

**RPX Monthly Digest of Patent Law Developments
September 2013**

Supreme Court

Decisions in Patent Cases

(No new decisions)

Patent Cases on Certiorari

At Issue: Attorney's Fees to Prevailing Party (New this month)

The Court granted certiorari in two cases related to attorney's fees in patent cases.

Octane Fitness v. Icon Health and Fitness

Question presented:

Whether the Federal Circuit's promulgation of a rigid and exclusive two-part test for determining whether a case is "exceptional" under 35 U.S.C. § 285 improperly appropriates a district court's discretionary authority to award attorney fees to prevailing accused infringers in contravention of statutory intent and this Court's precedent, thereby raising the standard for accused infringers (but not patentees) to recoup fees and encouraging patent plaintiffs to bring spurious patent cases to cause competitive harm or coerce unwarranted settlements from defendants.

Highmark v Allcare Management Systems

Question Presented:

Whether a district court's exceptional-case finding under 35 U.S.C. § 285 (which permits the court to award attorney's fees in exceptional cases), based on its judgment that a suit is objectively baseless, is entitled to deference.

At Issue: Burden of Proof in Declaratory Judgment

The Court granted *certiorari* in Medtronic Inc. v. Boston Scientific Corp (see September 2012 digest)

The question presented is:

"In *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 137 (2007), this Court ruled that a patent licensee that believes that its products do not infringe the patent and accordingly are not subject to royalty payments is "not required ... to break or terminate its ... license agreement before seeking a declaratory judgment in federal court that the underlying patent is ... not infringed."

The question presented is whether, in such a declaratory judgment action brought by a licensee under *MedImmune*, 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.

Federal Circuit

At Issue: Patentable Subject Matter

In Accenture v Guidewire, the Court (Lourie and Reyna, with Rader dissenting), held that claims to a system for generating tasks to be performed in an insurance organization were not patentable subject matter for two independent reasons: 1) the system claims offered no meaningful limitations beyond the method claims which were held patent-ineligible by the district court and were not appealed; and 2) the system claims were directed to an abstract idea.

For reason 1), the Court relied on the plurality opinion in CLS Bank (an evenly split en banc opinion), where, according to the Court, a majority held that “system claims that closely track method claims and are grounded by the same meaningful limitations will generally rise and fall together.”

For reason 2), the Court concluded that “the method claims did not include limitations that set them apart from the abstract idea of handling insurance information” More specifically, the Court identified the abstract idea as “generating tasks based on rules ...to be completed upon the occurrence of an event”. Applying that idea in a computer environment and within the insurance industry does not “narrow, confine, or otherwise tie down the claim” so that in practical terms it does not cover the abstract idea itself. “Simply implementing an abstract concept on a computer, without meaningful limitations to that concept, does not transform a patent ineligible claim into a patent-eligible one.... Further, as the Supreme Court stated in Bilski, limiting the application of an abstract idea to one field of use does not necessarily guard against preempting all uses of the abstract idea.”

At Issue: Obviousness of Dependent Claims

In Soverain Software v Newegg, the Court (Newman, Prost and Reyna) held that when the validity (obviousness, in this case) of a dependent claim and the independent claim it incorporates are not separately argued, the claims rise and fall together.

At Issue: Review of BPAI Decisions on Obviousness

In Rambus v Rea, the Court (Moore, Linn and O'Malley) reversed and remanded a pre-AIA decision of the BPAI that affirmed an examiner's finding that the claims in an inter parties reexamination initiated by the USPTO were obvious. The Board erroneously placed the burden of proof on the patentee (Rambus) when it held that “Rambus had not demonstrated that skilled artisans...would not have been able to arrive at the broadly claimed invention”. The Board also erred when it supplied its own reasons to combine the prior art references, because the reasons were different from those used by the examiner. The Board should have designated its decision a new ground of rejection and provided the patentee with an opportunity to respond. Lastly, the Board erred when it found that the patentee's objective evidence of nonobviousness lacked a nexus because it related to unclaimed features. “Objective evidence of nonobviousness need only be ‘reasonably commensurate with the scope of the claims’, and we do not require a patentee to produce objective evidence of nonobviousness for every potential embodiment of the claim”

At Issue: Obviousness and Objective Evidence

In Meadwestvaco v Rexam Beauty, the Court (Prost, O'Malley and Taranto) emphasized that obviousness must be analyzed on a claim-by-claim basis that “secondary considerations of obviousness must be commensurate in scope with the claims which the evidence is offered to support”

At Issue: Interlocutory Appeals

In Fujitsu v Tellabs, a nonprecedential decision, the Court (Dyk and Prost with O'Malley dissenting) declined to hear an interlocutory appeal of the following questions:

- 1) Can a foreign patent owner that does not sell any products in the U.S. market collect lost profits damages based on sales lost by its wholly-owned U.S. subsidiary, which is a non-exclusive licensee under the patent?
- 2) Can a foreign patent owner that manufactures and sells component parts to its wholly-owned U.S. subsidiary via a transfer pricing mechanism designed to comply with the Internal Revenue Code, 26 U.S.C. § 482, recover as lost profits the lost payments from its wholly-owned U.S. subsidiary for these component parts?

The Court reasoned that these questions, certified for interlocutory appeal by the district court, did not meet the requirements of 28 U.S.C. § 1292(b) because they do not raise “controlling questions of law” which “may materially advance the ultimate termination of the litigation”. A question of law is “controlling, according to the Court, “only if our resolution of that issue could have an immediate impact on the course of the litigation” Without a determination of liability, an appeal on a question of damages is premature and advisory.

At Issue: Contractual Provision Regarding Attorneys Fees

In Buckhorn v Orbis, a nonprecedential opinion, the Court (O'Malley, Rader and Reyna) applied California law to interpret the following provision in a patent license agreement:

“In any litigation based on a controversy or dispute arising out of or in connection with this Agreement or its interpretation, the prevailing party shall be entitled to recover all fees, costs, reasonable attorney’s fees, and other expenses attributable to the litigation.”

The defendant had successfully raised the license as an affirmative defense against a charge of patent infringement. The plaintiff did not know the defendant was licensed, because the defendant had gained its license rights pursuant to a transfer of an entire line of business, which did not require the licensor’s consent. The Court held that this lack of knowledge was irrelevant and that the defendant was entitled to attorney’s fees, even though this was not a direct action under the agreement, because of the language “or in connection with” in the above-quoted clause.

At Issue: Inequitable Conduct

In Network Signature v State Farm Mutual Auto, the Court (Newman and Wallach, with Cleverger dissenting) held that the patentee’s attorney did not commit inequitable conduct when he filed a petition to revive an application for unintentional abandonment for failure to timely pay maintenance fees. The attorney used the PTO form, which did not require any explanation of why the abandonment was unintentional. He testified that he had made a mistake of fact when he abandoned the application, because he was unaware of the commercial interest in the patents. The court noted that the PTO position is that “A distinction must be made between a mistake in fact, which may form the basis for a holding of unintentional abandonment . . . , and the arrival at a different conclusion after reviewing the same facts a second time.” The Court held that the use of the PTO form does not provide clear and convincing evidence of withholding of material information with the intent to deceive the PTO.

At Issue: Joinder and Venue

In In re Nintendo, a nonprecedential opinion, the Court (O'Malley, Lourie and Reyna) issued a writ of mandamus ordering the ED Tex district court to reconsider defendant's motion to sever and transfer claims against Nintendo. The plaintiff initially sued Nintendo and several retailers of Nintendo's Wii games and accessories. When Nintendo moved to sever and stay the claims against the retailers, and to transfer the case against Nintendo to Washington, the plaintiff added claims against the retailers for selling Wii games produced by third parties, and Nintendo moved to sever those claims. The district court then denied all motions to sever. The Federal Circuit held that the district court should first assess whether the case against Nintendo, as originally filed, should be severed from the claims against the retailers and transferred to Washington for fairness and convenience, before considering whether the additional claims against the retailers (for selling third party products) could be asserted. Then, even if the district court finds that the parties should remain joined and the case should proceed in the Eastern District of Texas, the court must additionally consider whether fairness and convenience nonetheless warrant severance of the non- Nintendo product claims.

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Question presented:

Whether the Federal Circuit's promulgation of a rigid and exclusive two-part test for determining whether a case is "exceptional" under 35 U.S.C. § 285 improperly appropriates a district court's discretionary authority to award attorney fees to prevailing accused infringers in contravention of statutory intent and this Court's precedent, thereby raising the standard for accused infringers (but not patentees) to recoup fees and encouraging patent plaintiffs to bring spurious patent cases to cause competitive harm or coerce unwarranted settlements from defendants.

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Whether a district court's exceptional-case finding under 35 U.S.C. § 285 (which permits the court to award attorney's fees in exceptional cases), based on its judgment that a suit is objectively baseless, is entitled to deference.

At Issue: Burden of Proof in Declaratory Judgment

The Court granted *certiorari* in Medtronic Inc. v. Boston Scientific Corp (see September 2012 digest)

Question presented:

"In *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 137 (2007), this Court ruled that a patent licensee that believes that its products do not infringe the patent and accordingly are not subject to royalty payments is "not required ... to break or terminate its ... license agreement before seeking a declaratory judgment in federal court that the underlying patent is ... not infringed."

The question presented is whether, in such a declaratory judgment action brought by a licensee under *MedImmune*, 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.

Federal Circuit

At Issue: Precedential Effect of Claim Construction

In Tecsec v IBM, Cisco, et al, the Court (Linn and Moore, with Reyna dissenting), held that the claim construction previously affirmed by the Federal Circuit was not binding on the other defendants in this case even though the same claims were involved. In this case, there had been an independent basis for summary judgment of noninfringement: that the plaintiff had failed to come forward with any proof of direct or indirect infringement by IBM, regardless of claim construction. The Federal Circuit affirmed the decision without an opinion articulating a basis for affirmance. Therefore, neither the “mandate rule” (which forecloses reconsideration of issues implicitly or explicitly decided on appeal) nor collateral estoppel prevented the plaintiff from rearguing claim construction against the other defendants.

At Issue: Inequitable Conduct

In Intellect Wireless v HTC, the Court (Moore, Prost and O'Malley) affirmed a finding of inequitable conduct based on submission of a false affidavit. The materiality prong of the test for inequitable conduct is met when an applicant files a false affidavit and fails to cure the misconduct. The cure requires that the applicant expressly advise the PTO of the misrepresentation; it is not sufficient to merely supply accurate facts without calling attention to the untrue or misleading assertions. The other prong, specific intent to deceive the PTO, was found in a pattern of false and misleading statements during prosecution of related patents. But the Court also held that the finding of intent could be affirmed based on the completely false statements in one declaration followed by a replacement declaration that “rather than expressly admitting the earlier falsity, dances around the truth”.

At Issue: Contempt

In Ncube v Seachange, the Court (Prost, Rader and Taranto), affirmed a finding that the plaintiff failed to prove that the defendant was in contempt of court for violating an injunction. The Court applied the contempt test previously announced in the Tivo case.

The party seeking to prove contempt bears the burden of proving by clear and convincing evidence both that the newly accused product is not more than colorably different from the product found to infringe and that the newly accused product actually infringes. In determining whether more than colorable differences are present the court must focus on those elements of the adjudged infringing products that the patentee previously contended, and proved, satisfy specific limitations of the claims. The colorable-differences standard focuses on how the patentee in fact proved infringement, not what the claims require. The plaintiff cannot rely on a different elements of the product to satisfy a claim limitation in contempt proceedings.

At Issue: Obviousness

In Broadcom v Emulex, the Court (Rader, Lourie and Wallach), the court upheld a finding of nonobviousness because there was no reason for a person of ordinary skill in the art (POSITA) to modify the primary reference in a matter that would result in the claimed invention, because the reference addressed a different problem. “While a prior art reference may support any finding apparent to a person of ordinary skill in the art, prior art references that address different problems may not, depending on the art and circumstances, support an inference that the skilled artisan would consult both of them simultaneously.” Even assuming that a person of ordinary skill might be motivated to make this modification to the reference, the record did not show any reasonable expectation of success. “An invention is not obvious just because all of the elements that comprise the invention were known in the prior art; rather a finding of obviousness at the time of invention requires a plausible rationale as to why

the prior art references would have worked together.”

In Randall v Rea, the Court (Taranto, Rader and Dyk) reversed a BPAI holding of nonobviousness in an inter parties reexam. The Court found that the Board narrowly focused on the 4 references cited by the examiner and ignored critical background information that demonstrated the knowledge and perspective of a POSITA that “could easily explain” why a POSITA would be motivated to combine or modify the references to arrive at the claimed invention. In this case, the “critical background information” was supplied by other references of record constituting “important evidence of the state of the art and the context in which the Examiner-cited combination should be evaluated.”

“In *KSR*, the Supreme Court criticized a rigid approach to determining obviousness based on the disclosures of individual prior-art references, with little recourse to the knowledge, creativity, and common sense that an ordinarily skilled artisan would have brought to bear when considering combinations or modifications... Rejecting a blinkered focus on individual documents, the Court required an analysis that reads the prior art in context, taking account of “demands known to the design community,” “the background knowledge possessed by a person having ordinary skill in the art,” and “the inferences and creative steps that a person of ordinary skill in the art would employ.”... This “expansive and flexible approach,” ... is consistent with our own pre-*KSR* decisions acknowledging that the inquiry “not only permits, but *requires*, consideration of common knowledge and common sense.”

At Issue: Injunctions

In Broadcom v Emulex, the Court affirmed the grant of a permanent injunction. The district court correctly analyzed irreparable harm in the context of a market characterized by “design win” scenarios. The plaintiff had lost market share to the defendant, and money damages were inadequate to compensate the plaintiff due to incumbency effects from the design win market conditions. The Court distinguished the Apple v Samsung case on several grounds. A design win market, with a limited set of customers, where each sale results in a design-in, is fundamentally different from the steady flow of discrete product sales to numerous customers in the smartphone market. Also, the incumbency effect enhances a winning supplier’s ability to win successive design competitions. As direct competitors in a limited market, the patentee’s harm was “clearly linked” to the defendant’s infringement of the patent. The Court also distinguished the Apple case as involving a preliminary injunction. “Broadcom has shown—not that it is *likely* to succeed on the merits and *likely* to suffer irreparable harm—but that it in fact *has* succeeded on the merits and *has* suffered irreparable harm.”

At Issue: ITC Domestic Industry Requirement

In Microsoft v ITC, the Court (Taranto, Rader and Prost) affirmed an ITC decision that Microsoft failed to establish a domestic industry related to articles protected by the patent. The claims require “client applications on the mobile device that are configured to automatically register notification requests and receive notifications in response to a change in a state property of the mobile devices for which they have registered” and a “notification broker on the mobile device that is coupled to the data store, the notification list, and the clients” Microsoft’s expert identified client applications that Microsoft provides as example to third parties phone manufacturers, but failed to show that any such client applications are actually implemented on any third party mobile device. Because Microsoft did not point to evidence that its expert examined client applications in fact running on third-party mobile phones or confirmed how they operated, the ITC correctly found that Microsoft failed to show that there is a domestic industry product that actually practices the patent.

At Issue: Patent Exhaustion

In Keurig v Sturtevant, the Court (Lourie, Mayer and O'Malley) held that the authorized sale of a product that was covered by unasserted apparatus claims of a patent exhausted the method claims of the same patent. The method claims covered the use of the product, a coffee maker, and the patentee unsuccessfully argued that the method claims were infringed by the use of cartridges manufactured by the defendant. The purchaser of a patented product had the unfettered right to use the machine, regardless of whether there are uses that would not infringe the method claims. The Quanta test was inapplicable because the product sold was covered by the patent. (Under Quanta, method claims are exhausted by an authorized sale of an unpatented item that substantially embodies the method if the item (1) has no reasonable noninfringing uses and (2) includes all inventive aspects of the claimed method.)

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Federal Circuit

At Issue: Patent Exhaustion

In Lifescan Scotland v Shasta Technologies, the Court (Dyk and Prost, with Reyna dissenting), held that patent exhaustion applies to a product distributed for free, because exhaustion applies “to all authorized transfers of title in property”. The Court also determined that the patentee’s glucose meters perform the key inventive steps of the patented method and thus substantially embodied the method, and that their distribution therefore exhausted the patent rights. The patentee could therefore not prevent the sale of unpatented test strips which were used with those meters to practice the patented method. The notice on the meters’ packaging requiring customers to use the patentee’s test strips was not effective to change an unconditional transfer into a conditional transfer, because the notice was not in the form of a contractual agreement.

At Issue: Injunctions

In Apple v Samsung, the Court (Prost, Bryson and O’Malley) held that District Court Judge Koh abused her discretion when she declined to grant a permanent injunction against Samsung for infringing 3 Apple utility patents. Judge Koh had determined that Apple had not established irreparable harm because they had not shown a sufficiently strong causal nexus between the infringement and Apple’s lost market share and lost downstream sales. The Federal Circuit held that this nexus was required for permanent injunctions, not just for preliminary injunctions, and that it applies regardless of the complexity of the products. The district court incorrectly required a showing that one of the patented features is the sole reason consumers purchased Samsung’s products. To show that the infringing feature drives consumer demand for the accused products, there must be “some connection between the patented feature and demand”, which can be shown by evidence that a patented feature is one of several features that cause consumers to purchase the infringing product, or evidence that absence of the patented feature would make the product significantly less desirable. Moreover, in some circumstances it may be appropriate to view the patents in the aggregate, if they combine to make a product more valuable. In this case, Apple offered evidence of 1) the importance of ease of use in phone choice 2) deliberately copying by Samsung; and 3) a conjoint survey purporting to show that consumers would be willing to pay significant premiums for the patented features. The Court agreed with the district court that the first 2 types of evidence did not prove that the patented features influenced demand. But the Court held that the district court had erroneously rejected the conjoint survey evidence on the ground that it did not show that consumers will buy a Samsung phone instead of an Apple phone because it contains the feature . The conjoint survey should be evaluated by the district court to determine whether the feature(s) “significantly increases the desirability of a phone”. The case was remanded for the district court to assess whether Apple’s evidence of ease of use and copying in combination with the conjoint survey evidence established irreparable harm.

The Court also that the District Court erred in its analysis of the adequacy of legal remedies (damages). Samsung’s ability to pay damages should not have been considered evidence of the adequacy of damages. Moreover, Apple’s past licensing behavior did not demonstrate a willingness to license these patents to Samsung.

The Court did not find an abuse of discretion in the district court’s denial of an injunction for infringement of Apple’s design patents, on the ground that evidence showing the general importance of design was insufficient to establish the requisite causal nexus between the infringement and the lost market share and lost downstream sales.

At Issue: Declaratory Judgments

In In re Foundations Worldwide, Inc., a nonprecedential opinion, the Court (Reyna, Newman and Prost) refused to order the district court to dismiss or transfer an infringement action that was filed after the filing of a declaratory judgment action in another district court. Although the first-to-file rule is “generally preferred”, an exception was permitted in this case because the DJ action was an anticipatory suit, filed one day before the expiration of an agreement by the patentee to refrain from filing suit while the parties pursued a business resolution.

At Issue: Collateral Estoppel

In Ohio Willow Wood v Alps South, the Court (Reyna, Dyk and Bryson) held that collateral estoppel is not limited to identical claims; it applies if the issues are identical. “If the differences between the unadjudicated patent claims and adjudicated patent claims do not materially alter the question of invalidity, collateral estoppel applies.” In this case, collateral estoppel applied because to the claims used slightly different language to describe substantially the same thing.

At Issue: Secondary Considerations

Also in Ohio Willow, the Court declined to allow evidence of long-felt need, copying and industry praise overcome a “strong prima facie case of obviousness”. “Where a claimed invention represents no more than the predictable use of prior art elements according to established functions, as here, evidence of secondary indicia are frequently deemed inadequate to establish non-obviousness.”

At Issue: Inequitable Conduct

Also in Ohio Willow, the Court reversed a summary judgment of no inequitable conduct. There was a genuine issue of fact regarding whether that the patentee withheld evidence from the PTO in a reexamination that would have corroborated testimony regarding the prior art. Moreover, there was evidence that the patentee made affirmative misrepresentations to the BPAI. These misrepresentations were “tantamount to the filing of an unmistakably false affidavit”, and thus could be sufficient to establish materiality without a “but-for” analysis. There was also a material issue of fact regarding intent to deceive. “If OWW had simply withheld a single piece of information or made a single misrepresentation, this would be a different case. However, OWW withheld various pieces of material information and had no reasonable explanation for the several misrepresentations it made to the PTO. In total, the collective weight of this evidence supports our conclusion that the evidence would support a finding of intent that is the single most reasonable inference to be drawn from the evidence at this stage of the proceedings.”

**RPX Monthly Digest of Patent Law Developments
December 2013**

Supreme Court

Decisions in Patent Cases

(No new decisions)

Patent Cases on Certiorari

At Issue: Patentable Subject Matter

The Court granted certiorari in CLS Bank v Alice.

Question presented:

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?

At Issue: Venue

The Court granted cert to vacate and remand a Federal Circuit decision in Broadcom Corp. v. USDC that refused to enforce a forum-selection clause in a patent suit, citing its decision in a similar case to grant priority to forum selection agreements in venue disputes.

The Federal Circuit had explicitly relied on a Fifth Circuit case, Atlantic Marine v USDC. On Dec. 3, the Supreme Court reversed Atlantic Marine and held that when two parties have agreed to a forum selection clause in their contract, a district court should ordinarily transfer the case to the forum specified in the contract unless an unusual public interest factor weighs against a transfer. The Supreme Court told the Federal Circuit to review the Broadcom case in light of this ruling.

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Federal Circuit

At Issue: Attorneys Fees to Prevailing Party

In Kilopass Technology v Sidesense Corp., the Court (O'Malley and Lourie with Rader concurring) held that while the "exceptional case" standard for granting attorney's fees to a defendant under 35USC Sec.285 requires clear and convincing evidence of both (1) the litigation was brought in bad faith and (2) the litigation was objectively baseless, the subjective test of bad faith does not require proof that the plaintiff had actual knowledge that its claims were baseless. Subjective bad faith only requires proof that the "lack of objective foundation for the claim was either known or so obvious that it should have been known by the party asserting the claim." The court should consider the objective merits of the case first, and then determine whether the totality of the circumstances supports an inference of bad faith. The district court in this case incorrectly denied attorney's fees because the plaintiff had obtained opinions of two law firms that it had a non-baseless claim. "But one's misguided belief, based on zealotry rather than reason, is simply not sufficient by itself to show that a case is not exceptional in light of objective evidence that a patentee has pressed meritless claims."

At Issue: Declaratory Judgment and First to File Rule

In Futurewei Technologies and Huawei v Acacia, the Court (Taranto, Reyna and Mayer) held that the claims for declaratory relief should be dismissed based on the first to file rule. The declaratory plaintiff, Huawei, had been sued in ED Tex for infringement. Two of the counts for declaratory relief were not directly addressed at noninfringement or invalidity. These counts aimed to establish that Huawei had the right to practice the patents as a third party beneficiary of a license agreement covering the patents. The Court held that these counts were subject to the first to file rule. "When two actions that sufficiently overlap are filed in different federal district courts, one for infringement and the other for declaratory relief, the declaratory judgment action, if filed later, generally is to be stayed, dismissed, or transferred to the forum of the infringement action." (Compare In re Foundations Worldwide, Inc., a nonprecedential opinion reported in November digest, refusing to order the district court to dismiss or transfer an infringement action that was filed after the filing of a declaratory judgment action in another district court.)

At Issue: ITC Exclusion Orders and Induced Infringement

In Suprema v ITC, the Court (O'Malley and Prost with Reyna concurring in part and dissenting in part) held that "an exclusion order based on a violation of §1337(a)(1)(B)(i) may not be predicated on a theory of induced infringement ...where no direct infringement occurs until after importation of the articles that the exclusion order would bar. The Commission's authority under § 1337(a)(1)(B)(i) reaches 'articles that . . . infringe a valid and enforceable United States patent' at the time of importation. Because there can be no induced infringement unless there has been an act of direct infringement, however, there are no 'articles. . . that infringe' at the time of importation when direct infringement has yet to occur."

At Issue: Discovery Costs

In CBT Flint Partners v Return Path and Cisco Ironport Systems, the Court (Taranto and Dyk with O'Malley concurring-in-part and dissenting-in-part) defined the types of e-discovery costs that are recoverable by the prevailing party as costs under FRCP 54(d)(1). Section 1920 of 28USC enumerates expenses that may be taxed as costs, and 28 U.S.C. § 1920(4) covers "[f]ees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case." The e-discovery issue is what activities can be included in this provision.

The Court held that these costs can be included as copying costs:

The cost of converting copies to a required format.

The cost of making intermediate copies to preserve metadata.

(If, however, these steps are performed on documents before culling to produce a subset, the costs must be confined to the subset actually produced by prorating or otherwise)

Creation of “load files”, to the extent these files contain information required by the requested production. A “load file” is a file that indicates where individual pages or files belong together as documents or attachments, and where each document begins and ends.)

The cost of copying responsive documents to production media.

Costs of producing source code in a manner that will protect trade secrets, such as making production copies available for review on a secured computer, rather than allowing the requester to take possession of the production copies. This may include the costs of providing a secured computer for the requester, installing on the secured computer whatever review software the requester requires, and copying the source

code files to the secured computer, but not costs incurred in planning, preparation, coordination, and communications associated with those tasks.

These costs cannot be included as copying costs:

Costs incurred in preparing to copy, such as deciding on a plan for secure production of source code.

Costs for aiding the producing party’s own filtering, searching, and reviewing documents.

Vendor services for “statistical previews”, “auditing and logging of files”, and “extraction of proprietary data”, keyword searching, and data analysis. These are part of discovery obligations, not copying, even if performed at the other party’s request or demand.

The costs of acquiring, installing and configuring a new data-hosting server at counsel’s office.

Vendor meetings and conferences (even if related to the copying process), training costs, deposition support, privilege log creation.

Decryption costs.

Deduplication costs.

At Issue: Anticipation and Inherency

In Motorola Mobilty v ITC, the Court (Rader, Prost and Taranto) affirmed a finding that the Apple Newton did not anticipate a claim of Microsoft’s patent because there was not clear and convincing evidence that the Newton had the claimed feature of synchronizing a mobile device using a synchronization component on the mobile device. The Newton manual referred to synchronization, but “substantial evidence supports the Commission’s conclusion that Motorola did not present clear and convincing evidence that the operating system *necessarily* required any additional capacity that would qualify it as a component “to synchronize.” Inherency requires more than probabilities or possibilities.”

At Issue: Domestic Industry Requirement

The Court in Motorola v ITC also affirmed the finding that Microsoft satisfied the domestic industry requirement. “Nothing in § 337 precludes a complainant from relying on investments or employment directed to significant components, specifically tailored for use in an article protected by the patent. The investments or employment must only be “with respect to the articles protected by the patent.” 19 U.S.C. § 1337(a)(3). An investment directed to a specifically tailored, significant aspect of the article is still directed to the article.”

**RPX Monthly Digest of Patent Law Developments
January 2014**

Supreme Court

Decisions in Patent Cases

At Issue: Burden of Proof in Declaratory Judgment

In *Medtronic Inc. v. Boston Scientific Corp.*, the Court unanimously overruled the Federal Circuit and held that, when a licensee seeks a declaratory judgment against a patentee to establish that there is no infringement, the burden of proving infringement remains with the patentee.

Justice Breyer's opinion emphasized the public interest in a balanced patent system:

"The public interest, of course, favors the maintenance of a well-functioning patent system. But the 'public' also has a 'paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.' A patentee 'should not be . . . allowed to exact royalties for the use of an idea. . . that is beyond the scope of the patent monopoly granted.' And '[l]icensees may often be the only individuals with enough economic incentive' to litigate questions of a patent's scope. The general public interest considerations are, at most, in balance. They do not favor a change in the ordinary rule imposing the burden of proving infringement upon the patentee." (citations omitted)

Patent Cases on Certiorari

New Grants of Certiorari in January

At Issue: Claim Indefiniteness

In January, the Court granted cert in Nautilus, Inc. v. Biosig Instruments, Inc.

Questions presented:

- Does the Federal Circuit's acceptance of ambiguous patent claims with multiple reasonable interpretations—so long as the ambiguity is not “insoluble” by a court—defeat the statutory requirement of particular and distinct patent claiming?
- Does the presumption of validity dilute the requirement of particular and distinct patent claiming?

At Issue: Divided Infringement

In January, the Court granted cert in Limelight v Akamai.

Question presented:

"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)."

Previous Cert Grants awaiting decision

At Issue: Patentable Subject Matter

The Court granted certiorari in CLS Bank v Alice.

Question presented:

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?

At Issue: Venue

The Court granted cert to vacate and remand a Federal Circuit decision in Broadcom Corp. v. USDC that refused to enforce a forum-selection clause in a patent suit, citing its decision in a similar case to grant priority to forum selection agreements in venue disputes.

The Federal Circuit had explicitly relied on a Fifth Circuit case, Atlantic Marine v USDC. On Dec. 3, the Supreme Court reversed Atlantic Marine and held that when two parties have agreed to a forum selection clause in their contract, a district court should ordinarily transfer the case to the forum specified in the contract unless an unusual public interest factor weighs against a transfer. The Supreme Court told the Federal Circuit to review the Broadcom case in light of this ruling.

At Issue: Attorney's Fees to Prevailing Party

The Court granted certiorari in two cases related to attorney's fees in patent cases.

Octane Fitness v. Icon Health and Fitness

Question presented:

Whether the Federal Circuit's promulgation of a rigid and exclusive two-part test for determining whether a case is "exceptional" under 35 U.S.C. § 285 improperly appropriates a district court's discretionary authority to award attorney fees to prevailing accused infringers in contravention of statutory intent and this Court's precedent, thereby raising the standard for accused infringers (but not patentees) to recoup fees and encouraging patent plaintiffs to bring spurious patent cases to cause competitive harm or coerce unwarranted settlements from defendants.

Highmark v Allcare Management Systems

Question Presented:

Whether a district court's exceptional-case finding under 35 U.S.C. § 285 (which permits the court to award attorney's fees in exceptional cases), based on its judgment that a suit is objectively baseless, is entitled to deference.

Federal Circuit

At Issue: Design Patents and Prosecution History Estoppel

In Pacific Coast Marine Windshields v Malibu Boats, the Court (Dyk, Mayer and Chen) held that prosecution history estoppel applies to design patents as well as utility patents. Estoppel applies if there was a surrender of subject matter for purposes of patentability. For a design patent, surrender can result from a restriction requirement if the surrender was necessary to secure the patent. The Court explicitly expressed no opinion as to whether the same rule regarding restriction requirements should apply to utility patents.

At Issue: Mootness

In Microsoft v ITC, a nonprecedential opinion, the Court (Rader and Taranto with Prost concurring) denied intervenor Motorola Mobility's motion to dismiss Microsoft's appeal of an ITC case and vacate the Court's earlier decision regarding a patent that had since expired. The case was not moot because the district court in Washington had stayed its case pending resolution of the ITC case because it involved the same issues. Thus money damages are still at stake in the Washington case and there is actual, present controversy over issues affecting concrete interests of two parties. "Here, there are concrete collateral consequences of our decision—beyond the relief available in this proceeding. It would 'strain the concepts of mootness' to deem the '133 patent issues moot when they are presented in a pending parallel case between two of the parties disputing them here. ..The availability of Commission action on remand from this court was not needed for the controversy over the '133 patent to remain a live one in this court."

At Issue: Claim Construction of "adapted to"

In In re Giannelli, the Court (Lourie, Rader and Moore) reversed an obviousness finding because the phrase "adapted to" should have been construed to mean "made to", "designed to" or "configured to" be used in a particular way. It is not enough that the prior art device is capable of being used in that way; the question is whether it would have been obvious to modify the prior art device to be used that way. "Physical capability alone does not render obvious that which is contraindicated"

At Issue: Claim Construction

In Realtime Data v Morgan Stanley, a nonprecedential opinion, the Court (Lourie, Mayer and Wallach) held that statements made in a reexamination of a related, nonasserted patent can be used as intrinsic evidence to interpret claims. In this case, the patents either shared the same specification or were incorporated by reference. "Statements made during reexamination can prove useful in determining the meaning of the claims. ... In connection with patents that are part of an extended family of patents, a patentee's disclaimers made during prosecution are relevant both as a statement made with regard to the patent at issue and with regard to related or "sibling" patents." (citations omitted)

At Issue: Statutory Subject Matter

In Smartgene v Advanced Biological Lab, a nonprecedential opinion, the Court (Taranto, Lorie and Dyk) held following claim invalid under 35USC Sec.101:

1. A method for guiding the selection of a therapeutic treatment regimen for a patient with a known disease or medical condition, said method comprising:
 - (a) providing patient information to a computing device comprising:
 - a first knowledge base comprising a plurality of different therapeutic treatment regimens for said disease or medical condition;
 - a second knowledge base comprising a plurality of expert rules for evaluating and selecting a therapeutic treatment regimen for said disease or medical condition;
 - a third knowledge base comprising advisory information useful for the treatment of a patient with different constituents of said different therapeutic treatment regimens;
 - and
 - (b) generating in said computing device a ranked listing of available therapeutic treatment regimens for said patient; and
 - (c) generating in said computing device advisory information for one or more therapeutic treatment regimens in said ranked listing based on said patient information and said expert rules.

According to the Court, the claim involves a mental process excluded from section 101: the mental steps of comparing new and stored information and using rules to identify medical options. The Mayo case requires that such a claim must involve “enough else” beyond “well-understood, routine, conventional activity.” In this case, the claim “merely calls on a computer to do nothing that is even arguably an advance in physical implementations of routine mental information –comparison and rule-application processes.”

**RPX Monthly Digest of Patent Law Developments
February 2014**

Supreme Court

Decisions in Patent Cases

(none in February)

Patent Cases on Certiorari

At Issue: Claim Indefiniteness

The Court granted cert in Nautilus, Inc. v. Biosig Instruments, Inc. Argument is scheduled for April 28.

Questions presented:

- Does the Federal Circuit's acceptance of ambiguous patent claims with multiple reasonable interpretations—so long as the ambiguity is not “insoluble” by a court—defeat the statutory requirement of particular and distinct patent claiming?
- Does the presumption of validity dilute the requirement of particular and distinct patent claiming?

At Issue: Divided Infringement

The Court granted cert in Limelight v Akamai.Argument is scheduled for April 30.

Question presented:

“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).”

At Issue: Patentable Subject Matter

The Court granted certiorari in CLS Bank v Alice.Argument is scheduled for March 31.

Question presented:

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?

At Issue: Attorney’s Fees to Prevailing Party

The Court granted certiorari in two cases related to attorney's fees in patent cases. Arguments were heard Feb. 26.

Octane Fitness v. Icon Health and Fitness

Question presented:

Whether the Federal Circuit’s promulgation of a rigid and exclusive two-part test for determining whether a case is “exceptional” under 35 U.S.C. § 285 improperly appropriates a district court’s discretionary

authority to award attorney fees to prevailing accused infringers in contravention of statutory intent and this Court's precedent, thereby raising the standard for accused infringers (but not patentees) to recoup fees and encouraging patent plaintiffs to bring spurious patent cases to cause competitive harm or coerce unwarranted settlements from defendants.

Highmark v Allcare Management Systems

Question Presented:

Whether a district court's exceptional-case finding under 35 U.S.C. § 285 (which permits the court to award attorney's fees in exceptional cases), based on its judgment that a suit is objectively baseless, is entitled to deference.

Federal Circuit

At Issue: Doctrine of Equivalents

In Ring and Pinion Service v. ARB Corporation, the Court (Moore, Clevenger and Reyna) held that foreseeability of an equivalent at the time of patenting is not a bar to a finding of infringement under the doctrine of equivalents. Known interchangeability of substitutes for an element of the claim is a factor in favor of a finding of equivalence. Excluding equivalents that were foreseeable at the time of patenting would, according to the Court, directly conflict with the interchangeability rule.

In its analysis, the court explained the distinction between equivalence under 112(f) (means plus function) and equivalence under the doctrine of equivalents. “Equivalence under section 112(f) is evaluated at the time of issuance...Equivalence under the doctrine of equivalents, in contrast, is evaluated at the time of infringement. Hence, an after-arising technology, a technology that did not exist at the time of patenting, can be found to be an equivalent under the doctrine of equivalents even though it cannot be an equivalent under the literal infringement analysis of § 112(f). The other difference is that for literal infringement under 112(f), the accused structures must perform the identical function recited in the claim, but the doctrine of equivalents covers accused structures with equivalent, but not identical, functions. Therefore, when the accused technology was known at the time of patenting and the functions are identical, the structural equivalence inquiry under § 112 and the structural equivalence portion of the doctrine of equivalents are coextensive.”

At Issue: Claim Indefiniteness

In Elcommerce.com v SAP, the Court (Newman and Plager, with Judge Wallach dissenting-in-part) vacated the district court’s holding that the means-plus-function claims were invalid as indefinite for failing to disclose sufficient corresponding structure in the patent specification. The Court held that attorney argument was insufficient in this case to prove invalidity by clear and convincing evidence, and that some amount of extrinsic evidence (such as expert testimony) was necessary. According to the Court, it cannot be assumed “that, without such evidence, a general purpose judge could ascertain the position of persons of skill in the art and conclude that there is not a shred of support for any of the eleven interrelated means-plus-function claim limitations. . . . Attorney argument is not evidence.”

The Court expressly stated that it did not hold that expert testimony will always be needed for every situation. But “without evidence, ordinarily neither the district court nor this court can decide whether, for a specific function, the description in the specification is adequate from the viewpoint of a person of ordinary skill in the field of the invention.”

At Issue: Transfer and Personal Jurisdiction

In Elcommerce.com, the Court also held that, if there is personal jurisdiction over the plaintiff and defendant when (and where) a suit is filed, this jurisdiction is preserved when the case is transferred to another forum where the plaintiff could have sued the defendant. “There is no requirement under §1404(a) that a transferee court have jurisdiction over the plaintiff or that there be sufficient minimum contacts with the plaintiff; there is only a requirement that the transferee court have jurisdiction over the defendants in the transferred complaint.” This rule applies even if the defendant has brought declaratory judgment counterclaims.

At Issue: Prior Invention as Prior Art

For patents governed by the pre-AIA first-to-invent law, a patent is invalid under 35USC102(g) if, before the patentee's invention, the invention was made in this country by another inventor who had not abandoned, suppressed, or concealed it. In Solvay v Honeywell, the Court (Dyk and Rader with Newman dissenting) held that an invention is made "in this country" if it is conceived in another country and reduced to practice in the US either by the inventor or by someone who was authorized by the inventor to reduce it to practice. It is not necessary for the inventor to make an express directive or request to benefit from a third party's reduction to practice.

At Issue: Claim Construction

In Lighting Ballast Control v Philips Electronics, the *en banc* Court sustained de novo review of claim construction, holding that "After fifteen years of experience with *Cybor*, we conclude that the court should retain plenary review of claim construction, thereby providing national uniformity, consistency, and finality to the meaning and scope of patent claims."

The decision was 6-4. Judge Newman wrote the majority opinion, joined by Judges Lourie, Dyk, Prost and Taranto. The opinion relies heavily on *stare decisis*:

"Deferential review does not promise either improved consistency or increased clarity. We have been offered no argument of public policy, or changed circumstances, or unworkability or intolerability, or any other justification for changing the *Cybor* methodology and abandoning *de novo* review of claim construction. The proponents of overruling *Cybor* have not met the demanding standards of the doctrine of *stare decisis*.

They have not shown that *Cybor* is inconsistent with any law or precedent, or that greater deference will produce any greater public or private benefit. We conclude that there is neither "grave necessity" nor "special justification" for departing from *Cybor*."

Judge Lourie wrote a concurring opinion, and Judge O'Malley wrote the dissenting opinion, joined by Judges Rader, Reyna and Wallach. Judges Chen and Hughes did not participate.

At Issue: Statutory Subject Matter

In Smartgene v Advanced Biological Lab, a nonprecedential opinion, the Court (Taranto, Lourie and Dyk) held the following claim invalid under 35USC Sec.101:

1. A method for guiding the selection of a therapeutic treatment regimen for a patient with a known disease or medical condition, said method comprising:
 - (a) providing patient information to a computing device comprising:
 - a first knowledge base comprising a plurality of different therapeutic treatment regimens for said disease or medical condition;
 - a second knowledge base comprising a plurality of expert rules for evaluating and selecting a therapeutic treatment regimen for said disease or medical condition;
 - a third knowledge base comprising advisory information useful for the treatment of a patient with different constituents of said different therapeutic treatment regimens;
 - and
 - (b) generating in said computing device a ranked listing of available therapeutic treatment regimens for said patient; and
 - (c) generating in said computing device advisory information for one or more therapeutic treatment regimens in said ranked listing based on said patient information and said expert rules.

According to the Court, the claim involves a mental process excluded from section 101: the mental steps of comparing new and stored information and using rules to identify medical options. The Mayo case requires that such a claim must involve “enough else” beyond “well-understood, routine, conventional activity.” In this case, the claim “merely calls on a computer to do nothing that is even arguably an advance in physical implementations of routine mental information –comparison and rule-application processes.”

In Cyberfone v CNN Interactive Group, also a nonprecedential opinion, the Court (Dyk, Lourie and Wallach) found the following claim to be ineligible subject matter:

1. A method, comprising:
obtaining data transaction information entered on a telephone from a single transmission from said telephone;
forming a plurality of different exploded data transactions for the single transmission, said plurality of different exploded data transaction[s] indicative of a single data transaction, each of said exploded data transactions having different data that is intended or a different destination that is included as part of the exploded data transactions, and each of said exploded data transactions formed based on said data transaction information from said single transmission, so that different data from the single data transmission is separated and sent to different destinations; and sending said different exploded data transactions over a channel to said different destinations, all based on said data transaction information entered in said single trans-mission.

The Court found that the claim involves an abstract idea. “The well-known concept of categorical data storage, *i.e.*, the idea of collecting information in classified form, then separating and transmitting that information according to its classification, is an abstract idea that is not patent-eligible...the category of patent-ineligible abstract ideas is not limited to methods that can be performed in the human mind.”

Citing Mayo, the Court stated that “Finding the abstract idea itself to be ineligible subject matter is not the end of the inquiry. . . .The second step in the § 101 analysis requires determining whether ‘additional substantive limitations . . . narrow, confine, or otherwise tie down the claim so that, in practical terms, it does not cover the full abstract idea itself.’” The Court then rejected the patentee’s argument that the claim “is sufficiently limited by the machinery it requires and transformations it effects.”

At Issue: Venue

In two cases, In re Apple and In re Barnes and Noble, the Court (Reyna and Prost, with Newman dissenting) refused to grant a writ of mandamus overturning the district courts’ denials of motions to transfer.

In Apple, the Court refused to overturn the district court’s conclusion that Apple failed to submit sufficient evidence to suggest that transfer was appropriate. The district court said that it was unable to evaluate the convenience of witnesses because Apple failed to identify willing witnesses who would need to travel to the Eastern District of Texas or any third party witnesses not subject to the compulsory process of that court; and that it was unable to weigh the relative ease of access to sources of proof in light of “Apple’s vague assertions and unknown relevance and location of potential sources.”

In Barnes and Noble, the Tennessee district court found that the convenience of witness factor did not weigh in favor of transfer to California because transfer would clearly impose the burden of travel and time away from home for any witness in Tennessee. Barnes & Noble did not address how many of its employees would be unavailable to testify in Tennessee or why deposition testimony would not suffice in lieu of live testimony if the witnesses were unwilling to travel for trial. The plaintiff is based in the Western District of Tennessee, where its CEO and much of the relevant evidence are also found. The Federal Circuit found that the district court did not abuse its discretion in refusing to transfer under Sixth Circuit law. “This is thus not a situation where the district court has no meaningful connection to the case.”

US Patent Office PTAB

The PTAB refused to grant Apple's request for inter parties review of the VirnetX patents. The AIA requires that petitions be filed within one year of when a petitioner has been sued for infringement, and the PTAB ruled that Apple's June 2013 petitions were time-barred because VirnetX sued the company in 2010. The PTAB rejected Apple's argument that its petitions should be allowed because VirnetX sued it again in 2012, within the one-year window. "The statute does not specify that a later complaint will nullify the effect of an earlier complaint for timeliness purposes."

Executive Action

The White House issued a press release entitled “FACT SHEET - Executive Actions: Answering the President’s Call to Strengthen Our Patent System and Foster Innovation”, wherein they announced “major progress on a series of initiatives designed to combat patent trolls and further strengthen our patent system and foster innovation”

The press release described progress on these previously-announced initiatives: promoting transparency regarding ownership of patents; making patents clear; protecting main street (consumers and retailers) from abuse; expanding outreach and focused study; strengthening exclusion order enforcement; and innovation for global development. It also announced new initiatives “to encourage innovation and further strengthen the quality and accessibility of the patent system”: crowdsourcing prior art; more robust technical training for examiners; and pro bono and pro se assistance to assist inventors who lack legal representation. Lastly, it renewed “the Call for Meaningful Legislation to Combat Patent Trolls”

The entire press release can be found here:

<http://www.whitehouse.gov/the-press-office/2014/02/20/fact-sheet-executive-actions-answering-president-s-call-strengthen-our-p>

RPX Monthly Digest of Patent Law Developments
April 2014

Supreme Court

Decisions in Patent Cases

At Issue: Attorney's Fees to Prevailing Party

In Octane Fitness v. Icon Health and Fitness, the Court held that an “exceptional” case, as used in 35 USC §285 is “simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is “exceptional” in the case-by-case exercise of their discretion, considering the totality of the circumstances.” The Federal Circuit’s standard was characterized as “overly rigid”. Litigation misconduct need not be independently sanctionable. And a case presenting *either* subjective bad faith or exceptionally meritless claims may warrant a fee award. The Court also rejected the Federal Circuit’s requirement that patent litigants establish their entitlement to fees under §285 by clear and convincing evidence, holding that the statute requires only “a simple discretionary inquiry.”

In Highmark v Allcare Management Systems, the Court held that the Federal Circuit should review all aspects of a district court’s “exceptional case” finding under 35 U.S.C. § 285 for abuse of discretion.

Patent Cases on Certiorari

At Issue: Claim Construction

The Court granted cert in Teva Pharms. USA, Inc. v. Sandoz, Inc.

Question Presented:

“Whether a district court's factual finding in support of its construction of a patent claim term may be reviewed *de novo*, as the Federal Circuit requires (and as the panel explicitly did in this case), or only for clear error, as Rule 52(a) requires.”

At Issue: Claim Indefiniteness

The Court granted cert in Nautilus, Inc. v. Biosig Instruments, Inc. Argument was held on April 28.

Questions presented:

“Does the Federal Circuit's acceptance of ambiguous patent claims with multiple reasonable interpretations—so long as the ambiguity is not “insoluble” by a court—defeat the statutory requirement of particular and distinct patent claiming?

Does the presumption of validity dilute the requirement of particular and distinct patent claiming? “

At Issue: Divided Infringement

The Court granted cert in Limelight v Akamai. Argument was held on April 30.

Question presented:

“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).”

At Issue: Patentable Subject Matter

The Court granted certiorari in CLS Bank v Alice. Argument was held on March 31.

Question presented:

“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?”

Federal Circuit

At Issue: Preliminary Injunctions

In Vascular Solutions v Boston Scientific, a nonprecedential decision, the Court (Plager, Moore and Chen), vacated a preliminary injunction and stated that "A preliminary injunction is a 'drastic and extraordinary remedy that is not to be routinely granted'".

But in Trebro Manufacturing v Firefly Equipment, a different panel of the Court (Rader, Lourie and Prost) reversed the district court's denial of a preliminary injunction, holding that the district court incorrectly assessed the likelihood of success on both infringement and validity. Further, the district court erred in its analysis of irreparable harm by giving no weight to the plaintiff's evidence of likely loss of market share and customers. The fact that the plaintiff does not practice the patent does not detract from its likely irreparable harm because the parties are direct competitors selling competing products in a tiny market.

At Issue: Interlocutory Appeal of Daubert Ruling

In Rembrandt Social Media v Facebook, a nonprecedential decision, the Court (Taranto, Prost and O'Malley), exercised its discretion to deny an interlocutory appeal of an issue certified for appeal by the district court. The issue was the exclusion of the plaintiff's damages expert under Daubert. The Court held that this was not a controlling question of law that would materially advance the ultimate determination of the litigation, because "we have no firm basis for predicting that immediate review here would produce a saving of the court's or litigants' resources or shorten the time to complete resolution of the case". The Court also considered the "possible systemic effects of undertaking interlocutory review here" and held that "the requirements to focus on reliable evidence of value apportioned to the invention itself and to avoid potentially misleading forms of presentation of evidence support certain general rules...but the rules are not so precise in your application or scope is to make a single opportunity for compliance clearly or always enough".

At Issue: Claim Construction-Means Plus Function

In Chicago Board Options Exchange v International Securities, the Court (Reyna, Rader and Wallach) held that the algorithm for a means plus function element may be expressed "in any understandable terms including as a mathematical formula, in prose, or as a flowchart, or in any other manner that provides sufficient structure to a person of ordinary skill in the art". In this case, a textual explanation was sufficient and a step-by-step description was not necessary.

At Issue: Standing to Appeal Reexamination

In Vaillancourt v Becton Dickinson, the Court (Rader, Linn and Taranto) held that a party who assigned a patent to another party while an inter parties reexamination was pending cannot bring an appeal of the reexamination result to the Federal Circuit. The result is mandated by 35 USC Sec. 141, which authorizes the patent owner to bring the appeal. The assignee cannot delegate this authority to another party.

At Issue: Declaratory judgment when customer is sued

In Microsoft v Datatarn, the Court (Moore and Prost, with Rader dissenting in part) held that declaratory judgment jurisdiction existed where a vendor's customer was accused of direct infringement and the claim charts cited the vendor's user guides and documentation for each claim element. In those circumstances, "providing instructions to use a product in an infringing manner is evidence of the required mental state for inducing infringement", and a substantial controversy exists regarding whether the vendor induces

infringement. But where the claim charts cited only to third-party documentation for several claim limitations, there is no implied assertion that the vendor induced infringement.

In this case, the vendor was not obligated to indemnify the customer. If they were obligated to defend, they would have standing to bring suit. But the Court said they could not bring a declaratory judgment in one jurisdiction when the customer had already been sued in another jurisdiction. And the Court explicitly did not address whether a vendor could file a declaratory judgment if they were obligated to indemnify a customer who had not already been sued.

At Issue: Challenging a Decision on Instituting Inter Partes Review

In three cases decided on the same day, the Court held that a PTAB decision on whether to institute an inter partes review cannot be appealed. The AIA statute at issue in all three appeals, Section 314(d), states that the determination of the USPTO over whether to institute an inter partes review “shall be final and nonappealable.”

In St Jude Medical v Volcano Corporation, the Court (Taranto, Prost and O'Malley) held that a denial of a petition for inter partes review cannot be appealed to the Federal Circuit. In In Re Dominion Dealers Solutions, the same panel denied a writ of mandamus attempting to challenge a denial of a petition for inter partes review. And in In Re Procter & Gamble, the Court (Taranto, Lourie and Prost) held that a patent owner cannot challenge a decision to institute an inter partes review, by mandamus or appeal to the Federal Circuit. The Court left open the question of whether a party can challenge the decision to institute as part of an appeal of the final written decision of the board. They also explicitly did not address whether an immediate challenge could be brought in district court.

At Issue: Damages

In Apple v Motorola, the Court (Reyna, Rader and Prost, with Rader dissenting in part and Prost concurring in part and dissenting in part) reversed most of Judge Posner’s summary judgment on claim construction, damages and injunctions.

On Daubert motions, the Court emphasized that expert testimony can only be excluded for unreliable principles and methods; disputes about the degree of relevance or accuracy of the testimony go to weight, not admissibility. Damages can be based on various methods, including the royalty rate from comparable licenses, the value of the infringed features based upon comparable features in the marketplace, or a comparison of the accused product to non-infringing alternatives. “That one approach may better account for one aspect of a royalty estimation does not make other approaches inadmissible.”

For one Apple patent, the Court held that the district court erred when it excluded Apple’s expert testimony “by not considering the full scope of the asserted claims, questioning the conclusions of Apple’s expert, and substituting its own opinion, rather than focusing on the reliability of the principles and methods used or the sufficiency of the facts and data relied upon....Directly estimating the value a consumer places on the infringing feature is not a requirement of admissibility”

For another Apple patent, the district court erred when it excluded Apple’s damages expert testimony for the sole reason that the expert relied on a technical expert hired by Apple. “Experts routinely rely upon other experts hired by the party they represent for expertise outside of their field.”

For a Motorola patent, the Court agreed with the exclusion of the testimony of one expert because he failed to tie the royalty rate for a standards-essential patent to the technical contribution of the claimed invention to Motorola’s portfolio of patents essential to the same standard. (Motorola typically licensed the entire portfolio.) But the district court improperly excluded the testimony of another expert based on her failure to specifically value the cost to Apple of contracting only with a carrier (Verizon) that did not use the standard. The expert instead based her testimony on comparable licenses. “That a party may choose

to pursue one course of proving damages over another does not render its expert's damages testimony inadmissible. Nor is there a requirement that a patentee value every potential non-infringing alternative in order for its damages testimony to be admissible."

The Court then reversed the district court's holding that Apple was not entitled to any damages for a third patent, holding that "a finding that a royalty estimate may suffer from factual flaws does not, by itself, support the legal conclusion that zero is a reasonable royalty....If a patentee's evidence fails to support its specific royalty estimate, the fact finder is still required to determine what royalty is supported by the record...a fact finder may award no damages only when the record supports a zero royalty award. For example, in a case completely lacking any evidence on which to base a damages award, the record may well support a zero royalty award." In this case, "Apple presented admissible evidence that it is entitled to a non-zero royalty. That Apple's royalty estimate may suffer from factual flaws does not, by itself, support the legal conclusion that zero is a reasonable royalty."

At Issue: Injunctions

Also in Apple v Motorola, the Court reversed the denial of an injunction for Apple. When evaluating the causal nexus between the infringement and the irreparable harm, "it is proper for the court to consider the aggregate harm caused by all of the infringing features, rather than requiring a patentee to address each patent or claim individually..."

Infringement of multiple patents by a single device may strengthen a patentee's argument for an injunction by, for example, supporting its argument that the infringed features drive consumer demand or are causing irreparable harm. By the same token, we also consider the impact on the general public of an injunction on a product with many non-infringing features."

For Motorola's standard-essential patent, the Court disagreed with the district court's *per se* rule that injunctions are never available when the patentee has made a FRAND commitment. But, applying the eBay framework, the Court agreed with the denial of an injunction. Motorola's FRAND commitment "strongly suggests" that money damages are adequate. And the record does not support Motorola's argument that Apple has refused to negotiate.

"A patentee subject to FRAND commitments may have difficulty establishing irreparable harm. On the other hand, an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect. To be clear, this does not mean that an alleged infringer's refusal to accept any license offer necessarily justifies issuing an injunction. For example, the license offered may not be on FRAND terms. In addition, the public has an interest in encouraging participation in standard-setting organizations but also in ensuring that SEPs are not overvalued."

**RPX Monthly Digest of Patent Law Developments
May 2014**

Supreme Court

Decisions in Patent Cases

No new decisions in May

Patent Cases on Certiorari

At Issue: Claim Construction

The Court granted cert in Teva Pharms. USA, Inc. v. Sandoz, Inc.

Question Presented:

“Whether a district court's factual finding in support of its construction of a patent claim term may be reviewed *de novo*, as the Federal Circuit requires (and as the panel explicitly did in this case), or only for clear error, as Rule 52(a) requires.”

At Issue: Claim Indefiniteness

The Court granted cert in Nautilus, Inc. v. Biosig Instruments, Inc. Argument was held on April 28.

Questions presented:

“Does the Federal Circuit's acceptance of ambiguous patent claims with multiple reasonable interpretations—so long as the ambiguity is not “insoluble” by a court—defeat the statutory requirement of particular and distinct patent claiming?

Does the presumption of validity dilute the requirement of particular and distinct patent claiming? “

At Issue: Divided Infringement

The Court granted cert in Limelight v Akamai. Argument was held on April 30.

Question presented:

“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).”

At Issue: Patentable Subject Matter

The Court granted certiorari in CLS Bank v Alice. Argument was held on March 31.

Question presented:

“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?”

Federal Circuit

At Issue: Claim Indefiniteness

In In re Packard, a per curiam opinion, the Court (O'Malley and Taranto, with Plager concurring) declined to apply the "insolubly ambiguous" standard to indefiniteness rejections in the PTO. Instead, they held that "when the USPTO has initially issued a well-grounded rejection that identifies ways in which language in a claim is ambiguous, vague, incoherent, opaque, or otherwise unclear in describing and defining the claimed invention, and thereafter the applicant fails to provide a satisfactory response, the USPTO can properly reject the claim as failing to meet the statutory requirements of §112(b). The satisfactory response by the applicant can take the form of a modification of the language identified as unclear, a separate definition of the unclear language, or, in an appropriate case, a persuasive explanation for the record of why the language at issue is not actually unclear. "

At Issue: Personal Jurisdiction over Foreign Residents

In In re Purauto Industrial Co., a nonprecedential opinion, the Court (Lourie, Dyk and Reyna), refused to grant a writ of mandamus directing the District Court to dismiss the complaint for lack of personal jurisdiction over a Taiwanese corporation and its CEO. The district court had denied the motion based on, among other things, allegations that the petitioners directly sold and distributed the accused products in Nevada through a long-standing distribution partnership with a Nevada corporation, and a finding "that the burden imposed on petitioners in having to litigate in Nevada did not outweigh the interest of the United States in protecting U.S. patents and Nevada's interest in seeking redress for harms that have taken place in that state resulting from the alleged infringement. "

At Issue: Patentable Subject Matter

In In re Roslin Institute, the Court (Dyk, Moore, and Wallach) held the following claim unpatentable subject matter:

A live-born clone of a pre-existing, non-embryonic, donor mammal, wherein the mammal is selected from cattle, sheep, pigs, and goats.

The court stated that while discoveries that possess "markedly different characteristics from any found in nature" are eligible for patent protection, an existing organism or newly discovered plant found in the wild is not patentable.

The patent applicant in this case conceded that the donor sheep whose genetic material was used to create the cloned sheep could not be patented, but contended that clones are eligible for protection because they are "the product of human ingenuity" and "not nature's handiwork, but [their] own.", and that they are either compositions of matter or manufactures within the scope of §101. However, The Court held that the clone is "an exact genetic replica of another sheep and does not possess markedly different characteristics from any animals found in nature...Dolly's genetic identity to her donor parent renders her unpatentable."

At Issue: ITC Exclusion Orders and Induced Infringement

In Suprema v ITC, the Court ordered a rehearing en banc of the December 2013 panel decision holding that the importation of a noninfringing component of a patented invention cannot be the basis for an ITC exclusion order even if there is direct infringement in the United States by customers and possible inducement by the importer.

At Issue: Printed Publication

In Suffolk Technologies v AOL and Google, the Court (Prost, Rader and Chen) held that an internet news group posting (Usenet) was a “printed publication” and thus anticipatory prior art, even though it was not indexed or searchable. “A printed publication need not be easily searchable after publication if it was sufficiently disseminated at the time of its publication.” In this case, “dialogue with the intended audience was the entire purpose of the newsgroup postings” and the post elicited at least six responses over the week following its publication.

At Issue: Obviousness

In K/S Himpp v Hear-Wear Technologies, the Court (Lourie and Wallach, with Dyk dissenting) affirmed a finding of nonobviousness in a pre-AIA inter partes reexamination. The majority held that the Board correctly declined to accept a “conclusory assertion” about general knowledge in the art. “Here the Board refused to adopt HIMPP’s proposed rejection of claims 3 and 9 because it found that there was not a suitable basis on the record “for concluding that the particular structural features of claims 3 and 9 [were] known ‘prior art’ elements.” The Board’s decision was correct because an assessment of basic knowledge and common sense as a replacement for documentary evidence for core factual findings lacks substantial evidence support. Accordingly, the Board’s holding is not inconsistent with *KSR*’s caution against the overemphasis on publications and patents for combining or modifying prior art that are already on the record....In contradistinction to *KSR*, this case involves the lack of evidence of a specific claim limitation, whereas *KSR* related to the combinability of references where the claim limitations were in evidence”

The claim limitation at issue was “wherein said insulated wiring portion is terminated by a plurality of prongs that provide a detachable mechanical and electrical connection.” The dissent argued that the examiner should be allowed to resort to the common knowledge of one skilled in the art for this limitation. “Every purchaser of electrical devices in the United States for the past 50 years or more is familiar with multipronged electrical connections. The majority here nonetheless sustains the claims based on the PTO’s conclusion that there was no record evidence showing such a connection to be known in the prior art.”

USPTO PTAB

At Issue: Amendments in an IPR Proceeding

In an Inter Partes Review, amendments are not entered automatically; the patent owner must demonstrate, by a preponderance of evidence, patentability of the amended claims. In International Flavors v United States of America, the PTAB, for the first time, granted a motion to amend. They set forth this standard for showing nonobviousness of the amended claims:

"Distinguishing the proposed claims only from the prior art references applied to the original patent claims is insufficient to demonstrate patentability over prior art...Specifically, in the case of a motion to amend, the patent owner bears the burden of proof to demonstrate patentability of the proposed claims over the prior art in general, and thus entitlement to the proposed claims...{ T}hat does not mean that the patent owner is assumed to be aware of every item of prior art presumed to be known to a hypothetical person of ordinary skill in the art. Rather, the patent owner should discuss, as well as present evidence, if appropriate, as to the level of ordinary skill in the art, and what was known regarding the features being relied upon to demonstrate patentability of the proposed claims."

**RPX Monthly Digest of Patent Law Developments
June 2014**

Supreme Court

Decisions in Patent Cases in June

At Issue: Claim Indefiniteness

In Nautilus, Inc. v. Biosig Instruments, Inc., the Court held that a patent is invalid for indefiniteness if its claims, read in light of the specification and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention. The Court rejected the Federal Circuit's test for indefiniteness, which required that a claim be "not amenable to construction" or "insolubly ambiguous", with this comment: "It cannot be sufficient that a court can ascribe *some* meaning to a patent's claims; the definiteness inquiry trains on the understanding of a skilled artisan at the time of the patent application, not that of a court viewing matters *post hoc*. To tolerate imprecision just short of that rendering a claim 'insolubly ambiguous' would diminish the definiteness requirement's public-notice function and foster the innovation-discouraging 'zone of uncertainty'...against which this Court has warned."

The Court acknowledged that the indefiniteness requirement must take into account the "inherent limitations of language", that "absolute precision is unattainable, and that "some modicum of uncertainty ...is the price of ensuring the appropriate incentives for innovation." But it also recognized that "absent a meaningful definiteness check...patent applicants face powerful incentives to inject ambiguity into their claims....Eliminating that temptation is in order, and the patent drafter is in the best position to resolve ambiguity in ...patent claims."

At Issue: Divided Infringement

In Limelight v Akamai, the Court held that a defendant is not liable for inducing infringement under §271(b) unless someone has directly infringed under §271(a). The Court explicitly assumed, without deciding, that the Federal Circuit correctly held in Muniauction that a method claim patent is not directly infringed unless performance of all of the claimed steps can be attributed to a single defendant, either because the defendant actually performed those steps or because he directed or controlled others who performed them. But the Court reversed the Federal Circuit's Limelight decision that there can be liability for inducement where there is no liability for direct infringement (because the claimed steps are performed by multiple parties).

The Court acknowledged the concern that its holding could allow a would-be infringer to evade liability by dividing performance of a method patent's steps with another whom the defendant neither directs nor controls. But it said that any such anomaly was a consequence of the Federal Circuit's requirement for proving direct infringement under §271(a) in Muniauction. "Our decision on the §271(b) question necessitates a remand to the Federal Circuit, and on remand, the Federal Circuit will have the opportunity to revisit the §271(a) question if it so chooses"

At Issue: Patentable Subject Matter

In CLS Bank v Alice, a unanimous Supreme Court held that Alice's claims were unpatentable because they are drawn to an abstract idea and that "merely requiring generic computer implementation failed to transform that abstract idea into a patent-eligible invention." The Court applied this test from Mayo v Prometheus: First, determine whether the claims are directed to laws of nature, natural phenomena, or abstract ideas. If so, then determine what else is in the claims to determine whether the additional elements "transform the nature of the claim" into a patent-eligible application, i.e., is there an "inventive

concept” in an element or combination of elements that is “sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.”

The Court declined “to delimit the precise contours of the abstract ideas category”, but it characterized the concept claimed by Alice (intermediated settlement) as “a fundamental economic practice long prevalent in our system of commerce”, just like the abstract idea in Bilski. And the Court made it clear that abstract ideas do not have to be preexisting fundamental truths about the natural world.

The Court then concluded that “the method claims, which merely require generic computer implementation, fail to transform that abstract idea into a patentable invention.” The introduction of a computer into the claims cannot supply the necessary inventive concept if the computer implementation is “purely conventional.” The Court gave two examples of what would be “significantly more than an instruction to apply the abstract idea...using some unspecified, generic computer”. One would be a claim that improves the functioning of the computer itself; another would be a claim that effects an improvement in another technology or technical field.

The Court then held that the system claims were also ineligible because, while they (unlike the method claims) recite specific computer hardware--a data processing system, a communications controller, and a data storage unit--the hardware is “purely functional and generic”. The recited hardware does not offer “a meaningful limitation beyond generally linking the use of the [method] to a particular technological environment” and the system claims are therefore no different from the method claims in substance.

Other Patent Decisions This Term

At Issue: Attorney's Fees to Prevailing Party

In Octane Fitness v. Icon Health and Fitness, the Court held that an “exceptional” case, as used in 35 USC §285 is “simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is “exceptional” in the case-by-case exercise of their discretion, considering the totality of the circumstances.” The Federal Circuit’s standard was characterized as “overly rigid”. Litigation misconduct need not be independently sanctionable. And a case presenting *either* subjective bad faith or exceptionally meritless claims may warrant a fee award. The Court also rejected the Federal Circuit’s requirement that patent litigants establish their entitlement to fees under §285 by clear and convincing evidence, holding that the statute requires only “a simple discretionary inquiry.”

In Highmark v Allcare Management Systems, the Court held that the Federal Circuit should review all aspects of a district court’s “exceptional case” finding under 35 U.S.C. § 285 for abuse of discretion.

At Issue: Burden of Proof in Declaratory Judgment

In Medtronic Inc. v. Boston Scientific Corp., the Court unanimously overruled the Federal Circuit and held that, when a licensee seeks a declaratory judgment against a patentee to establish that there is no infringement, the burden of proving infringement remains with the patentee.

Justice Breyer’s opinion emphasized the public interest in a balanced patent system:

“The public interest, of course, favors the maintenance of a well-functioning patent system. But the ‘public’ also has a ‘paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.’ A patentee ‘should not be . . . allowed to exact royalties for the use of an idea. . . that is beyond the scope of the patent monopoly granted.’ And ‘[l]icensees may often be the only individuals with enough economic incentive’ to litigate questions of a patent’s scope. The general public interest considerations are, at most, in balance. They do not favor a change in the ordinary rule imposing the burden of proving infringement upon the patentee.” (citations omitted)

Patent Cases on Certiorari

At Issue: Claim Construction

The Court granted cert in Teva Pharms. USA, Inc. v. Sandoz, Inc.

Question Presented:

“Whether a district court's factual finding in support of its construction of a patent claim term may be reviewed *de novo*, as the Federal Circuit requires (and as the panel explicitly did in this case), or only for clear error, as Rule 52(a) requires.”

Federal Circuit

At Issue: Standing to Appeal PTAB Decision

In Consumer Watchdog v WARF, the Court (Rader, Prost and Hughes) held that a public interest organization that initiated an inter partes reexamination had not established sufficient injury-in-fact to confer Article III standing to appeal a PTAB decision affirming patentability. According to the Court, where Congress has provide a procedural right to a litigant, some requirements of standing—immediacy and redressability—may be relaxed; but the requirement of injury-in-fact cannot be removed by statute. The injury must be more than a general grievance, and the party must have a personal stake in the outcome. In this case, Congress has authorized a third party requester to appeal decisions favorable to patentability, but Consumer Watchdog has not identified that it is engaged in, or intends to engage in, any activity that could form the basis for an infringement claim, or that it is an actual or prospective licensee of the patent.

At Issue: Joint Ownership and Standing to Sue

In STC.UNM v Intel, the Court (Rader and Dyk, with Newman dissenting) held that Fed. Rule of Civil Procedure 19(a) on involuntary joinder of a required party cannot be used to force a co-owner of a patent to join in an infringement suit. Substantive patent law requires co-owners to consent to suit, and “the right of a patent co-owner to impede an infringement suit by another co-owner is a substantive right that trumps the procedural rule for involuntary joinder”. The only exceptions are: 1) an exclusive licensor stands in in a relationship of trust to his licensee and thus can be involuntarily joined; and 2) a co-owner can, by agreement, waive his right to refuse to join in a suit. Neither exception applies here.

At Issue: Reissue and Terminal Disclaimer

In In Re Dinsmore, the Court (Taranto, Bryson and Hughes) held that a reissue could not be used to revoke or modify a terminal disclaimer. Even though the applications were not commonly owned at the time the terminal disclaimer was filed, there was no “error”, as required by the reissue law. Such errors require deficient understandings that gave rise to a patenting choice that the reissue would correct. In this case, applicants have never claimed that they believed that common ownership existed at the time the terminal disclaimer was filed. They are “seeking simply to revise a choice they made, not to remedy the result of a mistaken belief.”

At Issue: Claim Indefiniteness-Means Plus Function

In Triton Tech v Nintendo, the Court (Moore, Reyna and Hughes) held that a claim was indefinite because the element “integrator means..for integrating said acceleration signals over time” was not supported by an algorithm in the specification. The specification disclosed a conventional microprocessor and said that numerical integration is performed in a “conventional manner”. The Court stated that an algorithm “can be expressed in many forms, including flow charts, a series of specific steps, mathematical formula, prose, and so on”, but using the term “numerical integration” does not disclose a step-by-step procedure. It is not sufficient that various numerical integration algorithms may have been known to one of ordinary skill in the art, because the patent discloses no algorithm at all.

At Issue: Transfer and Customer Suit Exception

In re Nintendo, the Court (Newman, Rader and Hughes) granted a writ of mandamus ordering the US District Court for the Eastern District of Texas Court to sever the case against Nintendo, transfer it to Washington State, and stay the case against several retailers. The plaintiff had sued both Nintendo and the retailers, but the Court relied on the policy behind the “customer-suit exception” to the first-to-file rule, which they stated as follows: “When a patent owner files an infringement suit against a manufacturer’s customer and the manufacturer then files an action of noninfringement or patent invalidity, the suit by the manufacturer generally take precedence.” According to the Court, the customer-suit exception exists “to avoid, if possible, imposing the burdens of trial on the customer, for it is the manufacturer who is generally the ‘true defendant’ in the dispute.’ The Court found that same principles govern this case because Nintendo is the true defendant, and that granting the motion would resolve the case more efficiently and conveniently. All of Nintendo’s witnesses reside in or near Washington, and no witnesses reside in Eastern District of Texas. The plaintiff’s principal place of business was a 200 square foot office in Plano, Texas, but “decisions granting transfer have looked beyond the connection of the parties with the transferor venue when the disparity of convenience is so marked as to outweigh the plaintiff’s right to choose the forum. ...So too here, there is a “stark contrast in relevance, convenience, and fairness between the two venues.”

**RPX Monthly Digest of Patent Law Developments
July 2014**

Supreme Court

Decisions in Patent Cases in June

Patent Cases on Certiorari

At Issue: Claim Construction

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Question Presented:

“Whether a district court's factual finding in support of its construction of a patent claim term may be reviewed *de novo*, as the Federal Circuit requires (and as the panel explicitly did in this case), or only for clear error, as Rule 52(a) requires.”

Federal Circuit

At Issue: Claim Construction

In X2Y Attenuators v ITC, the Court (Moore and Wallach, with Reyna concurring) held that a statement in a patent's specification that a particular feature is "universal to all the embodiments" and "an essential element among all embodiments or connotations of the invention" constitutes a clear and unmistakable disavowal of claim scope. The claims recited a set of electrodes but did not require a specific configuration. The disavowal refers to a specific configuration of the electrodes.

At Issue: Recalculating Damages on Remand

In Retractable Technologies v Becton Dickinson, the Court (Linn and Lourie) held that the defendant was not entitled to a recalculation of damages after it was determined, in a prior appeal, that one of the two accused products did not infringe as a matter of law. The original damages verdict was for both products, and did not allocate the damages to either product. In the first appeal, the defendant appealed the infringement and validity determinations, but did not appeal nor request a remand of the damages verdict in the event the infringement or validity determinations were reversed. They simply requested the Federal Circuit to "reverse the judgment or, in the alternative, order a new trial on infringement and/or validity." When the Federal Circuit found that one product did not infringe as a matter of law, there was no basis for a new trial and no remand was ordered. In those circumstances, there was no basis for the district court to revisit the damages issue because it was within the scope of the original judgment and was not raised in the appeal.

At Issue: Patentable Subject Matter

In Digitech Image Technologies v Electronics for Imaging, the Court (Reyna, Moore and Hughes) held the following claim ineligible (emphasis added by the Court):

1. *A device profile for describing* properties of a device in a digital image reproduction system to capture, transform or render an image, said device profile comprising:
first data for describing a device dependent transformation of color information content of the image to a device independent color space; and
second data for describing a device dependent transformation of spatial information content of the image in said device independent color space.

26. *A device profile for describing* properties of a device in a digital image reproduction system to capture, transform or render an image, said device profile *comprising data for describing* a device dependent transformation of spatial information content of the image to a device independent color space, wherein through use of spatial stimuli and device response for said device, said data is represented by spatial characteristic functions.

According to the Court, apparatus (manufacture) claims must recite a tangible article, but these claims are directed to an intangible collection of information, not to a tangible embodiment of information.

The Court also found this method claim ineligible:

10. A method of generating a device profile that describes properties of a device in a digital image reproduction system for capturing, transforming or rendering an image, said method comprising:

generating first data for describing a device dependent transformation of color information content of the image to a device independent color space through use of measured chromatic stimuli and device response characteristic functions;
generating second data for describing a device dependent transformation of spatial information content of the image in said device independent color space through use of spatial stimuli and device response characteristic functions; and
combining said first and second data into the device profile.

According to the Court, this claim is directed to an abstract idea because it is a mathematical algorithm not tied to a specific structure or machine. “Without additional limitations, a process that employs mathematical algorithms to manipulate existing information to generate additional information is not patent eligible.” And, because nothing in the body of the claim ties the method to an image processor, they need not decide whether tying the method to the image processor would make the claims eligible under Alice.

At Issue: Claim Construction

In Golden Bridge Technology v Apple, the Court (Moore, Mayer and Chen) held that the patent owner’s stipulation of the meaning of a claim term from a prior litigation, when submitted with an IDS, can be the basis for limiting claim scope. In this case, the stipulation was submitted as part of the record of the prior litigation in a reexamination of the patent-in-suit, and also in a continuation. The patent owner not only submitted the documents from the prior litigation, it requested that the PTO “expressly consider[]” its stipulated construction.

At Issue: Stay of Litigation for Covered Business Method Review

In VirtualAgility v Salesforce, the Court (Moore and Chen, with Newman dissenting) reversed the district court’s denial of a stay for a CBM review and ordered the court to stay its case.

The statute lists 4 factors to be considered by the district court:

- (A) whether a stay, or the denial thereof, will simplify the issues in question and streamline the trial;
- (B) whether discovery is complete and whether a trial date has been set;
- (C) whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party; and
- (D) whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.

The Federal Circuit found that factors (A), (B) and (D) heavily favored a stay, and that factor (C), at best, weighs slightly in favor of denying a stay.

On the first and fourth factors, the Court held that the district court should not have reviewed the PTAB’s determination that the claims are more likely than not invalid. (They also said it would have been improper to review the determination that the patent falls within the definition of covered business method). This review was key to the district court’s denial of a stay. The Court also found it significant that the PTAB had granted CBM review on all of the asserted claims, and could therefore dispose of the entire litigation (“the ultimate simplification of issues”). The Court found it unnecessary to consider that fact that the patentee had already moved to amend some claims, but noted that it could only weigh further in favor of granting the stay to avoid unnecessary claim construction of a potentially moving target.

On the second “timing” factor, the Court held that the proper time to measure the stage of litigation is the date of filing of the motion to stay, but also that it was not error for the district court to delay its decision to rule on the stay motion until after the CBM review was granted. The litigation, at either time, was “still in its infancy.”

On the third factor, which focusses on the patentee's need for expeditious resolution, the Court agreed that the parties were competitors but found no evidence that they ever competed for a customer or contract. And, while the plaintiff had good reasons for not pursuing a preliminary injunction, this fact still contradicts their assertion that it needs injunctive relief as soon as possible. The Court also noted that "for some unexplained reason" the plaintiff waited almost a year after the patent issued before filing suit. And, to the extent the district court relied on "the added risk of witness loss" because one witness was over 60 and three others were over 70, there was no evidence that any of these witnesses are in ill health, and, regardless, the risk of prejudice could be reduced by deposing the witnesses to preserve their testimony. (The Court asked : "Since when did 60 become so old?") Lastly, the Court noted that defendant's decision to save key pieces of prior art for trial, instead of submitting them in the CBM, could in some cases weigh against the stay, but the record indicated that the defendant had good reasons for splitting the art.

At Issue: Standing to Challenge the Constitutionality of the AIA

In Madstat Engineering v USPTO, the Court (O'Malley, Newman and Wallach) held that the plaintiff lacked standing to challenge the constitutionality of the first-to-file system. The Court rejected as speculative, not imminent, and unsupported, the arguments that the plaintiff would be injured because: 1) they would have to increase the security of their computer system because the AIA made it more attractive and profitable for hackers to steal IP and file their own patents; 2) they would have to divert business resources to prepare patent applications and file them sooner; 3) they would be at a competitive disadvantage relative to larger competitors because they would have to develop and test their products in-house to avoid IP theft; and 4) they would be inhibited from sharing ideas with potential partners and investors, causing lost opportunities.

With respect to the second argument, the Court noted that: "We do not define exactly what steps a would-be patent applicant would need to undertake to establish standing to challenge the first-inventor-to-file provision of the AIA. We merely hold that, on the record before us, MadStad has failed to establish standing based on its fear of the increased effort and costs involved in filing a patent application because it does not assert that Mr. Stadnyk has an invention for which an application could be filed."

At Issue: Litigating Claims Pending Certificate of Correction

In H-W Technology v Overstock.Com, the Court (Prost and O'Malley) held that when a claim omits a material limitation, and the omission is not evident on the face of the patent, the patentee cannot assert that claim until it has been corrected by the patent office. The Court also held that the district court cannot correct the claim on its own unless the error is evident from the face of the patent, even if it is evident from the prosecution history. And the certificate of correction, when issued, is only applicable for causes of action arising after it is issued.

At Issue: ITC Exclusion of Digital Data

In Align Technolgy v ITC, the Court (Chen and Prost) reversed the ITC and held that ITC remedial orders need not explicitly include language prohibiting the importation of digital data through electronic transmission for such transmission to be covered by the remedial order.

At Issue: Injunctions, Contempt, and Reexamination

In ePlus v Lawson Software the Court (Dyk and Prost with O'Malley dissenting) held that an injunction must be set aside after the PTO has, in a reexamination, cancelled the claim on which it is based. The Court also held that the civil contempt sanctions based on a violation of the injunction must also be set

aside. The Court distinguished civil contempt from criminal contempt. Criminal contempt penalties would not be set aside. But the rule for civil contempt is different, and in this case the sanctions were compensatory, not punitive, and thus civil.

The Court found it unnecessary to decide whether civil contempt sanctions would survive if the injunction had been final at the time the sanctions were imposed. According to the Court majority, the injunction in this case was not final even though the claim had been held infringed. In a previous appeal, the Federal Circuit had determined that one of the defendant's product configurations did not infringe and remanded the case to the district court "to consider what changes are required to the terms of the injunction, consistent with this opinion." The injunction was modified by the district court and the defendant appealed. The appeal was pending when the PTO cancelled the claim, so the injunction was never final.

**RPX Monthly Digest of Patent Law Developments
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Supreme Court

Patent Cases on Certiorari

At Issue: Claim Construction

The Court granted cert in Teva Pharms. USA, Inc. v. Sandoz, Inc.

Question Presented:

“Whether a district court’s factual finding in support of its construction of a patent claim term may be reviewed *de novo*, as the Federal Circuit requires (and as the panel explicitly did in this case), or only for clear error, as Rule 52(a) requires.”

Federal Circuit

At Issue: Federal Jurisdiction over “Demand Letter” Suit

In State of Vermont v MPHJ Technology Investments, the Court (Newman, Prost and Hughes) held that it did not have jurisdiction over an appeal of a Federal district court’s remand of a case to state court based on lack of subject matter jurisdiction. The case had been brought in state court by the Vermont Attorney General, accusing the NPE plaintiff of unfair and deceptive trade practices under state consumer law.

At Issue: Patent License Interpretation

In Wi-LAN v Ericsson, a nonprecedential opinion, the Court (O’Malley, Moore and Wallach) interpreted the following non-assert:

Subject to the provisions of ARTICLE V hereof, WI-LAN hereby irrevocably covenants that neither WI-LAN nor its AFFILIATES will, directly or indirectly, alone or by, with or through others, cause, induce or authorize, or voluntarily assist, participate or cooperate in, the commencement, maintenance or prosecution of any ACTION seeking or having the tendency to establish any liability on the part of, or to exact any sanction or penalty, or any injunctive, equitable, legal, declaratory, administrative or other relief from or against LME, ... or any other individual or entity arising from, by reason of, or in connection with making, using, selling, offering to sell or importing *LME PRODUCTS which would, but for this Agreement, infringe any WI-LAN PATENTS*. . . .(emphasis added by the Court)

The Court held that the non-assert only applied to the four WI-LAN PATENTS that were specifically listed, despite the literal reading argued for by Ericsson, which would have immunized all products that infringed any of those patents from all Ericsson patents. The Court based its decision on the agreement as a whole, which included a provision limiting accrual of damages for patents “other than the WI-LAN PATENTS.

The Court also interpreted this MFL (Most fFavored Licensee) provision:

In the event Wi-LAN owns or controls the licensing of patents not already addressed under this Agreement and which are infringed or alleged to be infringed by UMTS/HSPA PRODUCTS, WI-LAN hereby agrees that at any time during the TERM of this agreement, at LME’s request, WI-LAN will grant to LME and its AFFILIATES a non-exclusive license to make, have made, use, sell, offer for sale, lease or otherwise dispose of, and import LME PRODUCTS including UMTS/HSPA PRODUCTS and Wi-LAN agrees to grant such a license at most-favored licensee status as compared to any future licensee of WI-LAN.

According to the Court, the provision only applies to patents owned or controlled as of the effective date of the Agreement, not to later-acquired patents, because of the use of the present tense; the “in the event” language refers to information currently unknown to the parties.

At Issue: Inequitable Conduct

In Apotex v UCB, the Court (Reyna, Wallach and Hughes) affirmed a district court’s finding of inequitable conduct. For the materiality prong, the Court relied on the inventor’s omission of important details of the prior art that were known to him and his affirmative representation of material facts. These acts and omissions were “but-for” material because they were directly related to the Examiner’s rejections and caused the Examiner to allow the claims. The Court acknowledged that there is no duty to disclose “suspicions and beliefs” about the prior art, and that there is nothing wrong with good faith advocacy regarding the teachings of the prior art, but the misconduct at issue “goes beyond failing to disclose a

personal belief or alternative interpretations of the prior art; here, Dr. Sherman affirmatively and knowingly misrepresented material facts regarding the prior art”.

For the intent prong, the Court agreed with the district court that deceptive intent is the single most reasonable inference that can be drawn from the evidence. The inventor knew, or at least had a strong suspicion, that he was seeking to patent the same process used to make an existing and widely available drug. He was aware that some of the assertions made in the patent specification were inaccurate or at least misleadingly incomplete. He admitted that he never performed the experiments described in past-tense in the patent. He directed his counsel to bolster his misrepresentations by procuring a declaration of an expert who was deliberately shielded from the truth. “He knew enough to recognize that he was crossing the line from legitimate advocacy to genuine representation of material facts.”

At Issue: Attorneys Fees

In Icon Health & Fitness v Octane Fitness, a nonprecedential *per curiam* opinion, the Court (Newman, Mayer and Lourie) remanded the case to the district court for further consideration of whether the case was exceptional as redefined by the Supreme Court. The new standard requires a determination of whether, under the totality of circumstances, the case “stands out from others with respect to the substantive strength” of Icon’s litigation position or was litigated in an unreasonable manner. The Court noted that the Supreme Court’s decision “did not remove the discretion of a district court to deny fee awards even in an exceptional case”.

At Issue: Patentable Subject Matter

In Planet Bingo v VKGS LLC, a nonprecedential opinion, the Court (Hughes, Taranto and Bryson) held claims to computer-aided methods and systems for managing a game of Bingo to be unpatentable. According to the Court, the district court correctly concluded that the claims “consisted solely of mental steps which can be carried out by a human using pen and paper”. Moreover, the Court found that the abstract ideas of managing a game of Bingo, or “solving a tampering problem and also minimizing other security risks” during Bingo purchases were similar to the abstract ideas in Bilski and Alice related to managing risk. The Court then found that the computer elements in the claims “recite a generic computer implementation of the abstract idea” and were thus insufficient to transform the claimed subject matter into a patent-eligible application of the abstract idea.