invention.
  - Held: Absent direct infringement, there can be no inducement.
Octane Fitness, LLC v. Icon Health & Fitness

• Question Presented: Are “exceptional” cases limited to those involving “material inappropriate conduct,” or ones that are both “objectively baseless” and “brought in subjective bad faith?”

• Background:
  • Icon sued Octane. Octane won summary judgment of noninfringement. Octane sought its attorneys’ fees.
  • The District Court denied the motion for attorneys’ fees, and the Federal Circuit affirmed, applying its “subjective bad faith” and “objectively baseless” test.
Attorneys’ Fees – Exceptional Cases

Octane v. Icon (continued)

• Supreme Court Analysis: “[A]n ‘exceptional’ case is simply one that stands out from others with respect to the substantive strength of a party’s litigating position . . . or the unreasonable manner in which the case was litigated.”

• District courts may determine exceptionality in their discretion by considering the totality of the circumstances.

• A party moving for attorneys’ fees need only prove that the case is exceptional by a preponderance of the evidence, not by clear and convincing evidence.
Attorneys’ Fees – Exceptional Cases

Octane v. Icon (continued)

• Supreme Court Analysis:
  • The Federal Circuit’s framework was “overly rigid,” and has no textual support in § 285.
  • A narrow definition of exceptional cases would render § 285 superfluous.
  • Patent litigation is generally governed by a preponderance of the evidence standard.
Attorneys’ Fees – Standard of Review

Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.

• **Question Presented:** What level of deference should an appellate court apply in reviewing a district court’s “exceptional case” findings?

• **Background:**
  - Allcare, an NPE, sued Highmark for infringement of a patent relating to “‘utilization review’ in ‘managed health care systems.’”
  - Highmark won a noninfringement judgment. The trial court awarded attorneys’ fees for “‘vexatious’ and ‘deceitful’ conduct.”
  - Federal Circuit reversed in part, reviewing the award de novo.
Attorneys’ Fees – Standard of Review

*Highmark v. Allcare (continued)*

- **Supreme Court Analysis**: Appellate courts should apply an abuse of discretion standard in reviewing a district court’s Section 285 findings.

  - *Octane’s* holding that the district court has discretion to award attorneys’ fees supports an abuse of discretion standard.

  - District courts are in the best position to evaluate whether a case is exceptional, because that question is “‘rooted in factual determinations.’”
Burden of Proving Infringement

Medtronic v. Mirowski Family Ventures

• **Question Presented:** In a declaratory judgment action brought by accused infringer, who has the burden of proof?

• **Background:** Medtronic holds license to practice Mirowski patents.
  
  • Mirowski notified Medtronic that several of Medtronic’s products infringed the licensed patents.
  
  • Medtronic filed a DJ of noninfringement while accumulating disputed royalties in an escrow account.
Burden of Proving Infringement

Medtronic v. Mirowski Family Ventures (continued)

- **Rule:** A patentee ordinarily bears the burden of proving infringement.

- But the Federal Circuit held that the burden does shift to the accused infringer when the patentee is a DJ defendant who is contractually foreclosed from asserting an infringement counterclaim.
Burden of Proving Infringement

Medtronic v. Mirowski Family Ventures (continued)

• Supreme Court Analysis: Federal Circuit is reversed.

1. Patentee has always had the burden to prove infringement.

2. Operation of the Declaratory Judgment Act is only procedural.

3. Which party bears the burden of proof is substantive.

4. Shifting the burden depending on the form of the action creates post-litigation uncertainty about the scope of the patent and the scope of infringement.
2014 – 2015 TERM
Claim Construction Standard of Review

_Teva v. Sandoz_

- **Question Presented:** Are underlying findings of fact in a claim construction entitled to a clear error or _de novo_ standard of review?

- **Background:**
  - The District Court concluded that the patent claims at issue were not indefinite, crediting the interpretation of an expert witness’s declaration.
  - The Federal Circuit reviewed the District Court’s holding _de novo_ and held that claims were, in fact, indefinite.
Claim Construction Standard of Review

Teva v. Sandoz

AVERAGE MOLECULAR WEIGHT (kDa)

% of the total mass

Molecular Weight
Teva v. Sandoz (continued)

• Rules:
  • Under *Markman v. Westview Instruments* (U.S. 1996), claim construction is a question of law.
  • Questions of law are reviewed de novo.
  • Under Fed. R. Civ. P. 52(a), questions of fact are reviewed for clear error.

• **Background:** Teva argued that the Federal Circuit rejected several “fact” determinations, including whether an SEC curve will shift when generated.

• The Federal Circuit applied a de novo standard.
Teva v. Sandoz (continued)

• Supreme Court Analysis: When assessing a claim construction ruling, the appeals court must separate factual and legal questions.
  • Evidence intrinsic is legal and reviewed de novo.
  • Extrinsic evidence (e.g., background science, meaning of a term in the art) are factual are reviewed for clear error.

• The Supreme Court remanded for a new analysis applying the correct standard.
Good Faith Defense to Inducement


• **Question Presented:** Is a defendant’s good-faith belief that a patent is invalid a defense to induced infringement?

• **Existing Rule:** Inducing infringement requires “knowledge that the induced acts constitute patent infringement.”
Good Faith Defense to Inducement

Commil v. Sysco Systems (continued)

• Background:

  • Jury was precluded from hearing evidence of accused inducer’s good faith belief in invalidity to show it lacked requisite intent to induce infringement.

  • The Federal Circuit reversed, holding that evidence of good-faith belief of invalidity may negate the requisite intent for induced infringement.
Kimble v. Marvel Enterprises (cert. granted Dec. 12, 2014)

• **Question Presented:** Is a patent royalty that extends beyond a patent’s expiration *per se* unlawful?

• **Existing Rule:** The Supreme Court in *Brulotte v. Thys Co.*, (1964), held that a patent licensing agreement requiring a licensee to make royalty payments beyond the expiration date is *per se* unlawful under antitrust laws.
Kimble v. Marvel Enterprises (continued)

• Background:
  • Kimble assigned a patent and conveyed other intellectual property rights to Marvel.
  • Royalty terms extended beyond patent's expiration.
  • Brulotte creates tension between freedom to contract and antitrust concerns.