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## Recent Supreme Court IP Decisions

October 2, 2014

<b>Marta Beckwith</b> Aruba Networks	<b>Isabella Fu</b> Microsoft	<b>Noreen Krall</b> Apple	<b>Dion Messer</b> Limelight Networks	<b>Ching-Lee Fukuda</b> Ropes & Gray
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## Panel Introduction

### Panelists:

- **Marta Beckwith**  
Vice President, Legal  
Aruba Networks
- **Isabella Fu**  
Associate General Counsel  
Microsoft
- **Noreen Krall**  
ChIPs Co-founder  
Vice President and Chief Litigation Counsel  
Apple
- **Dion Messer**  
General Counsel – Intellectual Property  
Limelight Networks



Moderator:

**Ching-Lee Fukuda**  
Partner  
Ropes & Gray

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## Supreme Court Cases – Overview

### Cases:

- *Lexmark International, Inc. v. Static Control Components, Inc.* (March 25, 2014)
- *Octane Fitness, LLC v. ICON Health & Fitness, Inc.* (April 29, 2014)
- *Highmark, Inc. v. Allcare Health Mgmt. Sys.* (April 29, 2014)
- *Limelight Networks, Inc. v. Akamai Techs., Inc.* (June 2, 2014)
- *Nautilus, Inc. v. BioSig Instruments, Inc.* (June 2, 2014)
- *POM Wonderful LLC v. Coca-Cola Co.* (June 12, 2014)
- *Alice Corp. Pty. Ltd. v. CLS Bank Int'l* (June 19, 2014)
- *Am. Broadcasting Cos., Inc. v. Aereo, Inc.* (June 25, 2014)

### Issues:

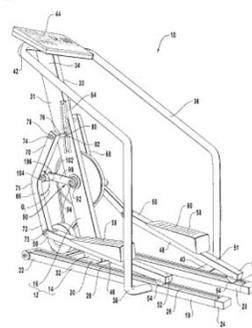
- Patent litigation, copyright infringement, false advertising claims
- Exceptional case standard, induced infringement, indefiniteness, patent subject matter eligibility, scope of copyright protection for “cloud” technology, standing to sue

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## ***Octane Fitness, LLC v. ICON Health & Fitness, Inc.***

### **Background:**

- Octane and ICON manufacture exercise equipment
- ICON sued Octane for infringement of a patent directed to an elliptical exercise machine
  - ICON had not commercialized the patent
- Octane prevailed on summary judgment and moved for attorneys fees
- Federal Circuit affirmed district court denial of fees
  - Based on test established in *Brooks Furniture*: “[a]bsent misconduct in conduct of the litigation or in securing the patent[s],” a case is exceptional “only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.”



U.S. Patent No. 6,019,710 Fig. 1

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## ***Octane Fitness, LLC v. ICON Health & Fitness, Inc.***

### **Holding:**

- Supreme Court reversed and remanded
- Rejected Federal Circuit’s standard as “overly rigid”
  - Standard would render 35 U.S.C. Section 285 superfluous in light of generally accepted common law rules on fee shifting
- Proper standard is that case is exceptional when it “stands out from others with respect to the substantive strength of a party’s litigating positions ... or the unreasonable manner in which the case was litigated.”
- Exceptional case decision is made on “a case-by-case exercise of [the district court judge’s] discretion, considering the totality of the circumstances.”
- Rejected Federal Circuit’s “clear and convincing evidence” standard of proof for attorneys fees – the statute itself did not require any deviation from the “preponderance of evidence” standard

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

### **Background:**

- Highmark runs a Blue Cross/Blue Shield entity
- Allcare is an NPE that owns a patent covering a health care management system
- Highmark sought declaratory judgment of non-infringement, invalidity, and unenforceability
- District court entered a final judgment of noninfringement and granted Highmark's motion for fees
- Federal Circuit undertook a *de novo* review

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

### **Holding:**

- Appellate review of attorneys' fees ruling is under "abuse of discretion" standard
- Whether a case is exceptional under 35 U.S.C. §285 is left to the discretion of the district court judge

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## Octane Fitness / Highmark

- Subsequent cases awarding fees:
  - *AGSouth Genetics, LLC v. Ga. Farm Servs., LLC* (M.D. Ga. May 21, 2014)
  - *Home Gambling Network, Inc. v. Piche* (D. Nev. May 21, 2014)
  - *Lumen View Tech., LLC v. Findthebest.com, Inc.* (S.D.N.Y. May 30, 2014)
  - *Intellect Wireless, Inc. v. Sharp Corp.* (N.D. Ill. May 30, 2014)
  - *Precision Links Inc. v. USA Prods. Group, Inc.* (W.D.N.C. June 24, 2014)
  - *Cognex Corp. v. Microscan Sys., Inc.* (S.D.N.Y. June 30, 2014)
  - *Falana v. Kent State Univ.*, (N.D. Ohio July 31, 2014)
  - *Kilopass Tech. Inc. v. Sidense Corp.* (N.D. Cal. Aug. 12, 2014)
  - *Yufa v. TSI Inc.* (N.D. Cal. Aug. 14, 2014)
  - *Romag Fasteners, Inc. v. Fossil, Inc.* (D. Conn. Aug. 14, 2014)
  - *Hastie2Market v. Sorensen* (Fed. Cir. Sep. 8, 2014)
  - *Parallel Iron LLC v. NetApp Inc.* (D. Del. Sep. 12, 2014) (fees awarded but not under \$ 285)
  - *Chalumeau Power Sys. LLC v. Alcatel-Lucent* (D. Del. Sep. 12, 2014)
  - *Linex Techs., Inc. v. Hewlett-Packard Co.* (N.D. Cal. Sep. 15, 2014)
  - *Ohio Willow Wood Co. v. Alps South, LLC* (S.D. Ohio Sep. 24, 2014)
  - *Summit Data Sys., LLC v. EMC Corp.* (D. Del. Sep. 25, 2014)

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## Octane Fitness / Highmark

- Subsequent cases denying fees:
  - *Bianco v. Globus Med., Inc.* (E.D. Tex. May 12, 2014)
  - *EON Corp. v. FLO TV* (D. Del. May 27, 2014)
  - *CreAgri, Inc. v. Pinnacle, Inc.* (N.D. Cal. June 3, 2014)
  - *Shire LLC v. Amneal Pharma., LLC* (D.N.J. June 23, 2014)
  - *Reynolds Consumer Prods., Inc. v. Handi-Foil Corp.* (E.D. Va. July 18, 2014)
  - *EON Corp. IP Holdings LLC v. Cisco Sys. Inc.* (N.D. Cal. July 25, 2014)
  - *Meyer Intellectual Props. Ltd. v. Bodum USA, Inc.* (N.D. Ill. July 28, 2014)
  - *Premium Balloon Accessories, Inc. v. Creative Balloons Mfg., Inc.* (Fed. Cir. Aug. 7, 2014)
  - *Apple Inc. v. Samsung Elecs. Co.* (N.D. Cal. Aug. 20, 2014)
  - *Charge Lion v. Semtech* (E.D. Tex. Aug. 25, 2014)
  - *Gevo, Inc. v. Butamax Advanced Biofuels LLC* (D. Del. Aug. 26, 2014)
  - *Gametek LLC v. Zynga, Inc.* (N.D. Cal. Sep. 2, 2014)
  - *H-W Tech., Inc. v. Overstock.com, Inc.* (N.D. Tex. Sept. 3, 2014)

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## *Octane Fitness / Highmark*

### Takeaways:

- Conduct careful pre-suit diligence/investigation
- Vet patents and claims with outside counsel
- Careful documentation of diligence
- Take defensible positions regarding claim construction
- Continue to reassess claims as litigation proceeds, especially after claim construction
- Avoid deceptive practices

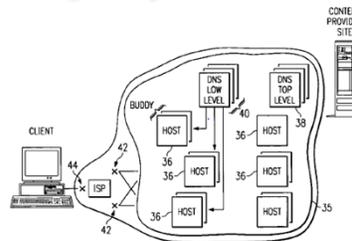


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## *Limelight Networks, Inc. v. Akamai Techs., Inc.*

### Background:

- Akamai and Limelight both operate content delivery networks
- Patent in suit is to a method of delivering electronic data using a content delivery network
- MIT was assigned the patent and Akamai was the exclusive licensee



U.S. Patent No. 6,108,703 at Fig. 3

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## ***Limelight Networks, Inc. v. Akamai Techs., Inc.***

### **Background:**

- Akamai asserted direct infringement claims against Limelight and explicitly waived any indirect infringement claims
- Limelight's customers, not Limelight itself, allegedly performed one or more of the method steps
- After jury verdict finding infringement Federal Circuit issued *Muniauction*
- Court found no infringement on JMOL
- Federal Circuit panel affirmed decision under "direction or control" standard in *Muniauction*
- *En Banc*, the Federal Circuit held that a party can be liable for induced infringement under 35 U.S.C. §271(b) even when there is no direct infringement by a single entity under §271(a)

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## ***Limelight Networks, Inc. v. Akamai Techs., Inc.***

### **Holding:**

- Supreme Court reversed and remanded
- A party can be liable for induced infringement under 35 U.S.C. §271(b) only when one party has committed direct infringement under §271(a)
- Supreme Court declined to review the *Muniauction* decision
  - In doing so Court assumed the direct infringement standard was correct

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## ***Limelight Networks, Inc. v. Akamai Techs., Inc.***

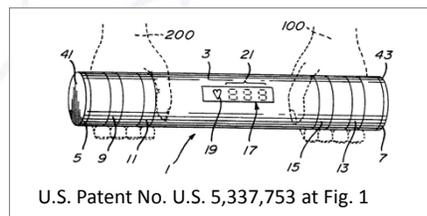
- Subsequent cases finding indirect infringement:
  - *ABT Sys., LLC v. Emerson Elec. Co.*, (E.D. Mo. June 27, 2014)
  - *Google Inc. v. Beneficial Innovations, Inc.* (E.D. Tex. Aug. 22, 2014)
- Subsequent cases finding no indirect infringement:
  - *Emerson Elec. Co. v. Suzhou Cleva Elec. Appliance Co., Ltd.* (E.D. Mo. June 3, 2014)
  - *Adrea, LLC, v. Barnes & Noble, Inc.* (S.D.N.Y. June 30, 2014)
  - *Convolve, Inc. v. Compaq Computer Corp.* (S.D.N.Y. July 11, 2014)
  - *Addiction & Detoxification Institute, L.L.C. v. Carpenter* (E.D. Mich. Aug. 4, 2014)
  - *Nalco Co., v. Turner Designs, Inc.*, (N.D. Cal. Aug. 11, 2014) (Limelight did not materially change the law on direct infringement, refused to grant leave to amend to add a direct infringement theory)
  - *Grecia v. VUDU, Inc.* (N.D. Cal. Aug. 29, 2014) (no joint infringement, no inducement)

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## ***Nautilus, Inc. v. BioSig Instruments, Inc.***

### **Background:**

- BioSig manufactures and sells fitness electronics
  - Assigned U.S. Patent No. 5,337,753 concerning heart rate monitors used with exercise equipment
- Nautilus manufactures and sells exercise equipment
- During *Markman*, district court construed the phrase “in spaced relationship with each other”
- Based on that construction District Court granted Nautilus motion for summary judgment that “spaced relationship” was indefinite
- Federal Circuit reversed, finding phrase was not indefinite



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## ***Nautilus, Inc. v. BioSig Instruments, Inc.***

### **Holding:**

- Supreme Court reversed and remanded
  - “[A] patent is invalid for indefiniteness if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention.”
  - Rejected Federal Circuit’s “insolubly ambiguous” standard for indefiniteness and that a patent is not indefinite if it is “amenable to construction.”
  - Reiterated that §112 is a “delicate balance” between the inherent limitations of language and the precision necessary to afford clear notice of what is claimed

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## ***Nautilus, Inc. v. BioSig Instruments, Inc.***

- Subsequent cases finding indefiniteness:
  - *Augme Techs. v. Yahoo!* (Fed. Cir. June 20, 2014)
  - *Ex Parte Breed* (PTAB June 4, 2014)
  - *Ex Parte Hamilton* (PTAB June 16, 2014)
  - *Hand Held Prods. Inc., v. Amazon.com, Inc.* (D. Del. June 24, 2014) (some claims indefinite)
  - *Fla Atl Univ Research Corp. v Acer, Inc.* (S.D. Fl. June 30, 2014)
  - *Broussard v. Go-Devil* (M.D. La. July 9, 2014)
  - *Light Transformation Techs. v. Lighting Sci. Group* (E.D. Tex. July 10, 2014) (some claims indefinite)
  - *In re TR Labs Patent Litig.* (D.N.J. July 14, 2014)
  - *SPA Syspatronic AG v. US* (Ct. Fed. Claims July 18, 2014) (some claims indefinite)
  - *Ex Parte Bukris* (PTAB July 22, 2014)
  - *Ex Parte Kulkarni* (PTAB July 24, 2014)
  - *Atlas IP, LLC v. St. Jude Med., Inc.* (S.D. Fla. July 30, 2014)
  - *Ex Parte Smith* (PTAB Aug. 5, 2014)
  - *Prolifiq Software Inc. v. Veeva Systems Inc.* (N.D. Cal. Aug. 6, 2014) (some claims indefinite)
  - *Invensys Systems, Inc. v. Emerson Elec. Co.* (E.D. Tex. Aug. 6, 2014) (some claims indefinite)
  - *Ex Parte Mythen* (PTAB Aug. 8, 2014)

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## ***Nautilus, Inc. v. BioSig Instruments, Inc.***

- Subsequent cases finding indefiniteness (cont'd):
  - *Ex Parte Rasheed* (PTAB Aug. 11, 2014)
  - *TruePosition, Inc. v. Polaris Wireless, Inc.* (D. Del. Aug. 26, 2014)
  - *Innovative Display Techs. LLC v. Acer Inc.* (E.D. Tex. Aug. 26, 2014) (some claims indefinite)
  - *Honeywell Int'l Inc. v. ICM Controls Corp.* (D. Minn. Aug. 27, 2014)
  - *Cioffi v. Google Inc.* (E.D. Tex. Aug. 28, 2014) (some claims indefinite)
  - *Perfectvision Manufacturing, Inc. v. PPC Broadband, Inc.* (E.D. Ark. Aug. 29, 2014) (some claims indefinite)
  - *Loyalty Conversion Sys. Corp. v. Am. Airlines, Inc.* (E.D. Tex. Sep. 2, 2014) (some claims indefinite)
  - *Ex Parte Bell* (PTAB Sep. 8, 2014)
  - *Interval Licensing LLC v. AOL, Inc.* (Fed. Cir. Sep. 10, 2014)
  - *Ex Parte Gao* (PTAB Sep. 11, 2014)
  - *Ex Parte Dawson* (PTAB Sep. 16, 2014)
  - *Ex Parte Snyder* (PTAB Sep. 18, 2014)
  - *SAP Am., Inc. v. Arunachalam* (PTAB Sep. 18, 2014)
  - *Ex Parte App Pharms., Inc.* (PTAB Sep. 23, 2014)
  - *Ex Parte Kozlov* (PTAB Sep. 23, 2014)

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## ***Nautilus, Inc. v. BioSig Instruments, Inc.***

- Subsequent cases finding no indefiniteness:
  - *Radware, Ltd v A10 Networks, Inc.* (N.D. Cal. June 11, 2014)
  - *Securebuy, LLC, v. Cardinalcommerce Corp.* (D. Del. June 16, 2014)
  - *Tric Tools v TT Techs, Inc.* (N.D. Cal. June 23, 2014)
  - *Endo Pharms. Inc. v. Watson Labs., Inc.* (June 23, 2014)
  - *Bluestone Innovations v. Nichia* (N.D. Ca. June 24, 2014)
  - *SourceProse v. AT&T Mobility* (W.D. Tex. June 24, 2014)
  - *Thomas Swan v. Finisar* (E.D. Tex. June 25, 2014)
  - *Larose Indus., LLC v. Capriola Corp.* (PTAB June 26, 2014)
  - *Cognex Corp. v. Microscan Sys't, Inc.* (S.D.N.Y. June 29, 2014)
  - *Maxus Strategic v. Aquamin* (W.D. Tex. July 7, 2014)
  - *Ficep Corp. v. Voortman USA Corp.* (D. Md. July 15, 2014)
  - *Ex Parte Nauta* (PTAB July 21, 2014)
  - *Round Rock Research LLC, v. Sandisk Corp.* (D. Del. July 21, 2014)
  - *In re Maxim Integrated Prods.* (W.D. Pa. July 23, 2014)
  - *Motionpoint Corp. v. Transperfect Global, Inc.* (PTAB July 23, 2014)
  - *Ex Parte Talukdar* (PTAB July 31, 2014)
  - *Ca. Institute of Tech. v. Hughes Commc'ns Inc.* (C.D. Cal. Aug. 6, 2014)
  - *VirnetX Inc. v. Apple, Inc.* (E.D. Tex. Aug. 8, 2014)
  - *Carrier Corp. v. Goodman Global, Inc.* (D. Del. Aug. 14, 2014)

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## ***Nautilus, Inc. v. BioSig Instruments, Inc.***

- Subsequent cases finding no indefiniteness (cont'd):
  - *Comcast Cable Commcn's, LLC v. Sprint Commcn's Co.* (E.D. Pa. Aug. 15, 2014)
  - *Wonderland Nurserygoods Co., Ltd., v. Kids II, Inc.* (N.D. Ga. Aug. 15, 2014)
  - *Exergen Corp. v. Brooklands, Inc.* (D. Mass. Aug. 15, 2014)
  - *Depomed, Inc. v. Actavis Elizabeth LLC* (D.N.J. Aug. 18, 2014)
  - *Ex Parte Youngner* (PTAB Aug. 19, 2014) (invalid for other reasons)
  - *Zodiac Pool Sys., Inc. v. Aqua Prods., Inc.* (PTAB Aug. 22, 2014)
  - *Ex Parte Norris* (PTAB Aug. 25, 2014) (invalid for other reasons)
  - *Ex Parte Britten* (PTAB Aug. 26, 2014) (invalid for other reasons)
  - *Scott Env'tl. Servs., Inc. v. A to Z Mud Co., Inc.* (E.D. Tex. Aug. 26, 2014)
  - *IpLearn, LLC, v. Blackboard, Inc.* (D. Del. Aug. 26, 2014)
  - *Freeny v. Apple Inc.* (E.D. Tex. Aug. 28, 2014)
  - *Ex Parte Zhang* (PTAB Aug. 28, 2014)
  - *OPTi, Inc. v. VIA Techs., Inc.* (E.D. Tex. Aug. 29, 2014)
  - *United Therapeutics Corp. v. Sandoz, Inc.* (D.N.J. Aug. 29, 2014)
  - *Progressive Semiconductor Solutions LLC v. Qualcomm Techs., Inc.* (C.D. Cal. Sep. 4, 2014)
  - *Ex Parte Knodel* (PTAB Sep. 8, 2014) (invalid for other reasons)
  - *Apple Inc. v. Samsung Elecs. Co.* (N.D. Cal. Sep. 9, 2014)
  - *NobelBiz, Inc. v. Global Connect, L.L.C.* (E.D. Tex. Sep. 15, 2014)

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## ***Nautilus, Inc. v. BioSig Instruments, Inc.***

### **Takeaways:**

- Will clashing expert opinions be treated as proof of indefiniteness?
- Important filter to select claims for assertion



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## ***Alice Corp. Pty. Ltd. v. CLS Bank Int'l***

### **Background:**

- Patents-in-suit concern a computerized platform for mitigating “settlement risk”
- Trusted third party, acting as an escrow or intermediary, can verify that each party to a financial transaction is able to perform its obligations under the transaction, before the parties actually perform
- Claims included method claims, computer-readable media claims, and system claims
- District Court found patents were directed to an abstract idea and were invalid under §101
- Federal Circuit *en banc* issued a one paragraph *per curiam* opinion
  - Affirmed decision that all asserted claims are not patent eligible under §101
  - Did so in fractured panel authored six opinions plus “additional reflections” by former Chief Judge Rader

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## ***Alice Corp. Pty. Ltd. v. CLS Bank Int'l***

### **Holding:**

- Supreme Court upheld decision
- Software relating to a computerized scheme for mitigating “settlement risk” was not patent eligible under §101
- Invalid based on two-part inquiry outlined from *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*
  - (1) claims at issue were drawn to an abstract idea
  - (2) nothing in the claims included an inventive concept sufficient to transform the abstract idea into a patent eligible invention
- The concern driving §101 is preemption—“that patent law not inhibit further discovery by improperly tying up the future use of these building blocks of human ingenuity”
- Generic computer implementation of the claims was insufficient to supply the necessary inventive concept

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## ***Alice Corp. Pty. Ltd. v. CLS Bank Int'l***

- Subsequent cases finding claims invalid under § 101:
  - *DietGoal Innovations v. Bravo Media* (S.D.N.Y. July 8, 2014)
  - *Digitech Image v. Electronics for Imaging* (Fed. Cir. July 11, 2014)
  - *Comcast IP Holdings I, LLC v. Sprint Comm'ns Co.* (D. Del. July 16, 2014)
  - *Ex Parte Tie* (PTAB July 25, 2014)
  - *Ex Parte Foth*, Appeal No. 2011-012438 (PTAB July 29, 2014)
  - *Ex Parte Foth*, Appeal No. 2012-001949 (PTAB July 29, 2014)
  - *Ex Parte Schoen* (PTAB July 30, 2014)
  - *Ex Parte Lienhart* (PTAB July 30, 2014)
  - *Ex Parte Linehan* (PTAB July 30, 2014)
  - *I/P Engine, Inc. v. AOL Inc.* (Fed. Cir. Aug. 15, 2014) (invalid in concurring opinion)
  - *U.S. Bancorp v. Retirement Capital* (PTAB Aug. 22, 2014)
  - *Planet Bingo v. VKGS* (Fed. Cir. Aug. 26, 2014)
  - *Ex Parte Jung* (PTAB Aug. 27, 2014)
  - *Ex Parte Hyde* (PTAB Aug. 27, 2014)
  - *Ex Parte Cote* (PTAB Aug. 29, 2014)

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## ***Alice Corp. Pty. Ltd. v. CLS Bank Int'l***

- Subsequent cases finding claims invalid under § 101 (cont'd):
  - *Ex Parte Wright* (PTAB Sep. 2, 2014)
  - *Genetic Tech. v. Laboratory Corp.* (D. Del. Sep. 3, 2014)
  - *Loyalty Conversion Sys. V. American Airlines* (E.D. Tex. Sep. 3, 2014)
  - *Tuxis Tech. v. Amazon.com* (D. Del. Sep. 3, 2014)
  - *buySAFE, Inc. v. Google, Inc.* (Fed. Cir. Sep. 3, 2014)
  - *Walker Digital v. Google* (D. Del. Sep. 3, 2013)
  - *Eclipse IP LLC v. McKinley Equipment Corp.* (C.D. Cal. Sep. 4, 2014)
  - *Every Penny Counts, Inc., v. Wells Fargo Bank, N.A.* (M.D. Fla. Sep. 11, 2014)
  - *Open Text S.A. v. Alfresco Software Ltd* (N.D. Cal. Sep. 19, 2014)
  - *Ex Parte Nicholas* (PTAB Sep. 22, 2014)

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## ***Alice Corp. Pty. Ltd. v. CLS Bank Int'l***

- Subsequent cases finding claims not invalid under § 101:
  - *Ex Parte Love* (PTAB July 30, 2014) (not invalid under 101, but invalid under 103(a))
  - *AutoForm Eng'g GMBH v. Eng'g Tech. Assocs., Inc.* (E.D. Mich. Sep. 5, 2014)

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## ***Alice Corp. Pty. Ltd. v. CLS Bank Int'l***

### **Some Takeaways:**

- Software still patentable but only barely
  - Is anything less than a complete algorithm patentable?
  - Probably but dividing line extremely hard to determine
- Business method patents likely done with
- Overlap in analysis between §101 and §§102/103



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## ***Alice Corp. Pty. Ltd. v. CLS Bank Int'l***

**How to determine whether a claim is invalid under *Alice* (is it an abstract idea and does it embody an inventive concept):**

- Does it tell you only what to do or also how to do it?
  - Reading the claims, could one skilled in the art make it work or would one essentially need to fill in all the practical details oneself
- Is it a “gobbledy-gook” claim?
  - Has it been so abstracted as to be meaningless/can be read to claim almost anything
  - Do you need to read the spec in order to have any clue as to what it is trying to claim
- Is it trying to claim something you (or the judge) feel like they could have come up with on their own?
  - Common sense 102/103 works behind the scenes in determining patentability under 101



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## ***Alice Corp. Pty. Ltd. v. CLS Bank Int'l***

***Walker Digital v. Google* (D. Del. Sept. 3, 2014) – Invalid**

A method for operating a computer system to facilitate an exchange of identities between two anonymous parties, comprising the steps of:

- receiving from a first party first data including an identity of said first party;
- receiving from said first party at least two first-party rules for releasing said first data including a rule for releasing said identity of said first party;
- receiving from a second party a search request comprising at least one search criterion;
- receiving from said second party second data including an identity of said second party;
- receiving from said second party at least two second-party rules for releasing said second party data including a rule for releasing said identity of said second party;
- processing said search request to determine if said first data satisfies said search criterion;
- and if said first data satisfies said search criterion, then exchanging said first and second data, except said identities of said first and second parties, between said first and second parties in accordance with said first-party and second-party rules, after said exchanging step, upon satisfying said first-party rule for releasing said identity of said first party, transmitting said identity of said first party to said second party, and after said exchanging step, upon satisfying said second-party rule for releasing said identity of said second party, transmitting said identity of said second party to said first party.

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## ***Alice Corp. Pty. Ltd. v. CLS Bank Int'l***

**Ex Parte Cote** (PTAB Aug. 29, 2014) – Gobbledy-gook

A computer-readable storage device including code segments, to be executed by a computer, relating to a lithographic process technology, the computer-readable medium comprising:

- a code segment for receiving a plurality of bins, each bin including a plurality of clusters
- corresponding to layout data, wherein each cluster represents a plurality of shapes in the layout data,
- the plurality of shapes having a proximity to each other determined by a grow operation; and
- a code segment for phase shifting the plurality of clusters independently of one another.

Decision: Reverses examiners rejection under 103 but finds ineligible under 101.

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## ***Am. Broadcasting Cos., Inc. v. Aereo, Inc.***

### **Background:**

- Aereo provided a system for streaming live television in certain broadcast areas:
  - Aereo sets up farms of dime-sized television antennas
  - A subscriber would select a program to watch
  - Aereo would temporarily assign a single antenna to that subscriber
  - The antenna connected to a device that stored the program locally. The service would then stream that program to the subscriber's device.
  - If multiple subscribers wanted to watch the same program at the same time, multiple separate antennas would record the programs separately, and each would receive a personal stream of the separate recordings.

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## ***Am. Broadcasting Cos., Inc. v. Aereo, Inc.***

### **Background:**

- Broadcasters in NYC sued for copyright infringement and sought a preliminary injunction
- 2<sup>nd</sup> Circuit affirmed the district court denial of the injunction
  - Cited *Cartoon Network v. CSC Holdings* decision on DVR technology
    - *Cartoon Network* found that the automated copying of content at user request did not constitute direct infringement
    - Replaying content to the original audience did not constitute “public performance”
    - Copying of streaming content for purposes of buffering did not itself constitute unlawful copying

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## ***Am. Broadcasting Cos., Inc. v. Aereo, Inc.***

### **Holding:**

- Aereo’s activities are substantially similar to those of CATV systems
- Activities infringe a copyright owner’s exclusive right to “transmit or otherwise communicate a performance ... of the [copyrighted] work ... to the public” under 17 U.S.C. §101
- The right was added to the Copyright Act through the 1976 amendments to reverse findings of the Supreme Court in *Fortnightly* and *Teleprompter*
  - Supreme Court in those cases held early CATV systems, which captured broadcast signals through antennas and passed them along their systems, did not infringe

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## ***Am. Broadcasting Cos., Inc. v. Aereo, Inc.***

- Subsequent cases finding copyright infringement:
  - *CBS Broad. Inc. v. FilmOn.com, Inc.* (S.D.N.Y. July 24, 2014) (Copyright infringed and defendant did not qualify as a cable company such that it qualified for a compulsory license)

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## ***Am. Broadcasting Cos., Inc. v. Aereo, Inc.***

### **Takeaways:**

- “Whether Aereo transmits from the same or separate copies, it performs the same work; it shows the same images and makes audible the same sounds.”
- Is the opinion confined to its facts, or does it chip away at volition aspects relevant to cloud computing?



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**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.

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

**Supreme Court**

**Decisions in Patent Cases**

(No new decisions)

**Patent Cases on Certiorari**

**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.

## **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 Sturim Foods, 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.)

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

**Supreme Court**

**Decisions in Patent Cases**

(No new decisions)

**Patent Cases on Certiorari**

**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.

## **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: 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.

**At Issue: Attorney's Fees to Prevailing Party**

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

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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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## 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>

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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  
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**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  
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**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.”

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**Supreme Court**

**Decisions in Patent Cases in June**

**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: 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.

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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.

## Recent SCOTUS Decisions in Intellectual Property Cases

The U.S. Supreme Court heard a landmark number of intellectual property cases during its 2013-2014 term. Below is a summary of recent decisions issued in 2014.

### ***Lexmark International, Inc. v. Static Control Components, Inc.***

On March 25, 2014, the Supreme Court in *Lexmark International, Inc. v. Static Control Components, Inc.*, No. 12-873, set a new test for whether a party has standing to bring a false advertising claim under the Lanham Act. In so holding, the Court rejected the three tests that had been developed and applied by the circuit courts. [Click here to read the full Alert.](#)

### ***Octane Fitness, LLC v. Icon Health & Fitness, Inc. and Highmark Inc. v. Allcare Health Management System, Inc.***

On April 29, 2014, the Supreme Court in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, No. 12-1184, and *Highmark Inc. v. Allcare Health Management System, Inc.*, No. 12-1163, issued two decisions relaxing the standard for determining whether a case is exceptional in patent litigation while raising the standard of review. [Click here to read the full Alert.](#)

### ***Limelight Networks, Inc. v. Akamai Technologies, Inc.***

On June 2, 2014, the Supreme Court in *Limelight Networks, Inc. v. Akamai Techs., Inc.*, No. 12-786, ruled that a party can be liable for induced infringement under § 271(b) only when one party has committed direct infringement under § 271(a). This decision reinstated the so-called “single-entity rule” for inducement. [Click here to read the full Alert.](#)

### ***Nautilus, Inc. v. BioSig Instruments, Inc.***

On June 2, 2014, the Supreme Court in *Nautilus, Inc. v. BioSig Instruments, Inc.*, No. 13-369, ruled that “a patent is invalid for indefiniteness if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention.” [Click here to read the full Alert.](#)

### ***POM Wonderful LLC v. Coca-Cola Co.***

On June 12, 2014, the Supreme Court in *POM Wonderful LLC v. Coca-Cola Co.*, No. 12-761, ruled that a competitor may bring a Lanham Act false advertising claim challenging food and beverage labels regulated by the Food and Drug Administration (“FDA”) pursuant to the Federal Food, Drug, and Cosmetic Act (“FDCA”). [Click here to read the full Alert.](#)

### ***Alice Corporation Pty. Ltd. v. CLS Bank International***

On June 19, 2014, the Supreme Court in *Alice Corporation Pty. Ltd. v. CLS Bank International*, No. 13-298, unanimously held that patent claims drawn to the generic computer implementation of the abstract idea of intermediated settlement of financial transactions are not patent eligible under 35 U.S.C. § 101. [Click here to read the full Alert.](#)

### ***American Broadcasting Companies, Inc. v. Aereo, Inc.***

On June 25, 2014, the Supreme Court in *American Broadcasting Companies, Inc. v. Aereo, Inc.*, No. 13-461, held in a 6-3 majority decision that Aereo’s system for capturing and recording broadcast TV programming, and

then streaming that programming to individual subscribers, “performs” that programming “publicly” and so infringes the copyright holders exclusive right to transmit those works. [Click here to read the full Alert.](#)

## Supreme Court Sets New Test in *Lexmark* for Whether a Party Has Standing to Bring a False Advertising Claim under the Lanham Act

On March 25, 2014, the Supreme Court in *Lexmark International, Inc. v. Static Control Components, Inc.*, No. 12-873 (Mar. 25, 2014), ruled that a two-part inquiry pairing the zone-of-interests test and a proximate-cause requirement applies when determining standing for false advertising claims under the Lanham Act, 15 U.S.C. § 1152(a). In so holding, the Court rejected the three tests that had been developed and applied by the circuit courts in favor of an inquiry grounded in principles that, according to the Court, are traditionally applied to statutorily created causes of action.

Lexmark manufactures and sells laser printers, as well as toner cartridges for those printers. Sonic Control makes and sells to third party “remanufacturers” components that are necessary to “remanufacture” or refurbish Lexmark toner cartridges. The dispute in this case arose because Static Control developed a microchip that could mimic a microchip used in Lexmark “Prebate” cartridges, which disabled a toner cartridge when the cartridge ran out of toner. In 2002, Lexmark sued Static Control for various copyright violations. Static Control counterclaimed, alleging, *inter alia*, violations of the Lanham Act’s false advertising provision. Static Control alleges that Lexmark (a) “purposefully misleads end-users” to believe that they are legally required to return Prebate cartridges to Lexmark after a single use; and (b) sent letters to remanufacturers that falsely advised that it was illegal both to sell refurbished Prebate cartridges and to use Static Control’s products in so doing. Lexmark moved to dismiss this claim based on Static Control’s lack of standing.

In the opinion below, the Sixth Circuit had set forth the split in the circuit courts over which test applies when determining standing for false advertising claims under the Lanham Act:

- The Second and Sixth Circuits used a “reasonable interest” approach, finding that the claimant has standing if the claimant can demonstrate: (1) a reasonable interest to be protected against the alleged false advertising, and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising;
- The Seventh, Ninth, and Tenth Circuits used a categorical test, permitting Lanham Act suits only by an actual competitor making an unfair-competition claim; and
- The Third, Fifth, Eighth, and Eleventh Circuits used the “AGC” factors, which are used for determining standing for antitrust claims under the Lanham Act: (1) the causal connection between the antitrust violation and harm to the plaintiff and whether that harm was intended to be caused; (2) the nature of the plaintiff’s alleged injury including the status of the plaintiff as consumer or competitor in the relevant market; (3) the directness or indirectness of the injury, and the related inquiry of whether the damages are speculative; (4) the potential for duplicative recovery or complex apportionment of damages; and (5) the existence of more direct victims of the alleged antitrust violation.

The Sixth Circuit upheld the broad “reasonable interest” approach in view of a prior decision by the same court, stating that “[b]ecause we have already addressed the appropriate level of standing . . . even if we were to prefer the approach taken by our sister circuits, we cannot overturn a prior published decision of this court absent inconsistent Supreme Court precedent or an en banc reversal.” *Static Control Components, Inc. v. Lexmark Int’l, Inc.*, 697 F.3d 387, 411 (6th Cir. 2012). Applying this approach, the Sixth Circuit reversed the district court’s dismissal of Static Control’s false advertising claim, which had been based on an application of the “AGC” factors.

On appeal to the Supreme Court, Lexmark argued that the Court should import a multi-factor test derived from the narrow “AGC” test. Static Control argued that the proper inquiry is whether a company whose products are targeted with false advertising falls within the “zone of interests” of a statute whose text gives a remedy for false advertising about another’s goods.

In its decision, the Court held that “a direct application of the zone-of-interests test and the proximate cause requirement supplies the relevant limits on who may sue.” *Lexmark Int’l*, No. 12-873, slip op. at 16. In particular, a plaintiff alleging false advertising under § 1125(a) must ordinarily plead (and ultimately prove):

- “[A]n injury to a commercial interest in reputation or sales“ in order to come within the zone-of-interests; and
- “[E]conomic or reputational injury flowing directly from the deception wrought by the defendant’s advertising,” which “occurs when deception of consumers causes them to withhold trade from the plaintiff.”

*Id.* at 13, 15. In so holding, the Court made clear that the issue of standing to sue under § 1125(a) is grounded in statutory, not “prudential” concerns. *Id.* at 6-9.

In the Court’s view, this two-part inquiry avoids the extremes of the “reasonable interest” test, which the Court characterized as effectively requiring only the bare minimum Article III standing and does not reflect the protections provided by § 1125(a); and the categorical direct-competitor test, which the Court found too broadly limits protection to just a false-advertiser’s direct competitors. *Id.* at 17-18. The Court also wished to avoid the unpredictability of the AGC multi-factor test, which in application can be problematic and arbitrary, according to the Court. *Id.* at 16-17.

Applying this inquiry, the Court concluded that Static Control pleaded an adequate basis to proceed under § 1125(a) and is entitled to a chance to prove its case.

To find out how the Supreme Court’s decision in *Lexmark* affects your interests, please contact your usual Ropes & Gray attorney or one of the following Ropes & Gray attorneys: [Peter Brody](#), [Gene Lee](#), [Gabrielle Higgins](#), [Jennifer Kwon](#), [Mariel Goetz](#).

## Supreme Court Relaxes Standard For Determining Whether A Case Is Exceptional In Patent Litigation While Raising The Standard Of Review

On April 29, 2014, the Supreme Court issued two decisions relating to the determination of whether a case is exceptional and award of attorneys' fees in patent litigation. The cases are *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, No. 12-1184 (April 29, 2014) and *Highmark Inc. v. Allcare Health Management System, Inc.*, No. 12-1163 (April 29, 2014).

### *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*

In the first case, *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, No. 12-1184 (April 29, 2014), the Court unanimously rejected the rigid standard that previously governed the determination of whether a case is exceptional and an award of attorneys' fees under 35 U.S.C. § 285 in favor of an approach granting discretion to the district court judge and reducing the associated evidentiary burden.

Both Octane and Icon are manufacturers of exercise equipment. The dispute arose when Icon sued Octane, alleging that several Octane products infringed an Icon patent that Icon had never commercialized. Octane Fitness prevailed on its motion for summary judgment of non-infringement, and then moved for an award of attorneys' fees, which the district court judge denied.

On appeal, the Federal Circuit affirmed the denial of attorneys' fees to the prevailing party. *Icon Health & Fitness, Inc. v. Octane Fitness, LLC*, 496 Fed. Appx. 57, 65 (Fed. Cir. 2012). In so doing, the Federal Circuit declined to reevaluate the test it had established in a previous case, wherein it held that "[a]bsent misconduct in conduct of the litigation or in securing the patents," a case is "exceptional" under 35 U.S.C. § 285 and allows for an award of attorneys' fees "only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005).

On appeal to the Supreme Court, Icon argued for affirmance of the test applied by the Federal Circuit, while Octane argued that the proper standard would be to allow district court judges to determine whether a case is exceptional at their discretion based on the totality of the circumstances.

In its decision, the Court rejected the Federal Circuit's standard as "overly rigid," because it "superimposes an inflexible framework onto statutory text that is inherently flexible." *Octane Fitness*, No. 12-1184, slip op. at 8. Moreover, the Court found that the standard applied by the Federal Circuit would render 35 U.S.C. § 285 superfluous in light of generally accepted common law rules on fee shifting.

The Court held that district court judges can find a case exceptional under 35 U.S.C. § 285 when the case "stands out from others with respect to the substantive strength of a party's litigating position . . . or the unreasonable manner in which the case was litigated." *Id.* at 7-8. In so holding, the Court made clear that the decision is to be made in "a case-by-case exercise of [the district court judge's] discretion, considering the totality of the circumstances." *Id.* at 8. The Court also rejected the Federal Circuit's requirement that entitlement to attorneys' fees needed to be proven by "clear and convincing evidence," because the statute itself did not require any deviation from the "preponderance of the evidence" standard generally applied to questions of patent infringement. *Id.* at 11.

Applying this new standard, the Court reversed and remanded the case for further proceedings consistent with the opinion.

### ***Highmark Inc. v. Allcare Health Management System, Inc.***

In the second decision relating to the award of attorneys' fees in patent litigation, the Supreme Court addressed the related issue of the standard for appellate review with respect to a determination of whether a case is exceptional. In *Highmark Inc. v. Allcare Health Management System, Inc.*, No. 12-1163 (April 29, 2014), the Court held that appellate review of such a ruling should be under the "abuse of discretion" standard—a standard that is highly deferential to the district court judge's determination.

Highmark runs a Blue Cross Blue Shield entity. Allcare is a non-practicing entity that owns a patent covering a health care management system. Highmark sought declaratory judgment of non-infringement, invalidity, and unenforceability, and Allcare counterclaimed for infringement. After the district court entered a final judgment of non-infringement, Highmark moved for fees under 35 U.S.C. § 285, which the district court granted.

On appeal, the Federal Circuit affirmed the exceptional case determination as to one claim of the patent-in-suit, but reversed as to another. *Highmark Inc. v. Allcare Health Management System, Inc.*, 687 F.3d 1300, 1311-1315 (Fed. Cir. 2012). In so doing, the Federal Circuit undertook a *de novo* review of the district court's decision.

In a unanimous decision, the Supreme Court noted that it had concurrently rejected the Federal Circuit's test for determining whether a case is exceptional as "unduly rigid and inconsistent with the text of § 285." *Highmark*, No. 12-1163, slip op. at 4. Because the Court in *Octane* committed the determination of whether a case is "exceptional" to the district court's discretion, the Court in *Highmark* ruled that such a determination must be reviewed under the "abuse of discretion" standard.

In the Court's view, the "abuse of discretion" standard is proper because the determination of whether a case is exceptional under 35 U.S.C. § 285 is left to the discretion of the district court judge. According to the Court, the statute therefore implies that deference to the district court should be afforded on appeal.

Applying this appellate standard, the Court remanded the case to the Federal Circuit for further proceedings consistent with the "abuse of discretion" standard of review.

To find out how the Supreme Court's decisions in *Octane* and *Highmark* affect your interests, please contact your usual Ropes & Gray attorney or one of the Ropes & Gray attorneys listed below.

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## Supreme Court Unanimously Reverses Federal Circuit's *En Banc* Decision In *Limelight v. Akamai* and Rejects The Application Of Induced Infringement Under § 271(b) To Situations Where There Is No Direct Infringer Under § 271(a)line

On June 2, 2014, the Supreme Court in *Limelight Networks, Inc. v. Akamai Techs., Inc.*, No. 12-786, ruled that a party can be liable for induced infringement under § 271(b) only when one party has committed direct infringement under § 271(a). This decision reinstated the so-called “single-entity rule” for inducement.

The dispute in this case arose when Akamai brought allegations of direct infringement against Limelight. The asserted claims were directed to methods for content delivery for websites, and Limelight did not perform one of the steps of the asserted claim; Limelight's customers performed the last step. The district court overturned a jury verdict of infringement and held that there was no infringement by Limelight as a matter of law. The Federal Circuit affirmed that decision under the “direction or control” standard set forth in *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (2008), finding that, because there was no agency relationship or contractual obligation between Limelight and its customers, Limelight could not be liable for direct infringement.

The Federal Circuit reviewed *en banc* the *Akamai* case and another case involving joint infringement, *McKesson Techs. Inc. v. Epic Sys. Corp.* The Federal Circuit found that both cases could be resolved based only on indirect infringement liability. The *en banc* court rejected the “single entity” rule for induced infringement and differentiated between *acts* of direct infringement, which are a predicate to inducement, and the need for *liability* for those acts. The court held that indirect infringement under § 271(b) was independent from the conduct described in § 271(a) for direct infringement, and that the predicate act of infringement for liability under § 271(b) did not need to qualify as an act that would make a person liable as a direct infringer under § 271(a). The Federal Circuit held further that a party could be liable for inducement if it induced another to perform some of the steps of the claimed method and performed the remaining steps itself.

The U.S. Supreme Court granted *certiorari* for both cases. The *McKesson* case settled before oral argument, so only the *Akamai* case was argued before the Court. Limelight argued that inducement requires proof of actionable direct infringement. Akamai argued both that no actionable direct infringement is required for a finding of inducement under § 271(b) and that Limelight should also be found liable for direct infringement under § 271(a) because it directed or controlled its customers.

In its unanimous decision, the Court rejected the Federal Circuit's analysis of § 271(b) as “fundamentally misunderstand[ing] what it means to infringe a method patent.” *Limelight Networks, Inc.*, No. 12-786, slip op. at 5. The Court reasoned that the standard applied by the Federal Circuit would “deprive § 271(b) of ascertainable standards” and “would require the courts to develop two parallel bodies of infringement law: one for liability for direct infringement, and one for liability for inducement.” *Id.* at 6.

The Court declined to review the Federal Circuit's *Muniauction* decision, and noted that the Supreme Court rendered its decision on the assumption that the direct infringement standard set forth in *Muniauction* was correct. Applying that standard, the Court held that there was no direct infringement of the asserted method claims because the performance of all of the claimed steps “is not attributable to any one person.” *Limelight*

*Networks, Inc.*, No. 12-786, slip op. at 6. The Court thus determined that, because there was no direct infringement, “Limelight cannot be liable for inducing infringement that never came to pass.” *Id.* at 6-7.

Citing the history and origins of § 271(f) as an example, the Court also noted that any change to liability under § 271(b) should come from Congress: “[W]hen Congress wishes to impose liability for inducing activity that does not itself constitute direct infringement, it knows precisely how to do so. The courts should not create liability for inducement of non-infringing conduct where Congress has elected not to extend that concept.” *Id.* at 7.

The Court reversed and remanded the case for further proceedings consistent with the opinion. Though it declined to address the Federal Circuit’s *Muniauction* decision, the Court noted that the Federal Circuit, on remand, “will have the opportunity to revisit the § 271(a) question if it so chooses.” *Limelight Networks, Inc.*, No. 12-786, slip op. at 10.

To find out how the Supreme decision in *Limelight* affects your interest, please contact your usual Ropes & Gray attorney or one of the Ropes & Gray attorneys listed below.

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## Supreme Court Decides *Nautilus v. BioSig* and Unanimously Eliminates Federal Circuit's "Insolubly Ambiguous" Standard for Indefiniteness

On June 2, 2014, the Supreme Court in *Nautilus, Inc. v. BioSig Instruments, Inc.*, No. 13-369, ruled that "a patent is invalid for indefiniteness if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention." In doing so, the Supreme Court rejected the Federal Circuit's standard that a patent claim satisfies 35 U.S.C. § 112, ¶ 2, if it is "amenable to construction" and, once construed, found not to be "insolubly ambiguous."

BioSig Instruments, Inc. ("BioSig") manufactures and sells fitness electronics, and is the assignee of the asserted patent, U.S. Patent No. 5,337,753, which generally concerns heart rate monitors used in connection with exercise equipment. Nautilus, Inc. ("Nautilus") manufactures and sells exercise equipment. This dispute arose when BioSig allegedly disclosed the patented technology to Nautilus's predecessor company, StairMaster Sports Medical Products, Inc. ("StairMaster"). During negotiations, StairMaster purportedly began using BioSig's patented heart rate monitor technology in its equipment without permission, thereby prompting BioSig's patent infringement suit against Nautilus in 2004.

During a *Markman* hearing, the district court construed the term "in spaced relationship with each other" to mean "there is a defined relationship between the live electrode and the common electrode on one side of the cylindrical bar and the same or a different defined relationship between the live electrode and the common electrode on the other side of the cylindrical bar," but did not refer to the width of the electrode as Biosig had during reexamination. Subsequently, the district court granted Nautilus's motion for summary judgment of invalidity for indefiniteness. The district court found that the words "spaced relationship did not tell [the court] or anyone what precisely the space should be" or provide "any parameters" to define the spacing. *BioSig Instruments, Inc. v. Nautilus, Inc.*, 715 F.3d 891, 899 (Fed. Cir. 2013) (citation and internal quotation omitted).

On appeal, the Federal Circuit reversed, finding the claims not invalid for indefiniteness. *Id.* at 893. The majority opined that intrinsic evidence indicated the boundaries of the term, since the distance between the heart rate monitor's electrodes had to be less than the width of a user's hands, but also not infinitesimally small because the electrodes needed to remain separate so there are two detection points. *Id.* at 898-903. Moreover, the majority concluded that a skilled artisan would be able to conduct a test to determine what constitutes a "spaced relationship" in connection with the recited function of substantial removal of electromyogram signals. *Id.* Concurring Judge Schall wrote that "spaced relationship" means any "fixed spatial relationship" between the electrodes. *Id.* at 905.

The Supreme Court overruled the Federal Circuit, unanimously eliminating the Federal Circuit's test that "a patent claim passes the §112, ¶2 threshold so long as the claim is 'amenable to construction,' and the claim, as construed, is not 'insolubly ambiguous.'" *Nautilus, Inc.*, No. 13-369, slip. op. at 1 (citation omitted). The Court stated, "Section 112 ... entails a 'delicate balance'" between the "inherent limitations of language" and the precision necessary "to afford clear notice of what is claimed." *Id.* at 9-10. "[R]econcil[ing] [those] concerns that tug in opposite directions," the Court interpreted Section 112, ¶ 2, "to require that a patent's claims, viewed in the light of the specification and prosecution history, inform those skilled in the art about

the scope of the invention with reasonable certainty.” *Id.* at 11. This standard, the Court stated, “mandates clarity, while recognizing that absolute precision is unattainable” and “accords with opinions of this Court stating that ‘the certainty which the law requires in patents is not greater than is reasonable, having regard to their subject-matter.’” *Id.* (citation omitted). The Court did not opine on the validity of the ’753 patent, and remanded the issue to the Federal Circuit for reconsideration under this new standard. *Id.* at 14.

To find out how the Supreme decision in *Nautilus* affects your interest, please contact your usual Ropes & Gray attorney or one of the Ropes & Gray attorneys listed below.

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## Supreme Court Unanimously Reverses Ninth Circuit's Decision in *POM Wonderful v. Coca-Cola*

### Ruling That Competitors May Bring Lanham Act Claims Challenging FDA-Regulated Food and Beverage Labels Could Impact Other Categories of FDA-Regulated Products

On June 12, 2014, the Supreme Court in *POM Wonderful LLC v. Coca-Cola Co.*, No. 12-761, ruled that a competitor may bring a Lanham Act false advertising claim challenging food and beverage labels regulated by the Food and Drug Administration (“FDA”) pursuant to the Federal Food, Drug, and Cosmetic Act (“FDCA”). Writing for a unanimous Court, Justice Kennedy concluded that POM’s Lanham Act claims were not “precluded” by the FDCA.

#### Facts of the Case

POM alleged that the name and overall labeling of competitor Coca Cola’s juice blend was false or misleading under the Lanham Act, a federal statute that provides a private right of action to challenge a competitor’s false advertising. Coca-Cola’s juice, sold under the Minute Maid brand, is labeled as “Pomegranate Blueberry” (with the words “Flavored Blend of 5 Juices” in a smaller font), yet it contains only 0.3% pomegranate juice and 0.2% blueberry juice. Coca-Cola asserted this name and label comply with the applicable FDA regulation addressing the labeling of juice blends. POM contended – despite the applicable FDA regulation – that the name of the juice, and presentation of this name on the product label, misleads and confuses consumers into believing that the product contains primarily pomegranate and blueberry juices. The Ninth Circuit had barred POM’s Lanham Act claim in part because of the FDA’s “comprehensive regulation” of food and beverage labeling, including the specific regulation addressing juice blends.

#### The Court’s Ruling

In reversing the Ninth Circuit, the Supreme Court observed that although this is not a state preemption case, preemption principles are nonetheless “instructive” for the applicable preclusion analysis. The Court noted that neither the Lanham Act nor the FDCA expressly prohibits or limits Lanham Act claims challenging labels of FDA-regulated products. Because the Lanham Act and the FDCA have coexisted for roughly 70 years, the Court viewed Congress’s decision not to adopt any preclusion provision as “powerful evidence” that Congress did not intend the FDCA to be the only means for ensuring proper food and beverage labeling. Moreover, the Court did not view Congress’s adoption in 1990 of a provision expressly preempting certain *state* food and beverage labeling requirements as suggesting an intent to preclude *federal* Lanham Act claims. The omission of any mention of preclusion of federal laws from the preemption provision suggested the opposite intent, if anything, according to the Court.

Moreover, the Court found that the FDCA and the Lanham Act complement each other in the area of food and beverage labeling. While the Lanham Act protects commercial interests against unfair competition, the FDCA protects public health and safety. The Court suggested that Lanham Act lawsuits that touch on the same subject matter as the FDCA “provide incentives for manufacturers to behave well” and reasoned that permitting such lawsuits “takes advantage of synergies among multiple methods of regulation.” The Court indicated that if Lanham Act claims challenging food and beverage labeling were to be precluded, then competitors (and indirectly the public) would have less effective protection from false advertising in the food and beverage industry than in other, less regulated industries because the FDA does not preapprove food and beverage labels and does not enforce against all objectionable labels.

The Court rejected Coca-Cola’s argument that POM’s claims should be precluded because Congress intended national uniformity in food and beverage labeling based on three aspects of the FDCA proffered by Coca-Cola. First, the Court thought that the vesting of enforcement authority under the FDCA solely in the federal government did not indicate Congress’s intent to foreclose private enforcement under other federal statutes. Second, the Court recognized that the FDCA’s preemption provision applicable to food and beverage labeling expressly applies only to certain state law requirements and not to federal law. Third, the Court acknowledged that the FDCA and FDA regulations address food and beverage labeling with far more specificity than the Lanham Act but indicated this specificity would only matter if the two statutes “cannot be implemented in full at the same time,” which the Court thought was not the case.

The Court also rejected the argument of the federal Government, appearing as *amicus curiae*, that a Lanham Act claim is precluded to the extent the FDA or FDA regulations specifically require or authorize the challenged aspects of the label. The Court rejected the Government’s premise that the FDCA and FDA regulations act as a “ceiling” on the regulation of food and beverage labeling in some instances. The FDA’s rulemaking on juice blends did not address or even reference the Lanham Act, so the Court held that it was “a bridge too far” to accept an after the fact statement from the Government to justify using the FDA’s regulation as a basis for finding preclusion of Lanham Act claims. Additionally, the Court thought the Government’s proposed standard would also be impractical because of the difficult line-drawing exercise that would be necessary to distinguish a regulation that “specifically authorizes” conduct from a regulation that “merely tolerates” that conduct. Significantly, the Court did not directly address the aspect of the Government’s argument focused on Lanham Act claims that implicate specific FDA *requirements* (e.g., a claim challenging the use of a word in a label that is expressly mandated, rather than merely authorized, by an FDA regulation).

### Implications for Manufacturers of FDA-Regulated Products

The Court’s decision indicates that food and beverage labeling can still be false or misleading for Lanham Act purposes, even if such labeling complies with all applicable FDA regulations. Going forward, food and beverage manufacturers will need to recognize that compliance with FDA regulations may not necessarily insulate them from Lanham Act liability. Additionally, food and beverage companies may now be able to use the Lanham Act to challenge their competitors’ labeling and promotional practices. Similarly, with respect to consumer class actions under state law challenging food and beverage labels, the Court’s opinion said nothing to suggest that such claims, if not expressly preempted, are otherwise precluded.

Notably, throughout the opinion, the Court carefully avoided making a blanket statement that *all* Lanham Act claims challenging food and beverage labels are not precluded. Instead, the Court held that the FDCA does not preclude Lanham Act suits “like POM’s” or “like the one brought by POM in this case.” This limiting language appears to leave open the possibility that a Lanham Act suit *unlike* POM’s – perhaps challenging an aspect of food and beverage labeling that would create a real conflict between the Lanham Act and a specific FDA requirement (as opposed to a mere authorization) – may still be barred.

The Court also carefully limited its holding to the context of food and beverage labeling, rather than the broader context of all FDA-regulated products. As part of its rationale for permitting Lanham Act claims challenging food and beverage labels, the Court noted that the FDA does not preapprove food and beverage labels, unlike certain drug labels, and observed that the FDA’s oversight of food is “less extensive” than its oversight of drugs.

While the scope of the Court’s decision was expressly limited to food and beverages, it may nonetheless have significant implications for other categories of FDA-regulated products, particularly dietary supplements,

cosmetics, and tobacco products, because, as with foods, the FDA does not review and pre-approve labeling for these categories of products. On the other hand, the Court's distinction between the FDA's oversight of foods versus drugs suggests that the logic of the Court's holding may not apply with the same force to an analogous case challenging a drug or medical device label that has been affirmatively approved by the FDA. The breadth of the decision, however, remains unclear – particularly for product categories like over-the-counter drugs marketed pursuant to an OTC monograph and 510(k)-exempt medical devices, where FDA does not review and approve labeling on a product-by-product basis. Also unclear is how the decision would apply to devices that FDA clears for marketing under the 510(k) premarket notification program, in which FDA reviews sample product labeling prior to clearance but does not officially “approve” it.

Ropes & Gray will continue to monitor the development of Lanham Act jurisprudence in the lower courts that impacts FDA-regulated products following the Supreme Court's decision in *POM Wonderful*. To find out how the decision in *POM Wonderful* affects your interest, please contact your usual Ropes & Gray attorney or one of the Ropes & Gray attorneys listed below.

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## Supreme Court Rules that a Generic Computer Application of a Fundamental Concept is Not Patent Eligible in *Alice Corp. v. CLS Bank*

On June 19, 2014, the Supreme Court in *Alice Corporation Pty. Ltd. v. CLS Bank International*, No. 13-298, unanimously held that software relating to a computerized scheme for mitigating “settlement risk” was not patent eligible under 35 U.S.C. § 101. Applying the two-part inquiry outlined by the Court in *Mayo Collaborative Servs. v. Prometheus Labs.*, the Court found that the claims at issue were drawn to an abstract idea, and that nothing in the claims rose to the level of an inventive concept sufficient to transform that abstract idea into a patent eligible invention.

The patent claims at issue in *Alice Corp.* generally concern a computerized platform through which a trusted third party, acting as an escrow or intermediary, can verify that each party to a financial transaction is able to perform its obligations under the transaction, before the parties actually perform. The patents included method claims, computer-readable media claims, and system claims.

The Federal Circuit *en banc*, in a one paragraph *per curiam* opinion, affirmed the district court’s decision finding all asserted claims to be patent ineligible under § 101. A majority of the panel (7-3) voted to strike down the method and computer-readable media claims as merely claiming a patent ineligible abstract idea, whereas the panel was evenly split as to whether the system claims were directed to patent eligible subject matter – though this was sufficient to affirm the decision below. In addition, a majority of the panel (8-2) agreed that all claims, regardless of their type, should be validated or invalidated together. The fractured panel authored six opinions plus “additional reflections” by former Chief Judge Rader, none of which garnered majority support.

On appeal to the Supreme Court, Alice Corp. argued that claims are patent ineligible only if they merely recite, or simply use a computer to perform, a “fundamental truth” that is “equivalent to a law of nature” and “exist[s] in principle apart from any human action,” such as a mathematical formula. All other claims – including those that apply a fundamental truth in a “very specific way” (such as the patents-in-suit, in Alice Corp.’s view) – are patent eligible. CLS Bank argued that the Court’s precedents control the analysis in this case: *Bilski v. Kappos* dictates that the asserted claims, which are directed to a fundamental economic principle that is conceptually no different from the claims that were at issue in *Bilski*, recite an abstract idea; and *Mayo v. Prometheus* dictates that the asserted claims are not patent eligible because they lack an inventive concept sufficient to transform the underlying patent ineligible abstract idea into a patent eligible invention.

In determining that the claims were directed to a patent ineligible abstract idea that is beyond the scope of § 101, the Court drew heavily on its decision in *Bilski* to find that the claimed concept of intermediated settlement is “a fundamental economic practice long prevalent in our system of commerce.” The Court emphasized that the concern driving § 101 is “pre-emption” – “that patent law not inhibit further discovery by improperly tying up the future use of these building blocks of human ingenuity.” Thus, the Court was unmoved by Alice Corp.’s attempt to narrow § 101, again citing *Bilski*, in which all of the claims – including one that reduced an abstract idea to a mathematical formula – were held to be patent ineligible abstract ideas.

In determining that nothing in the claims transformed the abstract idea into a patent eligible invention, the Court, drawing on its precedents in *Mayo*, *Parker v. Flook*, and *Diamond v. Diebr*, found that the generic computer implementation of the claims was insufficient to supply the necessary inventive concept to transform an abstract idea into a patent eligible invention, noting that the process could be carried out on existing computers. While the Court’s decision limits software patents, it does not eliminate them, especially

those that “improve the functioning of a computer itself” or “effect an improvement in any other technology or technical field.”

Justice Sotomayor wrote a separate concurrence, joined by Justice Ginsburg and Justice Breyer. Parroting Justice Stevens’ concurrence in *Bilski v. Kappos* (which was also joined by Justices Sotomayor, Ginsburg, and Breyer), Justice Sotomayor stated her view that any claim that merely describes a business method is patent ineligible due to its failure to qualify as a process under § 101.

To find out how the Supreme Court’s decision in *Alice Corp.* affects your interests, please contact your usual Ropes & Gray attorney or one of the Ropes & Gray attorneys listed below.

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## Supreme Court Rules in Favor of Broadcasting Companies in Aereo's Copyright Battle Over Internet Television Streaming

The United States Supreme Court on June 25, 2014, held that Aereo's system for capturing and recording broadcast TV programming, and then streaming that programming to individual subscribers, "performs" that programming "publicly" and so infringes the copyright holders exclusive right to transmit those works. In finding the Aereo system to directly infringe the transmit clause, the Court's 6-3 majority decision in *American Broadcasting Companies, Inc. v. Aereo, Inc.*, No 13-461 (June 25, 2014), viewed the Aereo system as akin to the CATV systems that Congress had specifically brought within the Copyright Act's ambit by amending the transmit clause after the Court had earlier found those systems not to be infringed. The dissent in *Aereo* expressed the "evident feeling" that what the Aereo system did should not be allowed – perhaps under principles of secondary liability or reproduction infringement – while disagreeing with the manner in which the majority construed the Copyright Act's transmit clause to find infringement on that basis.

Aereo provided a technically complex system. It set up farms of dime-sized television antennas in certain broadcast areas. A subscriber would select a program to watch. Aereo would temporarily assign a single antenna to that subscriber. The antenna was connected to a device that stored the program locally. The service would then stream the program to the subscriber's device. If multiple subscribers wanted to watch the same program at the same time, multiple separate antennas would record the programs separately, and each would receive a personal stream of the separate recordings.

A number of broadcasters sued in New York City, alleging that the service infringed and seeking a preliminary injunction. The district court denied the injunction, which the Second Circuit affirmed. In doing so, the Second Circuit relied on its *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008) opinion on DVR technology, which found that the automated copying of content at user request did not constitute direct infringement, replaying content to the original audience did not constitute "public performance," and the copying of streaming content for the purposes of buffering did not itself constitute unlawful copying. The broadcast industry turned to the Supreme Court, which granted *certiorari* and heard oral arguments in the case in April.

The Supreme Court's analysis focused on whether the Aereo record-and-stream system infringes a copyright owner's exclusive right to "transmit or otherwise communicate a performance . . . of the [copyrighted] work . . . to the public." 17 USC 101. That right, along with Section 111 (which governs the compulsory licensing scheme for cable systems) was added to the Copyright Act through the 1976 amendments. That was done to reverse findings of the Supreme Court in *Fortnightly* and *Teleprompter* that early CATV systems, which captured broadcast signals through antennas and passed them along their systems, did not infringe.

Finding that Congress intended to create infringement liability for CATV systems and systems like them, such as Aereo's, the majority held that Aereo did "transmit" the broadcasts "publicly." Focusing on the legislative history of the 1976 Act, the Court held that Aereo's activities are substantially similar to those of CATV systems, and that they transmit. The Court showed little interest in analyzing whether internet streaming is different from CATV transmission. The dissent, in construing "transmit," made much of the fact that streaming in the Aereo system does not occur until the user starts the stream. CATV systems send the signals constantly, though the user only sees a particular broadcast when the receiver selects the right broadcast stream. The majority found the difference to be of no import.

As for the requirement that the performance be "public," the Court found the "personal" transmission that occurred in the Aereo system to be part of a public performance. The Court perceived a contrary finding to

be contrary to Congress' intent and to make no difference: “[W]hether Aereo transmits from the same or separate copies, it performs the same work; it shows the same images and makes audible the same sounds.” The dissent chided the majority for its analysis here as a results-driven rule, though it expressed misgivings about the system’s legality on other potential copyright infringement grounds.

*Aereo* illustrates the difficulties that emerging technologies present to right holders, technology companies and those who invest in both. The only certainty is that the struggle between those interests will likely continue, and that the Supreme Court will, as it has done before, not grant new technologies or business methods free passes. Rather, it will continue to struggle to apply existing laws to those technologies.

To discuss how copyright law, including the Supreme Court’s decision in *Aereo*, and other intellectual property principles may affect your interests, please contact your usual Ropes & Gray attorney or one of the following Ropes & Gray IP attorneys listed below.

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