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# Navigating the Recent Supreme Court Patent Decisions: Essential Patent Drafting & Litigation Strategies

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# Supreme Court Trends

- Renewed interest in patent cases
- Federal Circuit 2014: Reversed in 5 of 6 patent cases
- Rejection of rigid rules and patent exceptionalism
- Return to general principles and district court discretion
- Rejection of pro-patent policy for statutory analysis

# Medtronic, Inc. v. Mirowski Family Ventures, LLC

Docket No. 12-1128

Decided: January 22, 2014

#### Issue

 When a licensee seeks a declaratory judgment of non-infringement of the licensed patents, who bears the burden of proof or persuasion on the issue of infringement?

- Mirowski Family Ventures, LLC ("Mirowski") owns patents related to implantable heart stimulators; Medtronic is a sublicensee under the patents
- Mirowski identified several new Medtronic products that were covered by the licensed patents for which royalties were due
- Medtronic sought a declaratory judgment of noninfringement and invalidity
- Under the terms of the license agreement, if Medtronic believed any products were not covered by Mirowski's patents, it could pay disputed royalties into an escrow account while seeking a declaratory judgment

### **Unanimous Outcome**

The burden of proof or persuasion always remains with the patent holder to prove infringement, irrespective of whether:

- in an infringement action brought by a patent holder/licensor; or
- in a declaratory judgment action brought by a licensee

- "Simple legal logic, resting upon settled case law, strongly supports our conclusion. It is well established that the burden of proving infringement generally rests upon the patentee."
- "We have long considered the operation of the Declaratory
  Judgment Act to be only procedural, leaving substantive
  rights unchanged[.]"
- "And we have held that the burden of proof is a substantive aspect of a claim."
- "Taken together these three legal propositions indicate that, in a licensee's declaratory judgment action, the burden of proving infringement should remain with the patentee."

- Patent licensors accusing a licensee of failing to pay royalties on accused products are at risk of having to prove infringement if the licensee counters with a declaratory action
- License agreements should address licensee challenges, and the contractual rights and remedies available to the patent holder in the event of such a challenge
- Patent holders should be aware of the possible dangers of placing limits on licensees' right to challenge licensed patents:
  - Rates Technology v. Speakeasy, 685 F.3d 163 (2d Cir. 2012) (finding unenforceable provision in a pre-litigation settlement agreement precluding a party from challenging the validity of a patent)
  - Possible options to restrict licensee
- Licensees should consider challenging the scope or validity of licensed patents if strategically appropriate to do so

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# Limelight Networks, Inc. v. Akamai Technologies, Inc. et al.

**Docket No. 12-786** 

Decided: June 2, 2014

Limelight Networks, Inc. v. Akamai Technologies, Inc. et al.

#### Issue

 Can a party be liable for inducing infringement when there is no direct infringement?

### **Unanimous Outcome**

 Induced infringement requires that a single entity perform all the steps of the claimed method, so that a claim for direct infringement could be established

- 35 U.S.C. 271 Infringement of patent.
  - (a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.
  - (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
- The reference to "infringement" in 271(b) "appears to refer most naturally to the acts necessary to infringe a patent, not to whether those acts are performed by one entity or several."

- Direct infringement requires that all the steps of a method patent claim be performed by a single entity
- If multiple parties are involved, a single party must exercise control or direction over the entire process such that every step is attributable to the controlling party

Muniauction, Inc. v. Thomson Corp., 532 F. 3d 1318 (Fed. Cir. 2008)

# Confusion Over Federal Circuit's Holding?

- "The Federal Circuit's analysis fundamentally misunderstands
  what it means to infringe a method patent. A method patent claims
  a number of steps; under this Court's case law, the patent is not
  infringed unless all the steps are carried out."
- "The Federal Circuit's contrary view would deprive §271(b) of ascertainable standards. If a defendant can be held liable under §271(b) for inducing conduct that does not constitute infringement, then how can a court assess when a patent holder's rights have been invaded? What if a defendant pays another to perform just one step of a 12-step process, and no one performs the other steps, but that one step can be viewed as the most important step in the process? In that case the defendant has not encouraged infringement, but no principled reason prevents him from being held liable for inducement under the Federal Circuit's reasoning..."

Limelight Networks, Inc. v. Akamai Technologies, Inc. et al.

# What This Means For You: Claim Drafting

# Draft claims providing for all steps to be performed by single actor

#### **Example of Mixed Actor Claim:**

- (1) Dial Phone number for restaurant
- (2) Order Pizza
- (3) Deliver Pizza to customer

#### **Examples of Single Actor Claims:**

- (1) Dial phone number for restaurant (1) Receive call from customer
- (2) Order Pizza (2) Receive order from customer
- (3) Receive Pizza (3) Deliver Pizza to customer

Limelight Networks, Inc. v. Akamai Technologies, Inc. et al.

# What This Means For You: Litigation

- Focus on exceptions to divided infringement
- Muniauction likely to be revisited
- Argue under both standards

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

**Docket No. 13-298** 

Decided: June 19, 2014

#### Issue

 Do claims directed to an abstract idea become patent eligible when the idea is implemented through a computer system?

#### Representative claim (U.S. Patent No. 5,970,479, Claim 33):

- 33. A method of **exchanging obligations as between parties**, each party holding a credit record and a debit record with an exchange institution, the credit records and debit records for exchange of predetermined obligations, the method comprising the steps of:
  - (a) creating a shadow credit record and a shadow debit record for each stakeholder party to be held independently by a supervisory institution from the exchange institutions;
  - (b) **obtaining from each exchange institution a start-of-day balance** for each shadow credit record and shadow debit record;
  - (c) for every transaction resulting in an exchange obligation, the supervisory institution adjusting each respective party's shadow credit record or shadow debit record, allowing only these transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time, each said adjustment taking place in chronological order; and
  - (d) at the end-of-day, the supervisory institution **instructing ones of the exchange institutions to exchange credits or debits to the credit record and debit record of the respective parties** in accordance with the adjustments of the said permitted transactions, the credits and debits being irrevocable, time invariant obligations placed on the exchange institutions.

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

- CLS sought a declaratory judgment that the Alice patents were invalid, unenforceable and not infringed
- The District Court found that the patents were invalid
- A divided panel of the Federal Circuit reversed
- On rehearing en banc, the Federal Circuit affirmed the District Court in a messy collection of seven opinions

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

## Bilski v. Kappos, 561 U.S. 593 (2010)

- A method for hedging against the financial risk of price fluctuations is not patent eligible because it is directed towards an abstract idea
- Merely limiting the use of an abstract idea "to a particular technological environment" does not render it patent eligible

### **Unanimous Outcome**

- Federal Circuit's finding of invalidity affirmed
- The Alice claims for a system and method for facilitating financial transactions are ineligible for patent protection under 35 U.S.C. §101 because they are drawn to an abstract idea
- The requirement that the method be implemented by a computer is insufficient to render Alice's abstract concept patent eligible

- §101 has been interpreted to exclude laws of nature, natural phenomena, and abstract ideas from patent eligibility (the "building blocks" of human ingenuity)
- To be eligible under §101, a patent must "integrate the building blocks into 'something more,' thereby 'transform[ing]' them into a patent-eligible invention." (Quoting Mayo Collaborative Svcs. v. Prometheus Labs., Inc.)

The Court applied the two-part test set forth in *Mayo* for evaluating eligibility under §101:

"In Mayo Collaborative Services v. Prometheus Laboratories, Inc., we set forth a framework for distinguishing patents that claim laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible applications of those concepts. First, we determine whether the claims at issue are directed to one of those patent-ineligible concepts. If so, we then ask, '[w]hat else is there in the claims before us?' To answer that question, we consider the elements of each claim both individually and 'as an ordered combination' to determine whether the additional elements 'transform the nature of the claim' into a patent-eligible application."

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

# The claims are directed to the idea of intermediated settlement, which is a concept that has long been known in the art:

"Like the risk hedging in *Bilski*, the concept of intermediated settlement is 'a fundamental economic practice long prevalent in our system of commerce, ...' The use of a third-party intermediary (or 'clearing-house') is a building block of the modern economy. ... Thus, **intermediated settlement**, **like hedging**, **is an 'abstract idea' beyond the scope of §101.**"

# The claims also fail to incorporate "something more" to "transform" the abstract idea into a patent-eligible invention:

- "[T]he method claims, which merely require generic computer implementation, fail to transform that abstract idea into a patent-eligible invention."
- Stating an abstract idea "while adding the words 'apply it" is not enough for patent eligibility. Nor is limiting the use of an abstract idea 'to a particular technological environment."
   Stating an abstract idea while adding the words 'apply it with a computer' simply combines those two steps, with the same deficient result." (Quoting Mayo and Bilski).

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

- Alice establishes that "generic" computer automation of an abstract idea or business method is not patent eligible
- The impact of Alice is unclear because the Court did not provide substantial guidance for future patents involving software or business methods
- Recent Example:
  - Computerized Meal Planning

 The USPTO issued a Memorandum on June 25, 2014 explaining the practical importance of Alice for patent examiners in determining the patent eligibility of business methods:

"The Supreme Court made clear in *Alice Corp.* that it applies the framework set forth in *Mayo Collaborative Services v. Prometheus Laboratories, Inc., ...* to analyze all claims directed to laws of nature, natural phenomena, and abstract ideas for subject matter eligibility under 35 U.S.C. § 101. This framework is currently being used by the USPTO to examine claims involving laws of nature, but had not been used for claims involving abstract ideas."

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

- The USPTO Memorandum explains two ways that Alice changes the patent eligibility analysis:
  - Alice Corp. establishes that the same analysis should be used for all types of judicial exceptions, whereas prior USPTO guidance applied a different analysis to claims involving abstract ideas
  - Alice Corp. also establishes that the same analysis should be used for all categories of claims (e.g., product and process claims) involving abstract ideas, whereas prior guidance applied a different analysis to product claims involving abstract ideas

USPTO Analysis:

Part I: Determine whether the claim is directed to an abstract idea. Examples of abstract ideas referenced in *Alice Corp.* include:

- Fundamental economic practices;
- Certain methods of organizing human activities;
- "[A]n idea of itself"; and
- Mathematical relationships/formulas

### USPTO Analysis:

Part 2: If an abstract idea is present in the claim, determine whether any element, or combination of elements, in the claim is sufficient to ensure that the claim amounts to significantly more than the abstract idea itself

- USPTO Analysis: examples of claim limitations that are "significantly more than the abstract idea itself":
  - Improvements to another technology or technical field;
  - Improvements to the functioning of the computer itself;
  - Meaningful limitations beyond generally linking the use of an abstract idea to a particular technological environment

- USPTO Analysis: examples of claim limitations that are <u>not</u> "significantly more than the abstract idea itself":
  - Adding the words "apply it" (or an equivalent) with an abstract idea, or mere instructions to implement an abstract idea on a computer; and
  - Requiring no more than a generic computer to perform generic computer functions that are wellunderstood, routine and conventional activities previously known to the industry

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

Docket No. 12-1184

Decided: April 29, 2014

#### Issues

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#### What:

- legal standard; and
- evidentiary burden

apply to establish an "exceptional case" that gives rise to an award of attorney's fees pursuant to 35 U.S.C. §285?

- "The court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. §285.
- Prior to the Federal Circuit decision in Brooks
   Furniture, the Federal Circuit applied §285 as a
   discretionary remedy considering the "totality of the
   circumstances."

## Background

### Brooks Furniture (Fed. Cir., 2005):

- "A case may be deemed exceptional" under §285 only in two limited circumstances: (1) when there has been some "material inappropriate conduct" relating to patent prosecution or litigation, or (2) when patent litigation is both "brought in subjective bad faith, and ... is objectively baseless." Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc., 393 F. 3d 1378, 1381 (Fed. Cir. 2005)
- Satisfaction of these conditions must be established by clear and convincing evidence

#### **Unanimous Outcome**

 The Supreme Court's decision in Octane Fitness restored the pre-Brooks "totality of the circumstances" test, along with its less-stringent preponderance of the evidence standard

 The Court relied on the plain meaning of §285 to reject the Federal Circuit test established by Brooks:

"Our analysis begins and ends with the text of §285: 'The court in exceptional cases may award reasonable attorney fees to the prevailing party.' This text is patently clear. It imposes one and only one constraint on district courts' discretion to award attorney's fees in patent litigation: The power is reserved for 'exceptional' cases."

#### What This Means For You

 Eligibility for fee awards under 35 U.S.C. §285 is case-specific and requires the flexibility of a totality of the circumstances analysis:

"[A] case presenting either subjective bad faith or exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award."

## Analogy To Copyright Precedent

 The Court noted that it came to a similarly flexible approach under an analogous Copyright Act provision:

"In Fogerty v. Fantasy, Inc., 510 U. S. 517 (1994), for example, we explained that in determining whether to award fees under a similar provision in the Copyright Act, district courts could consider a 'nonexclusive' list of 'factors,' including 'frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence."

## Unscientific Study

- Octane makes both the legal standard and the evidentiary requirements for an award of attorneys' fees under 35 U.S.C. §285 less stringent:
  - Random sample of 50 cases from 2003-2004 (pre-*Brooks*):
    - > **21 granted** fees (42%), **29 denied** fees (58%)
  - Random sample of 50 cases from 2012 (post-*Brooks*, pre-Octane):
    - > 16 granted fees (32%), 34 denied fees (68%)
  - Post-*Octane* cases through July 3, 2014:
    - > 8 granted fees (57%), 6 denied fees (43%)
  - Post-Octane July 4-July 24, 2014:
    - > 10 granted fees (50%), 10 denied fees (50%)

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

Docket No. 12-1163

Decided: April 29, 2014

#### Issue

 What is the standard of review for a district court's determination that a case is "exceptional" under 35 U.S.C. §285?

## Background

 Prior standard: Exceptional case determination subject to de novo review without deference as "a question of law based on underlying mixed questions of law and fact"

#### **Unanimous Outcome**

 All aspects of a district court's determination of whether a case is "exceptional" for the purposes of §285 should be reviewed for abuse of discretion.

### What This Means For You

 As a practical matter, district courts now have considerable discretion to determine whether attorney's fees should be awarded

# Nautilus, Inc. v. Biosig Instruments, Inc.

**Docket No. 13-369** 

Decided: June 2, 2014

#### Issues

- How much precision is required in claim language to satisfy the definiteness requirement of 35 U.S.C. §112, ¶2?
- Is the Federal Circuit's "amenable to construction" and "not insolubly ambiguous" standard stringent enough to satisfy the statutory definiteness requirement?
- Claim term at issue: "in spaced relationship to one another"

## Background

- 35 U.S.C. §112 requires that a patent specification "conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as [the] invention."
- Under Federal Circuit law, a patent passes this requirement as long as the claims are:
  - "amenable to construction,"; and, as construed,
  - not "insolubly ambiguous."

#### **Unanimous Outcome**

- "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."
- The Federal Circuit's standard of "insolubly ambiguous" or "not amenable to construction" is not sufficient to satisfy the statutory requirement of definiteness
- The Federal Circuit must apply the Court's newly articulated standard on remand

• The Court noted that many of the guidelines for a §112 analysis were not contested in(or altered by) the Court's decision, and that the question before the Court was one of degree:

"The parties agree that definiteness is to be evaluated from the perspective of a person skilled in the relevant art, that claims are to be read in light of the patent's specification and prosecution history, and that definiteness is to be measured as of the time of the patent application. The parties disagree as to **how much imprecision §112, ¶2 tolerates.**"

- The Court recognized that "[s]ection 112's definiteness requirement must take into account the inherent limitations of language," and allow for a "modicum of uncertainty."
- However, §112 requires that "a patent must be precise enough to afford clear notice of what is claimed, thereby apprising the public of what is still open to them, in a manner that avoids a zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims."
- "To tolerate imprecision just short of that rendering a claim 'insolubly ambiguous' would diminish the definiteness requirement's public-notice function and foster the innovationdiscouraging 'zone of uncertainty."

• The Supreme Court noted that "some of the Federal Circuit's fuller explications of the term "insolubly ambiguous" may come closer to tracking the statutory prescription," but disapproved of the Federal Circuit's "insolubly ambiguous" test:

"This Court must ensure that the Federal Circuit's test is at least "probative of the essential inquiry." *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 520 U. S. 17, 40. The expressions "insolubly ambiguous" and "amenable to construction," which permeate the Federal Circuit's recent decisions concerning §112, ¶2, fall short in this regard and can leave courts and the patent bar at sea without a reliable compass."

 The case was remanded for the Federal Circuit to apply the new indefiniteness standard to the claims

Nautilus, Inc. v. Biosig Instruments, Inc.

#### What This Means For You

- Extent of impact will depend on Federal Circuit remand and development of new precedent
- Significant increase in assertion of indefiniteness in cases filed 2008/2009 vs. 1998/1999
- Trend expected to continue
- Impact on Inter Partes Review and Post Grant Review

#### What This Means For You

- A recent Federal Circuit decision validated the USPTO's use of a different, more stringent standard for determining eligibility during examination
- The USPTO is free to apply its own indefiniteness standard, and is not bound by Nautilus

## Glossary Pilot Program

- On the day Nautilus was decided, the USPTO announced the launch of a new Glossary Pilot Program
- Goal: Enhance software patent clarity by encouraging the use of glossaries in applications
- "We recognize that a patent with clearly defined boundaries provides notice to the public to help avoid infringement, as well as avoid costly and needless litigation down the road,"
  - Michelle Lee, Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director of the USPTO

## Glossary Pilot Program

- Program requirements:
  - Applicants may petition for admission into the pilot program
  - Applications in the program must include a glossary:
    - placed at the beginning of the detailed description portion of the original specification of the application;
    - identified with a heading;
    - presented on filing of the application; and
    - including definitions that will assist in clarifying the claimed invention, "creating a clear application file wrapper history."
- Program will last for 6 months or for the first 200 applications
- Accepted applicants will receive "special" status:
  - Expedited processing
  - Placement on the Examiner's special docket prior to first Office Action
  - Special status up to the issuance of the first Office Action

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#### Relevant Practical Law Resources

- Patent Infringement Claims and Defenses
- Patent Litigation: Opening Claim Construction (Markman) Brief
- Patent License Checklist
- In Dispute: CLS Bank International v. Alice Corporation

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## Questions